



PROSPECTUS

IMPORTANT: IF YOU ARE IN ANY DOUBT AS TO THE CONTENTS OF THIS PROSPECTUS YOU SHOULD CONSULT YOUR FINANCIAL ADVISER.

QUERNS INVESTMENT FUNDS ICVC

(An open-ended investment company with variable capital incorporated with limited liability and registered in England and Wales under registered number IC000824)

QUERNS ASSET MANAGERS LLP

(AUTHORISED CORPORATE DIRECTOR)

This Prospectus has been prepared in accordance with the Rules of the Financial Services Authority as contained in the Collective Investment Schemes Sourcebook of the Financial Services Authority and is dated and is valid as at 02 September 2011.

IMPORTANT INFORMATION

An open-ended investment company with variable capital incorporated with limited liability and registered in England and Wales under number IC000824.

Copies of this prospectus have been sent to the Financial Services Authority and the Depositary.

Querns Asset Managers LLP, the Authorised Corporate Director of the Company, is the person responsible for the information contained in this prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information in this document does not contain any untrue or misleading statement or omit any matters required by the Open-Ended Investment Companies Regulations 2001 and the Collective Investment Schemes Sourcebook to be included in it. Querns Asset Managers LLP accepts responsibility accordingly.

No person has been authorised by the Company to give any information or make any representations in connection with the offering of Shares other than those contained in this prospectus, and, if given or made, such information or representations must not be relied on as having been made by the Company. The delivery of this prospectus (whether or not accompanied by any reports) or the issue of Shares shall not, under any circumstances, create any implication that the affairs of the Company have not changed since the date hereof.

The distribution of this prospectus and the offering of Shares in certain jurisdictions may be restricted. Persons into whose possession this prospectus comes are required by the Company to inform themselves about and to observe any such restrictions. This prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Shares in the Company are not listed or dealt on any investment exchange.

Potential investors should not treat the contents of this prospectus as advice relating to legal, taxation, investment or any matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of Shares.

The provisions of the Company's Instrument of Incorporation are binding on each of its Shareholders (who are taken to have notice of them).

This prospectus has been approved for the purpose of section 21 of the Financial Services and Markets Act 2000 by Querns Asset Managers LLP.

This prospectus is based on information, law and practice at the date hereof. The Company cannot be bound by an out of date prospectus when it has issued a new prospectus, and investors should check with Querns Asset Managers LLP that this is the most recently published prospectus.

The Depositary is not a person responsible for the information contained in this prospectus and accordingly does not accept any responsibility therefore under the Regulations or otherwise.

Important: If you are in any doubt about the contents of this prospectus you should consult your financial adviser.

DIRECTORY

Querns Investment Funds ICVC

Head Office

Querns Cottage
Collins End
Goring Heath
Oxfordshire
RG8 7RH

Administrator and Registrar

Phoenix Fund Services (UK) Ltd
Springfield Lodge
Colchester Road
Chelmsford
Essex
CM2 5PW

Depositary

National Westminster Bank Plc
Registered and Head Office:
135 Bishopsgate
London
EC2M 3UR

Authorised Corporate Director

Querns Asset Managers LLP
Querns Cottage
Collins End
Goring Heath
Oxfordshire
RG8 7RH

Auditor

Deloitte LLP
3 Rivergate
Temple Quay
Bristol BS1 6GD

Legal Advisers

Simmons & Simmons
CityPoint
One Ropemaker Street
London EC2Y 9SS

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DEFINITIONS

“Administrator”	Phoenix Fund Services (UK) Ltd
“Accumulation Shares”	Shares in respect of which income is accumulated and added to the capital property of a Fund.
“ACD”	Querns Asset Managers LLP which acts as the authorised corporate director of the Company.
“Approved Bank”	<p>in relation to a bank account opened by the Company:</p> <ul style="list-style-type: none">(a) if the account is opened at a branch in the United Kingdom;<ul style="list-style-type: none">(i) the Bank of England; or(ii) the central bank of a member state of the OECD; or(iii) a bank or a building society as defined in the glossary of definitions in the FSA Handbook; or(iv) a bank which is supervised by the central bank or other banking regulator of a member state of the OECD; or(b) if the account is opened elsewhere:<ul style="list-style-type: none">(i) a bank in (a); or(ii) a credit institution established in an EEA State other than in the United Kingdom and duly authorised by the relevant Home State Regulator; or(iii) a bank which is regulated in the Isle of Man or the Channel Islands; or(c) a bank supervised by the South African Reserve Bank.
“Auditor”	Deloitte LLP.
“Business Day” or “Dealing Day”	means any day on which banks are open for business in London and/or such other place or places and such other day or days as the ACD may determine.
“COLL”	refers to a specific rule, guidance or a chapter in the FSA Rules.
“Company”	Querns Investment Funds ICVC.
“Depository”	National Westminster Bank Plc.

“EEA State”	a member state of the European Union and any other state which is within the European Economic Area.
“Eligible Institution”	one of certain eligible institutions being a BCD credit institution authorised by its home state regulator, as defined in the glossary of definitions in the FSA Handbook, or a MiFID investment firm authorised by its home state regulator as defined in the glossary of definitions in the FSA Handbook.
“FSA”	the Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS.
“FSA Handbook”	the handbook of rules and guidance published by the FSA as amended from time to time.
“FSA Rules”	the Collective Investment Schemes Sourcebook contained in the FSA Handbook as amended from time to time.
“Fund” or “Funds”	a sub-fund or sub-funds of the Company. Each Fund forms part of the property of the Company but is pooled separately and is invested in accordance with the investment objective applicable to that Fund.
“Income Shares”	Shares in respect of which income is distributed to Shareholders.
“Instrument of Incorporation”	the instrument of incorporation of the Company as amended from time to time.
“ISA”	an individual savings account set up under the Individual Savings Account Regulations 2008.
“Larger Denomination Share”	a Share issued by the Company as a larger denomination share.
“Net Asset Value” or “NAV”	the value of the property of (or attributable to) the Company, a Fund or a Class (as the context may require) less the liabilities of (or attributable to) the Company, Fund or Class concerned as calculated in accordance with the Instrument of Incorporation.
“Net Asset Value per Share” or “NAV per Share”	the Net Asset Value of a Class in issue in respect of any Fund divided by the number of Shares of the relevant Class in issue or deemed to be in issue in that Fund.
“Non-Qualified Person”	any person to whom a transfer of Shares (legally or beneficially) or by whom a holding of Shares (legally or beneficially) would or, in the opinion of the ACD, might:- <ul style="list-style-type: none"> a) be in breach of any law (or regulation by a competent authority) of any country or territory by virtue of which the person in question is not qualified to hold such Shares; or

- b) require the Company or the ACD to be registered under any law or regulation whether as an investment fund or otherwise, or cause the Company to be required to apply for registration, or comply with any registration requirements in respect of any of its Shares, whether in the United States of America or any other jurisdiction; or
- c) cause the Company, its Shareholders or the ACD some legal, regulatory, taxation, pecuniary or material administrative disadvantage which the Company or its Shareholders might not otherwise have incurred or suffered.

“Non-Tax Elected Fund”	an authorised investment fund to which the Tax Elected Fund Regime does not apply.
“OECD”	The Organisation for Economic Co-operation and Development.
“OEIC”	a company incorporated under the OEIC Regulations.
“OEIC Regulations”	The Open-Ended Investment Companies Regulations 2001 (as amended from time to time).
“Register of Shareholders”	the register of shareholders kept by or on behalf of the Company pursuant to paragraph 1(1) of Schedule 3 to the OEIC Regulations.
“Registrar”	Phoenix Fund Services (UK) Ltd
“Regular Savings Plan”	a regular savings plan established in respect of a Fund and/or a Class of Shares (see Appendix 3 for further details in respect of each Fund).
“Regulated Activities Order”	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 SI 2001/544.
“the Regulations”	the OEIC Regulations and the FSA Rules.
“Scheme Property”	the property of the Company or such part of it as is attributable to a particular sub-fund, as the context may require in each case, from time to time.
“Share” or “Shares”	a share or shares in the Company (including Larger Denomination Shares and Smaller Denomination Shares).
“Share Class” or “Class of Shares” or “Class”	all of the Shares issued by the Company as a particular class of Shares relating to a single Fund.
“Shareholder”	a holder of Shares in the Company.
“Smaller Denomination Share”	a Share carrying one thousandth of the rights of a Larger Denomination Share.

Tax Elected Fund”	an authorised investment fund to which the Tax Elected Fund Regime applies.
“Tax Elected Fund Conditions”	the conditions relevant to entry into the Tax Elected Fund Regime as described under “Taxation – The Funds - General”.
“Tax Elected Fund Regime”	the regime for the taxation of authorised investment funds under Part 4B of the Authorised Investment Funds (Tax) Regulations 2006 and described in “Taxation – Tax-Elected Funds”.
“UK”	United Kingdom of Great Britain and Northern Ireland.
“Valuation Point”	the point, whether on a periodic basis or for a particular valuation, at which the ACD carries out a valuation of the property of the Company or a Fund (as the case may be) for the purpose of determining the price at which Shares of a Class may be issued, cancelled or redeemed. The Valuation Point will be 12 noon each Dealing Day or such other time or times as may be determined at the ACD’s discretion.
“VAT”	Value added tax.

In this Prospectus the words and expressions set out in the first column above shall have the meanings set opposite them unless the context requires otherwise. Words and expressions contained in this Prospectus but not defined herein shall have the same meanings as in the FSA Handbook unless the contrary is stated. All references to “Sterling” and “£” are to the currency of the United Kingdom.

THE COMPANY AND THE FUNDS

The Company

The Company is an open-ended investment company with variable capital. The Company is incorporated in England and Wales with registered number IC000824 and is authorised pursuant to Regulation 14 of the OEIC Regulations. The effective date of the authorisation order made by the FSA was 04 June 2010.

The minimum share capital of the Company is £1 and the maximum share capital is £100,000,000,000. The base currency for the Company is pounds sterling. The Shareholders are not liable for the debts of the Company. Shares in the Company are not listed on any investment exchange.

The Company is an umbrella company authorised as a UCITS scheme for the purposes of the FSA Rules and, as at the date of this Prospectus, consists of one Fund: Querns Income First Fund.

Subject to the Regulations and the Instrument of Incorporation, the ACD may establish additional Funds from time to time.

The address in the UK for service on the Company of notices or other documents required or authorised to be served on the Company is Querns Cottage, Collins End, Goring Heath, Oxfordshire RG8 7RH.

Each of the Funds has a specific portfolio to which its assets and liabilities are attributable. So far as the Shareholders are concerned each Fund is treated as a separate entity from any other Fund or any Funds of the Company that may be created in the future.

Creditors of the Company may nevertheless look to all the assets of the Company for payment regardless of the Fund in respect of which that creditor's debt has arisen. Assets may be re-allocated to and from other Funds of the Company in the unlikely event that a Fund's assets are insufficient to meet its liabilities. In the event that any assets are so re-allocated, the ACD will advise Shareholders in the next succeeding annual or half yearly report to Shareholders.

Subject to the above, each Fund will be charged with the liabilities, expenses, costs and charges of the Company attributable to that Fund and within the Funds charges will be allocated between Classes in accordance with the terms of issue of Shares of those Classes. Any assets, liabilities, expenses, costs or charges not attributable to a particular Fund may be allocated by the ACD in a manner which it believes is fair to the Shareholders generally. This will normally be pro rata to the Net Asset Value of the relevant Funds.

The Funds and their Investment Objectives and Policies

Details of the investment objective, policy and certain terms relating to an investment in the Funds are set out in Appendix 3.

The choice of a Fund should be based on the investor's attitude to risk, desire for income and/or growth, and intended length of time for investment and an investment in a Fund should be considered in the context of the investor's overall portfolio. Further details of the typical investor profile of each Fund can be found in Appendix 3. Investors should seek professional advice before making investment decisions.

Where and when appropriate, the historical performance of the Funds will be set out in Appendix 5.

Distribution of Income

The Company's annual accounting period ends on 31 March in each year. The interim accounting periods for each Fund are set out in Appendix 3.

Allocation of income to holders of any Accumulation Shares that may be issued will be transferred to the capital property of each Fund as at the end of the accounting period (annual or interim) and be reflected in the value of Shares on the first Business Day following that accounting period.

Any distribution of income that is unclaimed for a period of six years after having become due for payment, shall be forfeited and shall revert to the Fund to which such distribution relates.

Included in the price of Shares will be an income equalisation amount representing the value of income attributable to the Share in question accrued since the end of the last accounting period (interim or final as the case may be).

Grouping for equalisation is permitted under the Instrument of Incorporation and arises during the allocation period of the Fund. Shares purchased during the allocation period will carry an entitlement to equalisation which is the amount arrived at on an average basis of the accrued net income per Share included in the price of Shares issued or re-issued during the allocation period. An equalisation amount may be included as part of any income allocation to shareholders and represents a return of capital rather than income.

How Distributable Income is Determined

The income available for distribution or accumulation in relation to a Fund is determined in accordance with the FSA Rules. In general terms, the income comprises all the sums deemed by the Company, after consultation with the Auditors of the Company, to be income in nature and received or receivable by the Company and attributable to the Fund in respect of the accounting period concerned, after deducting charges and expenses paid or payable out of such income and after making such adjustments in relation to taxation and other matters. The allocation of income to each Share Class is made after allowing for the effect, including attributable taxation, of any charges or expenses made on bases which vary by Share Class.

Income relating to a Fund is allocated at each Valuation Point among Classes of Shares linked to the Fund in proportion to the value of each Share Class relative to the value of the entire Fund as at the immediately preceding Valuation Point including any share class issue and cancellation movements applied at the immediately preceding Valuation Point.

Statement for the purposes of the Tax Elected Fund Regime

The ACD has applied for the Querns Income First Fund to be a Tax Elected Fund and HM Revenue & Customs has confirmed that it is satisfied that the Querns Income First Fund meets the conditions for entry into the Tax Elected Fund Regime. In order to continue to meet the conditions of entry into the Tax Elected Fund Regime, it is intended that throughout the relevant accounting periods of the Querns Income First Fund:

1. Shares in the Fund shall be
 - (A) available for subscription by investors who meet the applicable description of intended categories of investor (in respect of which it is intended that neither the specification of the intended categories of investor nor any other terms or conditions governing participation in the Fund shall have a limiting or deterring effect);
 - (B) widely available to such intended category of investors;

- (C) marketed and made available sufficiently widely by the ACD to reach such intended categories of investors and in a manner appropriate to attract such categories of investors, who can upon request to the ACD obtain information about the Fund and acquire Shares in it;
2. the Fund shall not have a UK or overseas property business;
3. in the case of any loan relationship to which the Fund is party as a debtor, the person standing in the position of creditor as respects the debt in question:
- (A) shall not be entitled to an amount by way of interest which depends to any extent on (i) the results of all or part of the business of the Fund or (ii) the value of any of the assets of the Fund, whereby a loan shall not be treated as dependent on the results of the business of the Fund by reason only that the terms of the loan provide (a) for the interest to be reduced in the event of results improving or (b) for the interest to be increased in the event of results deteriorating;
 - (B) shall not be entitled to an amount by way of interest which exceeds a reasonable commercial return on the consideration lent; and
 - (C) shall be entitled, on repayment, to an amount which (i) does not exceed the consideration lent or (ii) is reasonably comparable with the amount generally repayable (in respect of an equal amount of consideration) under the terms of issue of securities listed on a recognised stock exchange;

AUTHORISED CORPORATE DIRECTOR

The ACD is Querns Asset Managers LLP, incorporated as a limited liability partnership in England and Wales on 15 December 2009. It has an issued and fully paid-up share capital of £200,000. The ACD's principal activity is acting as the authorised fund manager for regulated collective investment schemes.

The ACD is authorised and regulated by the FSA.

The members of the ACD are:

- Peter Gardner
- Phil Roantree
- John Tierney
- Stephen Whittaker

The main business activities of the members are connected to the business of the ACD.

As at the date of the Prospectus the ACD does not act as authorised fund manager for any other authorised funds.

ACD Agreement

The ACD has been appointed under an agreement dated 07 June 2010 between the Company and the ACD ("the ACD Agreement"). Pursuant to the ACD Agreement, the ACD shall manage and administer the Company in accordance with the Regulations, the Instrument of Incorporation, the Prospectus and any relevant legislation or regulation applicable to the ACD. The ACD Agreement contains detailed provisions relating to the responsibilities of the ACD, including the management, investment and reinvestment of the property of each Fund in order to achieve the various investment objectives. The ACD may delegate its management and administration functions to third parties including associates subject to the FSA Rules. The specific functions the ACD has delegated are set out below.

The ACD is entitled to receive initial and periodic charges as set out in the section of this Prospectus headed "Fees and Expenses".

The ACD Agreement provides that the appointment may be terminated by either party after the expiry of 6 months' written notice or immediately if the ACD ceases for any reason to be the Company's authorised corporate director. The ACD Agreement will also terminate on expiry of notice given by the Depositary in accordance with Rule 6.5.4(3) of the FSA Rules (liquidation, receivership or an administration order in respect of the ACD). The ACD is entitled to payment of its fees to the date of termination but no additional compensation.

The ACD Agreement provides that the Company will indemnify the ACD against any liability incurred by it in managing the Company and carrying out its duties as authorised corporate director of the Company except to the extent such liability arises from the negligence, default, breach of duty or breach of trust on the part of the ACD in the performance of its duties.

The ACD has delegated dealing, fund valuation, fund accounting and registration functions to Phoenix Fund Services (UK) Ltd. The ACD remains responsible for ensuring that the companies to whom it delegates such functions, perform those delegated functions in compliance with the Regulations.

DEPOSITARY

The Depositary of the Company is National Westminster Bank Plc, a public limited company incorporated in England and Wales.

The principal business activity of the Depositary is banking.

The Depositary is authorised and regulated by the FSA.

The Depositary is responsible for the safe-keeping of all the Fund's property and for fulfilling other duties specified in the FSA Rules which include the taking of reasonable care to ensure that the Company is managed in accordance with those parts of the FSA Rules that concern pricing and dealing in the Shares, allocation of income and compliance with the investment and borrowing powers laid down in the FSA Rules. The Depositary has delegated its custodial duties to The Northern Trust Company.

Depositary Agreement

The Depositary provides its services under the terms of a Depositary Agreement between the Company, the ACD and novated in favour of the Depositary on 2 September 2011 (the "Depositary Agreement") which may be terminated by three months' notice given by either the Company or the Depositary, provided that the Depositary may not voluntarily retire except on the appointment of a new Depositary. Subject to the Regulations, the Depositary has full power under the Depositary Agreement to delegate (and to authorise its delegates to sub-delegate) all or any part of its duties as Depositary. The Depositary is entitled to the fees, charges and expenses detailed under "Fees and Expenses".

The Depositary Agreement provides indemnities to the Depositary to the extent allowed by the FSA Rules and except in respect of its failure to exercise due care and diligence or in the event of its negligence, fraud or wilful default.

THE ADMINISTRATOR

The ACD has appointed Phoenix Fund Services (UK) Ltd (the “Administrator”) or such other person appointed from time to time to provide administration services to the ACD. The principal activity of the Administrator is the provision of administration services.

The Auditor

The auditor of the Company is Deloitte LLP, 3 Rivergate, Temple Quay, Bristol, BS1 6GD.

The Registrar

The ACD has made arrangements with Phoenix Fund Services (UK) Ltd to carry out the registration functions.

CHARACTERISTICS OF SHARES

Classes of Shares

Several Classes of Share may be issued in respect of each Fund, distinguished by their criteria for subscription and fee structure.

Classes are denominated in Sterling.

The Classes of Share currently available for each Fund are set out in Appendix 3 below.

The limits for minimum initial investment and minimum subsequent investment may be waived or reduced at the discretion of the ACD.

Where a Fund has different Classes, each Class may attract different charges and so monies may be deducted from Classes in unequal proportions. In these circumstances the proportionate interests of the Classes within a Fund will be adjusted accordingly.

Income and Accumulation Shares

All references in this Prospectus to Income Shares and Accumulation Shares are to net Income and net Accumulation Shares unless otherwise stated.

The Instrument of Incorporation allows gross Income and gross Accumulation Shares to be issued as well as net Income and net Accumulation Shares. Net Shares are Shares in respect of which income allocated to them is distributed periodically to the relevant Shareholders (in the case of Income Shares) or credited periodically to capital (in the case of Accumulation Shares), in either case in accordance with relevant tax law, net of any tax deducted or accounted for by the Company. Gross Shares are Income or Accumulation Shares where, in accordance with relevant tax law, distribution or allocation of income is made without any tax being deducted or accounted for by the Company. Gross Shares are available only to those investors in respect of whom distribution or allocation of income may be made without any tax being deducted or accounted for by the Company.

Holdings of net Shares in any Fund in respect of which an election has been made to be treated as a Tax Elected Fund should note that "other income" which is allocated to such Shares and distributed or credited to capital will be net of any tax deducted or accounted for by the Company. See pages 32-33 for further details on Tax Elected Funds.

Income Shares

Holdings of Income Shares are entitled to be paid the distributable income attributed to such Shares in respect of the relevant interim and/or annual accounting period.

Income will be distributed on or before the income distribution dates (see Appendix 3 in relation to each Fund).

Accumulation Shares

Holdings of Accumulation Shares are not entitled to be paid the income attributed to such Shares in relation to the relevant interim and/or annual accounting periods, but that income is automatically transferred to (and retained as part of) the capital assets of the Fund on the last day of the relevant interim and/or annual accounting period. This is reflected in the price of an Accumulation Share.

Bearer Shares

The Company does not issue bearer shares and only intends to issue registered shares.

Title to Shares

The title to Shares is evidenced by entries on the Register of Shareholders. Certificates for Shares will not be issued.

Shares with Different Denominations

In order to calculate fractional entitlements of less than one Larger Denomination Share, Shares are expressed in two denominations - Larger Denomination Shares and Smaller Denomination Shares.

The Smaller Denomination Shares are whole Shares which carry a fraction of one thousandth of the rights of a Larger Denomination Share.

Whenever the number of any such Smaller Denomination Shares shall reach one thousand, the ACD shall automatically consolidate the Smaller Denomination Shares into one Larger Denomination Share of the same Class.

SHAREHOLDER MEETINGS AND VOTING RIGHTS

The Company has elected not to hold annual general meetings.

Certain changes to this Prospectus or the Instrument of Incorporation require the prior approval of a Meeting of Shareholders, in accordance with the FSA Rules. When such approval is not required by the FSA Rules, the ACD may make changes to the Prospectus or the Instrument of Incorporation without the approval of Shareholders.

In certain circumstances, the FSA Rules require that a resolution be passed as an extraordinary resolution, which is a resolution passed by a majority of not less than three-quarters of the votes validly cast (whether on a show of hands or on a poll) for and against the resolution. In other cases, a resolution may be passed by a simple majority of the votes validly cast for and against the resolution.

At any Meeting of Shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before the declaration of the result of the show of hands) demanded by the Chairman, by the Depositary or, by at least two shareholders present in person or by proxy or, in the case of a body corporate, by a duly authorised representative.

On a show of hands every Shareholder who (being an individual) is present in person or by proxy shall have one vote.

On a poll the voting rights attached to each Share shall be such proportion of the voting rights attached to all Shares in issue in the Company as the price of the Share bears to the aggregate price(s) of all the Shares in issue as at the date a notice of meeting is sent out, as described below.

The quorum at a Meeting of Shareholders shall be two Shareholders present in person or by proxy. The quorum for an adjourned meeting is one Shareholder present in person or by proxy.

A corporation being a Shareholder may authorise such person as it thinks fit to act as its representative at any Meeting of Shareholders and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Shareholder.

The ACD shall be entitled to receive notice of and attend any such meeting, but shall not be entitled to vote or be counted in the quorum and, accordingly, the Shares held or deemed to be held by the ACD shall not be regarded as being in issue.

Any associate of the ACD shall not be entitled to vote at any such meeting except in respect of Shares which he holds on behalf of a person who, if himself the registered holder, would be entitled to vote, and from whom he has received voting instructions.

In the case of joint Shareholders the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint Shareholders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Shareholders.

The Shareholders entitled to receive notice of meetings shall be those Shareholders as at the close of business on the date which is seven days before the notice of the relevant meeting is sent out.

Class Rights

The rights attached to a Class of Shares may only be amended by a class meeting of Shareholders of that Class of Shares. Any amendment to the Instrument of Incorporation that relates to a particular Class of Shares or particular Share Classes and does not prejudice the Shareholders of any other Share Class may be made by an extraordinary resolution passed at a class meeting.

The provisions regarding the conduct of meetings set out above shall apply to meetings of a Fund or a Share Class within a Fund, but by reference to the Shares of the Fund or Share Class concerned and the prices of Shares in such Fund or Share Class.

VALUATION

The Scheme Property is valued at each Valuation Point on each Dealing Day in order to determine the price at which Shares in the Funds may be purchased from or redeemed by the ACD and issued or cancelled by the Company. There will be one price at which an investor may buy and sell Shares as determined from time to time by reference to a particular Valuation Point.

The ACD reserves the right to carry out an additional valuation to the Scheme Property if it considers it desirable to do so. The ACD shall inform the Depositary of any decision to carry out an additional valuation.

The Net Asset Value of the Scheme Property of the Company or of a Fund (as the case may be) shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions.

- 1) All the Scheme Property (including receivables) of the Company (or the Fund) is to be included in the calculation, subject to the following provisions.
- 2) Scheme Property which is not cash (or other assets dealt with in paragraphs 3 and 4 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it has been practicable to obtain:
 - a) units or shares in a collective investment scheme:
 - i) if a single price for buying and selling units is quoted, at the most recent such price; or
 - ii) if separate buying or selling prices are quoted, at the average of the two prices provided the buying price has been reduced by any initial charge included therein and the selling price has been increased by any exit or redemption charge attributable thereto; or
 - iii) if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a value which, in the opinion of the ACD, is fair and reasonable;
 - b) exchange-traded derivative contracts:
 - i) if a single price for buying and selling the exchange-traded derivative contract is quoted, that price; or
 - ii) if separate buying and selling prices are quoted, at the average of the two prices;
 - c) over-the-counter derivative contracts shall be valued in accordance with the method of valuation as shall have been agreed between the ACD and the Depositary;
 - d) any other investment:
 - i) if a single price for buying and selling units is quoted, at that price; or
 - ii) if separate buying and selling prices are quoted, the average of those two prices; or
 - iii) if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if the most recent price available does not reflect the ACD's

best estimate of the value, at a value which in the opinion of the ACD reflects a fair and reasonable price for that investment;

- e) property other than that described in paragraphs (a), (b), (c) and (d) above, at a value which, in the opinion of the ACD represents a fair and reasonable mid-market price.
- 3) Cash and amounts held in current, deposit and margin accounts and in other time-related deposits shall be valued at their nominal values.
 - 4) In determining the value of the Scheme Property, all instructions given to issue or cancel Shares shall be assumed (unless the contrary is shown) to have been carried out and any cash payment made or received and all consequential action required by the FSA Rules, the OEIC Regulations or the Instrument of Incorporation shall be assumed (unless the contrary has been shown) to have been taken.
 - 5) Subject to paragraphs 6 and 7 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the ACD their omission will not materially affect the final Net Asset Value.
 - 6) Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 5 above.
 - 7) All agreements are to be included under paragraph 5 which are, or ought reasonably to have been, known to the person valuing the property assuming that all other persons in the ACD's employment take all reasonable steps to inform it immediately of the making of any agreement.
 - 8) An estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the Scheme Property; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) including (as applicable and without limitation) tax on capital gains, income tax, corporation tax, value added tax, stamp duty and stamp duty reserve tax and any foreign taxes or duties will be deducted.
 - 9) An estimated amount for any liabilities payable out of the Scheme Property and any tax or duty thereon treating periodic items as accruing from day to day will be deducted.
 - 10) The principal amount of any outstanding borrowings whenever repayable and any accrued but unpaid interest on borrowings will also be deducted.
 - 11) An estimated amount for accrued claims for tax of whatever nature which may be recoverable will be added. Any other credits or amounts due to be paid into the Scheme Property will be added. A sum representing any interest or any income accrued, both on cash and interest bearing securities, due or deemed to have accrued but not received and any stamp duty reserve tax provision anticipated to be received.
 - 12) Currencies or values in currencies other than the Base Currency shall be converted at the relevant Valuation Point at a rate of exchange that is not likely to result in any material prejudice to the interests of Shareholders or potential Shareholders.
 - 13) Notwithstanding the foregoing, the ACD may, at its absolute discretion, use other generally recognised valuation principles in order to reach a proper valuation of the Net Asset Value of

the Company or a Fund, in the event that it is impractical or manifestly incorrect to carry out a valuation of an investment in accordance with the above rules or it considers such principles better reflect the valuation of a security, interest or position and are in accordance with generally accepted accounting principles.

Where the ACD has reasonable grounds to believe that the price obtained is unreliable or the most recent price available does not reflect the ACD's best estimate of the value of the relevant investment at the relevant Valuation Point or no price or no recent price exists, the ACD may use a price which, in the opinion of the ACD reflects a fair and reasonable price for that investment (the fair value price).

The proportionate interests of each Share Class in the assets and income of the Fund shall be determined by the ACD as the proportion of the Scheme Property that is held by that Share Class at the end of the previous Dealing Day.

The proportion of assets and income allocated to each Share Class is made after allowing for the effect, including attributable taxation, of any charges and expenses made on bases which vary by Share Class.

Single Swinging Price

The price per Share at which Shares are bought or are redeemed is the Net Asset Value per Share which may be adjusted for dilution as set out below (the "Price"). Any initial charge or stamp duty reserve tax provision is payable in addition to the Price. The Net Asset Value per Share will be arrived at by dividing the Net Asset Value attributable to a Class by the number of Shares of that Class. The Net Asset Value per Share may be adjusted on any Dealing Day in the manner set out below, to arrive at the Price and the sale and redemption of Shares will be carried out at this Price on that Dealing Day.

Dilution

The actual cost of purchasing or selling assets and investments in the Funds may vary due to dealing charges, taxes, and any spread between buying and selling prices of that Fund's underlying investments. These costs could have an adverse effect on the value of the Funds, known as "dilution". In order to mitigate the effect of dilution the ACD may at its discretion adjust the single price at which Shares in the Funds are bought and sold to take into account the possible effects of dilution to arrive at the Price. This practise is known as making a "dilution adjustment". The power to make a dilution adjustment may only be exercised for the purpose of reducing dilution in the Fund in question. If the Price does contain a dilution adjustment, such dilution adjustment will be paid into the relevant Fund and will become part of the property of that Fund thus mitigating the effects of dilution that would otherwise constrain the future growth of that Fund.

The ACD reserves the right to make a dilution adjustment every Dealing Day. The dilution adjustment is calculated using the estimated dealing costs of a Fund's underlying investments and taking into consideration any dealing spreads, commission and transfer taxes. The level of the dilution adjustment may vary from Fund to Fund according to the characteristics of the assets and markets in which the Fund invests. The current estimated rates of adjustment for the Querns Income First Fund are +1% (where Shares are purchased) and -1% where Shares are redeemed.

The discount or premium to NAV will depend on the volume of subscriptions or redemptions of Shares in the relevant Fund and the ACD is not currently able to predict the likely frequency of such events. The ACD may in its discretion make a dilution adjustment if, in its opinion, the existing Shareholders, in the case of subscriptions, or remaining Shareholders, in the case of redemptions, might otherwise be adversely affected, and making a dilution adjustment is, so far as

practicable, fair to all Shareholders and potential Shareholders. In particular, the dilution adjustment may be made in the following circumstances:

- a) where a Fund is expanding or contracting;
- b) where a Fund is experiencing a large Net Subscription Position or a large Net Redemption Position relative to its size on any Dealing Day;
- c) in any other case where the ACD is of the opinion that the imposition of a dilution adjustment is in the interests of Shareholders.

An expanding Fund has been determined as one where, based on the daily movements in and out of the Fund, the Fund has experienced a net inflow of investment over a calendar month and a contracting Fund is one where, over the same period, the Fund has experienced a net outflow. A level Fund is one which is considered to be neither expanding or contracting based on the above criteria.

For an expanding Fund the ACD will normally swing the Price to "offer" (i.e. increase the Price by the premium rate detailed above), however in the event of net outflows on a given Dealing Day the ACD may leave the Price at "mid" or swing the Price to "bid" (i.e. reduce the Price by the discount rate detailed above) if the outflows are of significant size relative to the size of the Fund.

For a contracting Fund the ACD will normally swing the Price to "bid", however in the event of net inflows on a given Dealing Day the ACD may leave the Price at "mid" or swing the Price to "offer" if the inflows are of significant size relative to the size of the Fund.

For a level Fund the ACD will normally leave the Price at "mid", however in the event of net inflows on a given Dealing Day the ACD may swing the Price to "offer", or in the event of net outflows on a given Dealing Day the ACD may swing the Price to "bid", if the flows are of significant size relative to the size of the Fund.

The Price of each Class of Shares in each Fund will be calculated separately but any dilution adjustment will in percentage terms affect the Price of Shares of each Class identically.

The ACD's decision on whether or not to make this adjustment, and at what level this adjustment might be made in a particular case or generally, will not prevent it from making a different decision on future similar transactions.

On the occasions when a dilution adjustment is not applied if a Fund is in a Net Subscription Position or a Net Redemption Position there may be an adverse impact on the assets of that Fund attributable to each underlying Share, although the ACD does not consider this to be likely to be material in relation to the potential future growth in value of a Share. As dilution is directly related to the inflows and outflows of monies from the Fund it is not possible to accurately predict whether dilution will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the ACD will need to make a dilution adjustment.

The dilution adjustment will be applied to the Price for the Shares resulting in a figure calculated up to four significant figures. The final digit in this figure will then be rounded either up or down in accordance with standard mathematical principals resulting in the final Price for the Shares.

The most recent dilution adjustment figures can be obtained from the ACD on request.

FEES AND EXPENSES

Any fees or expenses payable by a Shareholder or out of the Scheme Property are set out in this section.

Initial Charge

The ACD will not charge an initial charge.

Annual Management Charge

The ACD is entitled to make a periodic charge (the “Annual Management Charge”) which shall be paid out of the property of the relevant Fund monthly in arrears at the annual percentage rate shown in Appendix 3. The Annual Management Charge is calculated and accrued daily, based on the value of the Scheme Property at the preceding Valuation Point.

This charge will be deducted from the capital or income property of a Fund as set out in Appendix 3.

Where the charge is normally deducted from the income of a Fund but the income generated is insufficient, the proportion of such charge in excess of the amount of available income may then be deducted from the capital property of the Fund. This fee will constrain capital growth.

The ACD may not increase any charge it takes from a Fund save in accordance with the FSA Rules.

Exchange Fee

The ACD may charge an exchange fee when Shares of a Fund are exchanged for Shares in another Fund not exceeding the maximum percentage rate of initial charge for the Shares in such other Fund. The ACD will not charge an exchange fee when Shares in a Fund are exchanged for another Class of Shares in the same Fund. Please see “Exchanges” for details.

Expenses of the ACD

The Company will also pay to the ACD out of the Scheme Property any expenses incurred by the ACD or its delegates of the kinds described below under “Other payments out of the Scheme Property of the Company”, including legal and professional expenses of the ACD and its delegates in relation to the proper performance of the ACD’s duties under the ACD Agreement, or related to documents amending the ACD Agreement, all expenses incurred in preparing valuations of Scheme Property and publishing prices of Shares, all postage and communication costs incurred in the proper performance of duties under the ACD Agreement, and all expenses incurred in producing any prospectus, simplified prospectus, in distributing any prospectus (not including the simplified prospectus) and any expenses of the ACD in buying or selling Shares (but excluding any commissions or similar payments as the Company is prohibited from making under the FSA Rules).

Increase in Charges

An increase in payments to the ACD, any other director or an associate, or otherwise which are material changes may only be made by the ACD after:

- (A) giving 60 days’ written notice to Shareholders (in the case of an increase of the charge) or regular savers (in the case of the initial charge); and

- (B) revising the Prospectus to reflect the proposed increase.

Depositary's Remuneration and Expenses

The Depositary receives for its own account a periodic fee which is calculated and will accrue daily based on the value of the property of the Fund(s) at the preceding Valuation Point and is payable monthly in arrears on the last Business Day in each calendar month in respect of that day and the period since the last Business Day in the preceding month and is payable within seven days after the last Business Day in each month. The fee is calculated by reference to the value of the Fund on the last Business Day of the preceding month. The rate of the periodic fee is agreed between the ACD and the Depositary and is calculated on a sliding scale for the Fund on the following basis (subject to a current minimum of £10,000 a year):

- 0.05 % a year of the first £150 million of the Scheme Property
- 0.03% a year of the balance.

These rates can be varied from time to time in accordance with the FSA Rules.

The Depositary has delegated its custodial duties to The Northern Trust Company ("Custodian") and in addition to the periodic fee referred to above, the Depositary (or, if appropriate, the Custodian directly) shall also be entitled to be paid transaction and custody charges in relation to transaction handling and safekeeping of the Scheme Property (subject to a current minimum of £20,000 a year) as follows for transactions effected in the UK:

Item	Range
Custody Charges	0.015 per cent of the NAV for the first £100 million of the NAV of the Fund and 0.0125 per cent of the NAV for the NAV in excess of £100 million.
Transaction Charges	£20 per transaction so long as the NAV of the Fund does not exceed £100 million or £15 per transaction if the NAV of the Fund exceeds £100 million.

These charges vary from country to country depending on the markets and the type of transaction involved. The charges may be higher or lower in other countries or territories than those in the UK and Transaction Charges are expected to range from £5 to £150 and Custody Charges are expected to range from 0.001% of the NAV to 0.95% of the NAV. Transaction charges accrue at the time the transactions are effected and are payable as soon as is reasonably practicable, and in any event not later than the last business day of the month when such charges arose or as otherwise agreed between the Depositary and the ACD. Custody charges accrue and are payable as agreed from time to time by the ACD and the Depositary.

Where relevant, the Depositary may make a charge for (or otherwise benefit from) providing services in relation to: distributions, the provision of banking services, holding money on deposit, lending money, or engaging in stock lending or derivative transactions, in relation to the Fund and may purchase or sell or deal in the purchase or sale of Scheme Property, provided always that the services concerned and any such dealing are in accordance with the provisions of the FSA Rules.

The Depositary will also be entitled to payment and reimbursement of all costs, liabilities and expenses properly incurred in the performance of, or arranging the performance of, functions conferred on it by the Instrument, the FSA Rules or by the general law.

On a winding up of the Fund the Depositary will be entitled to its pro rata fees, charges and expenses to the date of winding up, the termination, or the redemption (as appropriate) and any additional expenses necessarily realised in settling or receiving any outstanding obligations.

Any value added tax on any fees, charges or expenses payable to the Depositary will be added to such fees, charges or expenses.

In each such case such payments, expenses and disbursements may be payable to any person (including the ACD or any associate or nominee of the Depositary or of the ACD) who has had the relevant duty delegated to it pursuant to the COLL Sourcebook by the Depositary.

Administrator and Registrar's Fee

The Administrator and Registrar is entitled to receive out of the Scheme Property, fees for its services as Administrator and Registrar (both in respect of the Register of Shareholders and any plan registers).

The Administrator and Registrar charges a fee, which is borne by a Fund, for fund administration at a rate of 0.09% a year for the first £50 million of the NAV of the Fund, 0.07% a year for the next £50 million of the NAV, 0.05% a year for the next £100 million of the NAV and 0.02% a year for NAV in excess of £200 million. There is a minimum fee of £25,000 a year for a Fund.

The Administrator and Registrar charges fees in respect of its registrar duties, which are borne by the Fund. For holdings outside the ACD's ISA or Regular Savings Scheme there is a charge of £15 per transaction and £12 per account a year with a minimum fee of £10,000 a year. For investments in the ACD's ISA there is a charge of £20 for each new account and an ongoing fee of £20 per account a year with a minimum fee of £2,500 a year. For Regular Savings Plan investments there is a charge of £20 for each new account and an ongoing fee of £18 a year. There is a charge of £1,000 per distribution made by the Fund.

Other Payments out of the Scheme Property of the Company

In accordance with the Regulations, the following payments may lawfully be made out of the Scheme Property of the Funds:

- (A) Broker's commission, fiscal charges and other disbursements which it is necessary to incur in effecting transactions for the Funds concerned and which are normally shown in contract notes, confirmation notes and difference accounts, as appropriate.
- (B) Interest on borrowings permitted under the FSA Rules and charges incurred in effecting or terminating such borrowings or in negotiating or varying the terms of such borrowings.
- (C) Taxation and duties payable in respect of the property of the Fund or in respect of the issue or redemption of Shares, including stamp duties or other taxes or duties in relation to the transfer to the Company of assets acquired in exchange for the issue of Shares or in relation to the redemption of Shares.
- (D) Any costs incurred in modifying the Instrument of Incorporation, including costs incurred in respect of meetings of Shareholders convened for purposes which include the modification of the Instrument of Incorporation where the modification is necessary to implement changes in the law, or necessary as a direct consequence of any change in the law, or expedient having regard to any change in the law made or to remove obsolete provisions from the Instrument of Incorporation.

- (E) Any costs incurred in respect of meetings of Shareholders, or class meetings of Shareholders of a Fund, including meetings convened on a requisition by Shareholders or by the ACD, or travel to and attendance at such meetings.
- (F) Liabilities arising on amalgamation or reconstruction of the Company or any of its constituent Funds.
- (G) The audit fee of the Auditors of the Company and any proper expenses of such an auditor.
- (H) The periodic fees of the FSA in respect of the Company as may be prescribed under the Financial Services and Markets Act 2000 (as amended), or any relevant regulations made thereunder and any payments otherwise due by virtue of the FSA Rules or the corresponding fees of any regulatory authority in a country or territory outside the UK in which the Shares are or may be marketed and the costs involved in registering the Company or a Fund in a country or territory outside the UK (including translations and the fees and expenses of any paying agents, information agents or other entities which are required to be appointed by any regulatory authority).
- (I) The costs of printing and distributing reports, accounts, statements, contract notes and other like documentation, any prospectuses (including the preparation, but not the distribution, of the simplified prospectus), any instrument of incorporation and any costs incurred as a result of periodic updates of or changes to any prospectus or instrument of incorporation and any other administrative expenses.
- (J) Any costs incurred by the Company in publishing the prices of Shares, including the costs of listing the prices of Shares in publications and information services selected by the ACD, in whatever medium.
- (K) Any expenses incurred in relation to company secretarial duties, including all costs incurred in preparing accounts and producing and despatching annual, half yearly and other reports of the Company.
- (L) Any costs incurred in producing and despatching dividend or other payments of the Company.
- (M) Any fees, expenses or disbursements of any investment, legal or other professional adviser of the Company and those of the Company's sub-advisers.
- (N) Fees and expenses incurred by the ACD in connection with the provision of its investment management services (including, but not limited to, research).
- (O) All fees and expenses incurred in relation to the addition and initial organisation of any new Funds, the listing of Shares on any stock exchange, the registration of any Fund with any regulator (including the fees of any law firm or other adviser in connection thereto) any offer of Shares (including the preparation and printing of any prospectus and simplified prospectus) and the distribution of the Prospectus and the creation, conversion and cancellation of Shares.
- (P) Any costs incurred in taking out and maintaining an insurance policy in respect of the ACD and the Company.

- (Q) Any fees of any stocklending agent in relation to the entry into stocklending arrangement or repo contracts for the account of a Fund in accordance with the FSA Rules.
- (R) Expenses incurred by the Company in respect of any movable and immovable property in which the Company has an interest. Currently the Company does not intend to hold any such interests.
- (S) Any costs incurred by the Company associated with independent risk monitoring or daily “value at risk” or “VaR” calculations.
- (T) Any value added or similar tax relating to any charge or expense set out above.

Allocation of Assets, Charges and Expenses to Funds

All fees, duties, charges and expenses (other than any borne by the ACD) are charged to the Fund in which they were incurred. However, where they are not attributable to a particular Fund, they will be allocated among the Funds in a manner which the ACD considers is fair to the Shareholders generally. The costs of authorisation of any new Fund may be borne by that Fund at the discretion of the ACD.

BUYING AND SELLING OF SHARES

Shares in each Fund may be bought or sold on any Dealing Day between 8:30 am and 5:00 pm (London time). Instructions to issue or redeem shares may be either in writing or by telephone to the offices of the Administrator. To confirm the transaction, a contract note or allocation letter will be issued by close of business on the next business day after the dealing date.

Shares may be bought and sold by telephone or by written instructions or by such other means as the ACD may make available from time to time. A purchase or sale of Shares in writing and/or by telephone is a legally binding contract.

Orders received and accepted by the Administrator by the Valuation Point on a Dealing Day will be dealt with at the price calculated on that day. Orders received and accepted after that time will be dealt with at the price calculated on the next Dealing Day.

The ACD may defer redemptions at a particular Dealing Day to the next Dealing Day where the requested redemptions exceed 10 per cent of a Fund's value. The ACD will ensure the consistent treatment of all Shareholders who have sought to redeem Shares at any Dealing Day at which redemptions are deferred. The ACD will pro-rata all such redemption requests to the stated level (i.e. 10 per cent of the Fund's value) and will defer the remainder until the next Dealing Day. The ACD will also ensure that all deals relating to an earlier Dealing Day are completed before those relating to a later Dealing Day are considered.

A contract note giving details and, where appropriate, a notice of the applicant's right to cancel the transaction will be issued on the Business Day following the purchase or sale. Certificates will not be issued in respect of shares in the Fund as ownership is evidenced by entry on the Register. In the case of a purchase of Shares, settlement will be required at the time of placing the instruction to purchase Shares. In the case of a redemption, the ACD will issue a settlement cheque within four working days of receipt by the Administrator of a form of renunciation (copies of which may be obtained from the Administrator). Any form of renunciation must be signed by each of the holders of the relevant Shares.

The ACD has the right to reject, on reasonable grounds relating to the circumstances of the applicant, any application for Shares in whole or part, and in this event the ACD will return any money sent, or the balance of such monies, at the risk of the applicant.

Suspension of Dealing

The ACD may, with the prior agreement of the Depositary, or must without delay if the Depositary so requires, temporarily suspend the issue, cancellation, sale and redemption of Shares in any or all of the Funds, without prior notice to Shareholders. Such suspension will be effected in accordance with the FSA Rules which currently permit a suspension if the ACD or the Depositary is of the opinion that due to exceptional circumstances there is good and sufficient reason to do so having regard to the interests of the Shareholders in the Fund concerned. If the redemption of Shares in a Fund is suspended, the obligations, relating to the creation, cancellation, issue and redemption of Shares, contained in the FSA Rules, will cease to apply in respect of the Fund concerned. The ACD will comply with as much of the obligations in the FSA Rules relating to the valuation and pricing of Shares as is practicable in the light of the suspension.

Shareholders will be notified of any suspension as soon as practicable after suspension commences. Such notification will draw Shareholder's attention to the exceptional circumstances which resulted in the suspension and the ACD will keep Shareholders informed about the suspension and the likely duration. The ACD and the Depositary will conduct a formal review of the suspension at least every 28 days in accordance with the FSA Rules.

Where the ACD agrees during the suspension to deal in Shares, all deals accepted during, and outstanding prior to, the suspension will be undertaken at a price calculated at the first relevant Valuation Point after the restart of dealings in Shares.

During any suspension, a Shareholder may withdraw his redemption notice provided that such withdrawal is in writing and is received before determination of the suspension. Any notice not withdrawn will be dealt with on the next Dealing Day following the end of the suspension.

Pricing

The ACD deals on a forward pricing basis. A forward price is the price calculated at the next Valuation Point after a sale or redemption is agreed.

Publication of Prices of Shares

Prices of Shares will be published daily on the ACD's website at www.querns.co.uk and at www.fundlistings.com. The same information may also be obtained by telephone from the ACD by calling 0845 305 4212.

The price shown will be that calculated at the previous Valuation Point. The ACD may change the manner in which prices are published on 60 days' written notice to Shareholders.

In Specie Redemption

The ACD may arrange that in lieu of payment of the price of the Shares in cash, the Company shall cancel the Shares and transfer to that Shareholder property of the Fund of the relevant value. The ACD must give written notice to the Shareholder concerned of its decision to exercise these powers before the cash payment would otherwise be due. The Fund property to be transferred will be selected by the ACD in consultation with the Depositary and with a view to achieving no more advantage or disadvantage to the Shareholder requesting redemption of their Shares than to continuing Shareholders. The Company may retain out of the Fund property to be transferred property or cash of a value or amount equivalent to any stamp duty reserve tax to be paid in relation to the redemption of Shares. The ACD will review its in specie redemption policy at regular intervals and may change it at any time, in accordance with the FSA Rules.

Restrictions and Compulsory Transfer and Redemption

The ACD may from time to time impose such restrictions as it may think necessary to ensure that no Shares are acquired or held by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory. In this connection, the ACD may reject in its discretion any application for the purchase, sale or exchanging of Shares.

If it comes to the notice of the ACD that any Shares are or may be owned or held legally or beneficially by a Non-Qualified Person ("affected Shares") the ACD may give notice to the registered holder(s) of the affected Shares requiring either the transfer of such Shares to a person who is not a Non-Qualified Person or a request in writing for the redemption or cancellation of such Shares in accordance with the FSA Rules. If any person upon whom such a notice is served does not, within 30 days after the date of such notice, transfer the affected Shares to a person who is not a Non-Qualified Person or establish to the satisfaction of the ACD (whose judgement is final and binding) that he and the beneficial owner are not Non-Qualified Persons, he shall be deemed upon the expiration of that 30 day period to have given a request in writing for the redemption or cancellation (at the discretion of the ACD) of all the affected Shares pursuant to the FSA Rules.

A person who becomes aware that he has acquired or holds affected Shares as described above shall forthwith, unless he has already received a notice from the ACD as above, either transfer the affected Shares to a person qualified to own them or give a request in writing for the redemption or cancellation of such Shares pursuant to the FSA Rules.

The Company may refuse to register a transfer of Shares unless it has received an amount determined by the ACD as being the SDRT payable by the Company on the transfer, or such lesser sum as the ACD may determine.

The ACD may decide to close any Class (a "closing class") where, one year after the first issue of Shares in that Class or at any date thereafter the Net Asset Value of the closing class is less than £1 million or its equivalent in the base currency of the Fund to which the closing class relates, or the ACD decides it is desirable to close that Class. In such an event, the ACD will exchange the Shares in the Class held by a Shareholder for Shares of such other Class in respect of the same Fund as in the opinion of the ACD most nearly equates to, in its discretion, the closing class. Such exchange shall be done by applying the formula for exchanges as set out below.

Compulsory Redemption

The Shares in any Fund may be compulsorily redeemed or cancelled in accordance with the Instrument of Incorporation if the holding of any Shares by a Shareholder is, or is reasonably considered by the ACD to be, an infringement of any law or governmental regulations, or which would result in the Company incurring any liability to taxation or suffering any other adverse consequence.

Anti-Money Laundering

Under current laws, firms conducting investment business are required to maintain procedures to combat money laundering. In order to implement these procedures, in certain circumstances Shareholders or potential Shareholders may be asked to provide some proof of identity. This may be either when shares are purchased or when Shares are encashed. In the latter case, where the ACD is required to seek proof of identity, proceeds cannot be paid until the ACD has received appropriate verification.

The ACD is legally obliged to verify your identity for anti-money laundering purposes. This may involve the ACD obtaining information about you from a credit reference agency, however, the ACD will use any information they obtain in this way only for verification of your identity, and not for any other purposes. The ACD reserves the right to reverse the transaction or to refuse to sell shares if it is not satisfied as to the identity of the applicant.

Market Timing Policy

The ACD does not knowingly allow investments which are associated with market timing activities, as these may adversely affect the interests of all Shareholders.

In general, market timing refers to the investment behaviour of a person or group of persons buying, selling or exchanging Shares on the basis of predetermined market indicators. Market timing may also be characterised by transactions that seem to follow a timing pattern or by frequent or large transactions in Shares.

Accordingly, the ACD reserves the right to reject any application for exchanging and/or subscription of Shares from investors whom it considers to be associated with market timing activity. In this connection the ACD may combine Shares which are under common ownership or control for the purposes of ascertaining whether investors can be deemed to be involved in such activities.

Governing Law

All dealings in Shares are governed by English law.

EXCHANGES

A Shareholder may give notice to the ACD, in such form as the ACD shall from time to time determine, that they wish to exchange all or some of their Shares of one Class or Fund (“the Original Shares”) for Shares of another Class or Fund (“the New Shares”). Such exchanges can only take place if, following the exchange, the Shareholder’s holding of New Shares will satisfy the criteria and applicable minimum investment requirement of that Class or Fund. An exchange may result in a chargeable event for capital gains tax purposes, as discussed in “Taxation”.

The ACD may impose restrictions on exchanges, but any restriction related to exchanges of Shares of different Funds must be on reasonable grounds relating to the circumstances of the Shareholder concerned.

The number of New Shares to be issued to the holder on an exchange will be determined by reference to the respective prices of New Shares and Original Shares at the Valuation Point applicable at the time the Original Shares are redeemed and the New Shares are issued. The following formula will be applied:

$$N = O \times \frac{CP}{SP}$$

Where	:	N	is the number of New Shares to be issued or sold, rounded down to the nearest whole number of Smaller Denomination Shares
		O	is the number of Original Shares which the holder has requested to exchange
		CP	is the price at which a single Original Share may be redeemed
		SP	is the price at which a single New Share may be purchased when the Shares are exchanged

The ACD may adjust the number of New Shares to be issued to reflect the application of any charge on exchanging together with any other charges or levies in respect of the application for the New Shares or redemption of the Original Shares as may be permitted pursuant to the FSA Rules.

The then prevailing initial charge (if any) on the New Shares will be payable on an exchange but the ACD may at its discretion offer a discount on such initial charge. If an exchange would result in the Shareholder holding a number of Original Shares or New Shares of a value which is less than the minimum holding in a particular Fund, the ACD may, if it thinks fit, convert the whole of the Shareholder’s holding of Original Shares to New Shares or refuse to effect any exchange of the Original Shares. No exchange will be made during any period when the right of Shareholders to require the redemption of their Shares is suspended. The general provisions on procedures relating to redemption will apply equally to an exchange.

A Shareholder who exchanges Shares in one Fund for Shares in any other Fund will not be given a right by law to withdraw from or cancel the transaction.

GENERAL INFORMATION

Reports and Accounts

The annual report in respect of the Company will be published within four months, and normally within two months, of the end of the annual accounting period which ends on 31 March. The half-yearly accounting period ends on 30 September and half-yearly reports in both short reports and long reports will be made up to such date each year and published within two months. The accounts contained in the annual and half yearly reports will be prepared in accordance with the FSA Rules and the Statement of Recommended Practice for Financial Statements of Authorised Funds. Shareholders will receive copies of the short reports on publication, and a copy of the long report and accounts will be available on request.

Inspection of Documents

Copies of the Instrument of Incorporation (as amended), the material contracts referred to below and the most recent annual and half-yearly reports may be inspected during normal office hours, and the Prospectus, Instrument of Incorporation and the most recent annual and half-yearly long reports may be obtained free of charge, from the Administrator at the address stated in the Directory.

Register of Shareholders

The Register of Shareholders for the Fund of the Company can be inspected at the offices of the Administrator.

Notices

Any notice or document required to be sent or served to Shareholders will be sent either by first class post to the address as most recently notified to the Company and as entered on the Register of Shareholders, or electronically to the email address most recently notified to the Company (where a Shareholder has consented to the receipt of documents and notices electronically), at the ACD's discretion.

Material Contracts

The ACD Agreement dated 07 June 2010 between the Company and the ACD, not being a contract entered into in the ordinary course of business, has been entered into by the Company and is, or may be, material.

Complaints

If you wish to make a complaint about any aspect of the service you have received, please contact the Administrator. Any complaint regarding the operation or marketing of a Fund or the Company should be sent to the Compliance Officer, Querns Asset Managers LLP at the ACD's office.

If unsatisfied, a Shareholder also has the right to complain directly to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

Investors Compensation Scheme

Rights to compensation for Shareholders in the Company are those outlined in the Financial Services Compensation Scheme.

TAXATION

The following statements are based on the ACD's understanding of current English law and HM Revenue & Customs practice as known at the date of this Prospectus. They summarise the tax position of the Funds and of investors who are UK resident and hold their shares as investments. The bases and rates of taxation and reliefs from taxation may change in the future. The information given below does not constitute tax or legal advice and Shareholders are recommended to consult their professional adviser if they are in any doubt as to their individual tax position or if they may be subject to tax in a jurisdiction other than the UK.

The Funds

General

Each Fund is treated as an OEIC for tax purposes and as a separate OEIC from any other sub-fund of the Company.

Each Fund is generally exempt from UK corporation tax on capital gains realised on the disposal of its investments. This includes profits on interest paying securities and derivatives contracts provided that such profits fall to be treated appropriately in the Fund's statement of return to be included in its annual report. Whether this is the case will depend on the accounting treatment of such profits. It cannot be guaranteed that the Funds' transactions will give rise to tax exempt capital gains.

Gains realised upon the sale, redemption or other disposal of interests in "offshore funds" which are not "reporting funds" for UK tax purposes are charged to tax as income ("offshore income gains") and not as a capital gain. Each Fund is accordingly not exempt from tax on such gains. Shareholders may not receive effective credit for the tax on such offshore income gains.

A manager of an authorised investment fund that meets certain conditions may make an application to HM Revenue & Customs for the Tax Elected Fund Regime to apply to the fund that effectively exempts the fund from tax on certain income and taxes investors in the fund as if they hold the relevant assets of the fund directly.

The conditions relevant to entry into the Tax Elected Fund Regime are, broadly, that (i) the fund must not have a UK property business or an overseas property business (the "Property Condition"), (ii) shares in the fund must be widely marketed and made available to specified categories of investors (the "Genuine Diversity of Ownership Condition"), (iii) a loan creditor of the fund must not be entitled to interest dependent on the results of the fund's business (or value of the fund's assets) and does not receive an unreasonable commercial return (the "Loan Creditor Condition"), and (iv) the fund documents must contain specific statements in respect of the Property Condition and the Loan Creditor Condition (the "Scheme Documentation Condition") (together, the "Tax Elected Fund Conditions").

Tax Elected Funds

The Querns Income First Fund is a Tax Elected Fund.

For the purposes of the Tax Elected Fund Regime, the income of a Tax Elected Fund consists of dividend income, property investment income (income from a UK real estate investment trust or property authorised investment fund), property business income (income from a UK or overseas property business which the Tax Elected Fund inadvertently and temporarily receives in breach of the Property Condition) or other income.

Generally dividend income of a company received by a Tax Elected Fund should benefit from an exemption from the charge to corporation tax under Part 9A of the Corporation Tax Act 2009. Dividend income that is not exempt will be subject to corporation tax in the same way as taxable income of an authorised investment fund that is not within the Tax Elected Fund regime. Property investment income should be received by a Tax Elected Fund net of income tax at the basic rate (which is not recoverable by the Tax Elected Fund) and treated as a distribution that is exempt from corporation tax (under Part 9A of the Corporation Tax Act 2009). A Tax Elected Fund is not permitted to receive property business income. However, where such income is received and the Property Condition breached inadvertently and temporarily, such income will be subject to corporation tax in the same way as taxable income of an authorised investment fund that is not within the Tax Elected Fund regime until the breach is remedied.

Other income received by a Tax Elected Fund, which is likely to be mainly interest, is subject to corporation tax. However, since such other income must be designated and paid as a non-dividend distribution which is treated as a payment of yearly interest and a loan relationship debit in respect of which the Tax Elected Fund is allowed a deduction against its "other income", there should be no net taxable amount of such other income.

All income shown in the accounts of a Tax Elected Fund as available for distribution or accumulation is designated as either a dividend distribution or a non-dividend distribution. Dividend income, property investment income and property business income are designated as dividend distributions and other income is designated as non-dividend distributions. Dividend distributions are treated as dividends on shares which are paid on the distribution date and non-dividend distributions are treated as payments of yearly interest.

Non-Tax Elected Funds

A Non-Tax Elected Fund is liable to UK corporation tax at the current rate of 20 per cent on most sources of income, other than any such profits which are exempt, after deduction of allowable expenses including interest distributions. Each Non-Tax Elected Fund may receive dividend distributions from UK collective investment schemes or dividends in respect of investments in UK or overseas equities. These dividends may, depending on the availability of exemptions, not be subject to corporation tax in the Non-Tax Elected Fund. Other types of income, for example, interest distributions from UK collective investment schemes, bank deposit interest or certain dividends from UK or overseas companies, are taxable. Where foreign tax has been deducted from income from overseas sources, that tax can in some instances be offset against corporation tax payable by the Non-Tax Elected Fund by way of double tax relief.

Distributions paid may be either dividend distributions or interest distributions, depending on the nature of the income of the Non-Tax Elected Fund. Interest distributions can be made only where the market value of the Non-Tax Elected Fund's interest-bearing and equivalent investments, including holdings in collective investment schemes that pay interest distributions and cash on deposit, exceeds 60 per cent of the market value of all its assets throughout the accounting period to which it relates.

Shareholders

On the specified allocation dates, each Shareholder becomes entitled to a distribution which, in the case of allocations made in respect of Accumulation Shares, will be automatically retained in the Fund. Accumulations of income are treated for UK income tax and corporation tax purposes as deemed distributions. The ACD will send an annual tax voucher (or permitted alternative communication) to investors showing the amount of income to which each Shareholder is entitled, the nature of each distribution and related tax credit (if any). Notes printed on the tax voucher will indicate how the amount should be reflected in the investor's tax return.

Shareholders are taxed in respect of amounts designated as dividend distributions and non-dividend distributions of a Tax Elected Fund in the same way as dividend distributions and interest distributions, respectively, of Funds which are not within the Tax Elected Fund Regime.

Income tax

Dividend Distributions

An individual Shareholder who is resident for tax purposes in the United Kingdom is entitled to a tax credit in respect of any dividend distribution received or deemed to be received (after deducting any equalisation payment) and is subject to income tax on the aggregate of the dividend distribution and the tax credit (the "gross dividend"). The value of the tax credit will be equal to one-ninth of the net dividend distribution (i.e. 10 per cent of the gross dividend). Thus on a dividend distribution of £90 the tax credit will be £10. Distributions plus tax credits will be treated as the top slice of an individual's income. A UK resident individual who is not liable to tax will generally not be able to reclaim the tax credit from HM Revenue & Customs. In the case of a UK resident individual liable to basic rate tax only, the tax credit will match the individual's tax liability on the dividend distributions and there will be no further tax to pay and, again, generally no right to claim any repayment from HM Revenue & Customs.

Individual Shareholders liable to UK income tax at the higher rate must account to HM Revenue & Customs for any further tax due on the gross amount of the income, that is the distribution plus the tax credit. Higher rate taxpayers will be liable to income tax on their grossed up dividend income at the upper rate of 32.5 per cent but may offset the 10 per cent tax credit against this liability. In other words, higher rate tax payers will be liable to pay an effective rate of income tax equivalent to 25 per cent of the net amount accumulated or distributed.

With effect from 06 April 2010, a new additional rate of income tax of 50 per cent applies to income exceeding £150,000 and a new additional rate of income tax of 42.5 per cent applies to dividends that would otherwise be subject to the new additional rate of income tax of 50 per cent. Individual Shareholders liable to the additional rate are required to account to HM Revenue & Customs for further tax at the rate of approximately 36 per cent of the net amount distributed or accumulated.

Interest Distributions and Non-Dividend Distributions

If the total amount shown in the distribution account of a Fund is shown as available for distribution as yearly interest, such amount will be treated when distributed or accumulated as if it were a payment of yearly interest. The ACD will generally deduct income tax at the rate of 20 per cent on the gross amount of payments to UK resident investors who will receive credit for the tax suffered. Shareholders liable to UK income tax at the higher rate (40 per cent) must account to HM Revenue & Customs for the further tax due of 20 per cent on the gross amount of the interest. This further tax will amount to 25 per cent of the amount of interest paid or accumulated. Shareholders liable, with effect from 06 April 2010, to UK income tax at the new additional rate (50 per cent) must also account to HM Revenue & Customs for further tax due. A basic rate taxpayer has no further tax liability. Shareholders who are non-tax payers may reclaim all or part of the tax credit from HM Revenue & Customs.

Corporate investors, individuals who are ordinarily resident outside the UK, persons who are unlikely to have net income subject to income tax and certain others who are exempt from tax on income, including pension funds, charities and individuals whose Shares are held through an ISA may be eligible to receive interest distributions without the deduction of income tax.

Corporation tax

Dividend Distributions

Shareholders within the charge to corporation tax are subject to tax on a dividend distribution of a Fund unless it falls within an exemption. Subject to the “corporate streaming” rules below, it is expected that most dividend distributions paid by a Fund should be exempt from the charge to corporation tax.

General insurance and other companies within the charge to corporation tax for whom a dividend distribution is not treated as a trading receipt are within the scope of the “corporate streaming rules”. Such Shareholders receive dividend distributions as franked investment income (in respect of which no liability to UK corporation tax should arise depending on the availability of exemptions) to the extent that the gross income less tax from which the distributions are made is franked investment income. To the extent that the gross income less tax from which the dividend distributions are made is not wholly franked investment income, that part of the distribution is received as an annual payment from which income tax at the basic rate of 20 per cent is deemed to have been deducted, the gross amount of which will be chargeable to corporation tax at the rate applicable to a UK resident corporate Shareholder but with credit for the income tax treated as deducted. The current mainstream rate of corporation tax is 28 per cent. The percentages to be used to calculate the allocation between franked investment income and unfranked income received will be set out on the tax voucher.

The corporate streaming rules also limit the maximum amount of income tax that may be reclaimed from HM Revenue & Customs on the unfranked stream. The maximum amount reclaimable by a corporate Shareholder is the corporate Shareholder’s portion of the Fund’s net liability to corporation tax in respect of gross income for the distribution period in question. The tax voucher will state the Fund’s net liability to corporation tax in respect of the gross income for the distribution period in question. Additional information may also be provided on the tax voucher, for example, the net liability per Share.

Interest Distributions and Non-Dividend Distributions

Shareholders who are eligible to receive interest distributions and non-dividend distributions gross include, inter alia, companies within the charge to UK corporation tax, UK charities, UK tax-exempt pension funds and ISA plan managers, providing evidence is received of their eligibility to receive such payments gross.

Where interest distributions and non-dividend distributions are made net, a UK resident corporate Shareholder will be treated as receiving a payment of yearly interest (the “gross amount” of the interest distribution) from which tax has been deducted (currently 20 per cent). Such a Shareholder will be liable to corporation tax on the gross amount of the interest distribution or non-dividend distribution, but will be entitled to credit for the tax deducted at source, and repayment of any excess of the tax credit over the liability to corporation tax.

Income tax and corporation tax - certain Shareholders

Charities and Pension Funds

Any income tax withheld from interest distributions or non-dividend distributions and paid to the HM Revenue & Customs is repayable to charities and pension funds which are exempt from income tax on their investment income. They cannot reclaim the tax credit on dividend distributions.

ISAs

Income tax withheld from interest distributions or non-dividend distributions and paid to HM Revenue & Customs is repayable to the ISA plan manager (on behalf of the plan investor). The tax credit on dividend distributions cannot be reclaimed.

Non-Resident Shareholders

Interest distributions or non-dividend distributions may be made without deduction of tax to a Shareholder who certifies to the Company that he or she is an individual who is not ordinarily resident in the UK, or which is a company that is a “reputable financial intermediary” that the Company believes to be acting for a Shareholder that is not ordinarily resident in the UK.

Shareholders who are not resident in the UK may be entitled to a repayment in respect of the tax credit attached to a dividend distribution, interest distribution or non-dividend distribution. This entitlement is dependent on the terms of any double taxation agreement between the UK and the Shareholder’s country of residence; typically these provide for full or partial repayment of tax deducted from interest distributions or non-dividend distributions but little, if any, payment in respect of dividend distributions.

Tax on gains

For holders of Shares in a Fund who are resident or ordinarily resident in the UK, the disposal of Shares in the Fund or the exchange of Shares in one Fund for Shares in another Fund is treated as a redemption and sale and may give rise to a liability to capital gains tax or corporation tax on chargeable gains in respect of gains arising from the disposal. Exchanges between classes of Shares within a Fund should not give rise to a liability to capital gains tax or corporation tax on chargeable gains.

In respect of the Accumulation Shares, income arising from these Shares is accumulated and added to the capital property of the Fund. As a result, such amounts should be added to the allowable cost of such Accumulation Shares when calculating the gain realised on their disposal for UK capital gains tax or corporation tax on chargeable gains purposes.

Individuals are only liable to UK capital gains tax (at the current rate of 18%) if their total chargeable gains (net of allowable losses) in the year exceed the annual exemption (£10,100 for the 2010/2011 tax year).

Shareholders within the charge to UK corporation tax are chargeable to corporation tax on all such gains and net chargeable gains will normally be added to the profits charged to corporation tax. Indexation relief will be available. If during a corporate Shareholder’s accounting period more than 60 per cent of the property of a Fund is invested in interest-paying investments, then the Shareholder must treat its holding as a creditor loan relationship subject to a fair value basis of accounting for corporation tax purposes and any interest distributions or non-dividend distributions as profits derived from such creditor loan relationship.

Income equalisation

Since the Company operates income equalisation, the first allocation made after the acquisition of Shares in any Fund will include an amount of equalisation. This amount represents the ACD’s best estimate of the income included in the price at which the Shares were acquired (subject to grouping where appropriate) and represents a capital repayment for UK tax purposes which should be deducted from the cost of Income Shares in arriving at any gain realised on their subsequent disposal.

Other taxes

Stamp Duty Reserve Tax

Each Fund will be liable for stamp duty reserve tax ("SDRT") on surrenders and certain other transfers of Shares of the Funds. The cost of any SDRT which needs to be paid will be met out of the Scheme Property of the Fund but the Fund may be reimbursed for the cost of such SDRT in the circumstances described further below.

The SDRT System

The charge to SDRT is 0.5 per cent of the value of surrenders and transfers in the Fund each week reduced proportionately to the extent that during that week and the following week the:

- (A) the investments held by the Fund are exempt assets that is, broadly, any assets other than UK equities and holdings in collective investment schemes whose assets include UK equities (this will reduce the charge to nil where a Fund is invested entirely in exempt assets); and
- (B) purchases of Shares are less by number than surrenders of Shares.

SDRT provision

Any SDRT payable is the liability of the Company and the normal policy of the ACD is to meet this liability directly from the Scheme Property of the Fund. However, if this liability is material it will disadvantage continuing Shareholders in the Fund and therefore the ACD reserves the right, at its discretion, to charge an SDRT provision increasing the amount paid for Shares on their acquisition and/or decreasing the amount received on redemption. The SDRT provision would then be paid to the Company in respect of the relevant Fund as a contribution towards the SDRT payable by the Company.

An SDRT provision of up to 0.5% of the value of the relevant transaction may be charged in any of the following circumstances:

- (A) where a purchase or redemption of Shares in excess of 1 per cent of the value of the Scheme Property of the Fund, which, in the estimation of the ACD is likely to cause a material liability to SDRT of the Fund;
- (B) on a transfer of Shares to a third party (i.e., a person other than the ACD or the Company); and
- (C) on a transaction greater than £500,000 in value.

Transfers of Shares

Transfers of Shares from one Shareholder to another may be exempt from SDRT, depending on the circumstances. Shareholders transferring Shares should complete a stock transfer form in the normal way including any appropriate certificate which would be required for exemption from stamp duty on the transfer of equities. Where there is no appropriate certificate, evidence of an exemption from SDRT should be submitted with the transfer.

Frequency of SDRT provision

As at the date of the Prospectus it is not possible to anticipate how often an SDRT provision will be made.

EU Savings Directive

Under the EU Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the “Directive”), Member States of the European Union (“Member States”) are required to provide to the tax authorities of other Member States details of payments of interest and other similar income (which in the case of a collective investment fund may include income arising as a result of the sale and redemption of the fund’s shares) paid by a person who is a “paying agent” for the purposes of the Directive to an individual (or certain “residual entities”) resident for the purposes of the Directive in another Member State. However, Austria and Luxembourg will instead impose a system of withholding tax for a transitional period unless during such period they elect otherwise. The structure of the Company and the investment policy of a particular Fund, may mean that savings income realised by certain Shareholders may be subject to the obligations imposed by the Directive.

UK information reporting regime

Under section 18 of the Taxes Management Act 1970, financial institutions are required to report to HM Revenue & Customs payments of interest. This reporting regime requires OEICs to report details of interest and distributions paid to UK, and many non-UK, investors. Dividend distributions and payments made to ISA investors are unaffected.

WINDING-UP AND TERMINATION

Termination of a Fund

The Fund may be terminated:

- (A) if an extraordinary resolution of the Shareholders is passed to that effect; or
- (B) on the date of effect stated in any agreement by the FSA to a request by the ACD for the termination.

Eligible registered shareholders will be informed in writing if the Fund is terminated or has its authorisation revoked by the FSA.

Termination of the Fund commences upon the later of the time for termination of the Fund determined in accordance with the above circumstances and the time at which the FSA, having been supplied with a statement confirming the solvency of the Fund, approves, pursuant to the OEIC Regulations, the necessary changes to the Instrument of Incorporation and this Prospectus which would result from the termination of the Fund.

On the termination of the Fund (other than in accordance with an approved scheme of amalgamation or reconstruction) the ACD is required as soon as practicable after the Fund falls to be terminated to realise the property of the Fund and pay the liabilities of the Fund out of the proceeds.

Provided that there are sufficient liquid funds in the Fund property available after making adequate provision for the expenses of the termination and the discharge of the liabilities remaining to be discharged, the ACD may arrange for the Depositary to make one or more interim distributions out of the property of the Fund to the Shareholders proportionately to the right to participate in the Fund property attached to their respective Shares as at the date of the commencement of the termination.

When the ACD has caused all the Fund property to be realised and all of the liabilities known to the ACD to be met, the ACD shall arrange for the Depositary to make a final distribution, on or prior to the date on which the termination account is sent to Shareholders, of the balance remaining (net of a provision for any further expenses of the termination) to the Shareholders in the proportions stated above.

If the Fund is to be terminated in accordance with an approved scheme of amalgamation or reconstruction, the ACD is required to terminate the Fund in accordance with the resolution of holders approving such a scheme.

Where the Company and one or more Shareholders (other than the ACD) agree, the requirement to realise the property of the Fund shall not apply to that part of the property which is proportionate to the right of that or those Shareholders, and the ACD may distribute that part in the form of property, after making such adjustments or retaining such provision as appears appropriate to the ACD for ensuring that that or those Shareholders bear a proportionate share of the liabilities and expenses.

Where any sum of money (including unclaimed distributions) still stands to the account of the property of the Fund, the ACD shall instruct the Depositary to retain such sum in an account separate from any other part of the property of the Company in accordance with the FSA Rules. On a winding-up of the Company, the Depositary shall cease to hold those amounts as part of that account and they shall be paid by the Depositary into court in accordance with the OEIC Regulations.

Winding-up of the Company

The Company is to be wound-up:

- (A) if an extraordinary resolution of holders is passed to wind-up the Company; or
- (B) when the period (if any) fixed for the duration of the Company by the Instrument of Incorporation expires or any event occurs, for which the Instrument of Incorporation provides that the Company is to be wound up; or
- (C) on the date of effect stated in any agreement by the FSA in response to a request by the ACD for the winding up of the Company, albeit that such agreement is subject to there being no material change in any relevant factor prior to the date of the revocation.

The Company may only be wound-up under the FSA Rules if the Company is solvent and there is no vacancy in the position of the ACD. If the Company is insolvent, or there is such a vacancy, the Company may only be wound-up under Part V of the Insolvency Act 1986 as an unregistered company.

On a winding-up (other than in accordance with an approved scheme of amalgamation or reconstruction) the ACD is required as soon as practicable after the time the Company falls to be wound-up, to realise the property of the Company and pay the liabilities of the Company out of the proceeds. Liabilities of the Company attributable to a particular Fund shall be met first out of the property attributable or allocated to such a Fund.

If the liabilities to be met out of a particular Fund are greater than the proceeds of the realisation of the property attributable or allocated to that Fund, the deficit shall be met out of the property attributable or allocated to those Funds in respect of which the proceeds of realisation exceed liabilities and divided between those Funds in a manner that is fair to the Shareholders in such Funds.

After making adequate provision for the expenses of the winding-up and the discharge of the liabilities of the Company remaining to be discharged, the ACD may arrange for the Depositary to make one or more interim distributions, and then a final distribution of the proceeds of the realisation of the property attributable or allocated to each Fund to the holders in each Fund, proportionately to the right to participate in the scheme property attached to their respective Shares.

If the Company is to be wound-up in accordance with an approved scheme of amalgamation or reconstruction, the ACD is required to wind-up the Company in accordance with a resolution of holders approving such scheme.

Where the Company and one or more Shareholders (other than the ACD) agree, the requirement to realise the property of the Company shall not apply to that part of the property which is proportionate to the right of that or those Shareholders, and the ACD may distribute that part in the form of property, after making such adjustments or retaining such provision as appears to the ACD appropriate for ensuring that that or those Shareholders bear a proportionate share of the liabilities and expenses.

If any sum of money is unclaimed or stands to the account of the Company at the date of its dissolution, the ACD shall arrange for the Depositary to pay such sum into court within one month after that date in accordance with the OEIC Regulations.

RISK FACTORS

General Risks

Investors should be aware that there are risks inherent in the holding of securities:-

- (A) Past performance is no guide to the future. The value of Shares, and any income from them, can go down as well as up, particularly in the short term, meaning that an investment may not be returned in full.
- (B) The tax treatment of the Funds may change and such changes cannot be foreseen.

Liabilities of the Company

Although each Fund so far as possible will be treated as bearing the liabilities, expenses, costs and charges attributable to it, in the unlikely event that its assets are not sufficient to meet these the ACD may re-allocate assets, liabilities, expenses, costs and charges between the Funds of the Company in a manner which it believes is fair to the Shareholders generally. The ACD would normally expect any such re-allocation to be effected on a pro rata basis having regard to the Net Asset Values of the relevant Funds. If there is any such re-allocation the ACD will advise Shareholders of it in the next succeeding annual or half yearly report to Shareholders.

Notwithstanding the above, however, Shareholders are not liable for the debts of the Company. A Shareholder is not liable to make any further payment to the Company after he has paid the price on purchase of the Shares.

Suspension of Dealings in Shares

Investors are reminded that in certain circumstances their right to redeem Shares (including a redemption by way of exchanging) may be suspended (see "Suspension of Dealings").

Charges to Capital

Where all or part of fees and/or charges in respect of any Class or Fund may be charged against capital rather than income, this will enhance income returns but may constrain future capital growth. Where the Annual Management Charge of a Fund is charged against capital instead of income, all of the other charges and expenses for that Fund will be treated as capital expenses in accordance with the FSA Rules. Where the annual management charge is taken out of the income of a Fund all of the other charges and expenses of that Fund will be treated as income expenses (with the exception of any payment as a result of effecting a transaction) to the extent that there is sufficient income. If there is insufficient income then any remaining sums will be charged to capital. See Appendix 3 for details of where the Annual Management Charge is charged in respect of each Fund.

Specific Risks

Fixed Interest Securities

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates increase, capital values may fall and vice versa. Inflation will erode the real value of capital. In addition, Companies may not be able to honour repayment on bonds they issue.

Currencies

Currency fluctuations may adversely affect the value of a Fund's investments and the income thereon and, depending on an investor's currency of reference, currency fluctuations may adversely affect the value of their investment in Shares.

Liquidity and Settlement Risks

The Company is exposed to a credit risk on parties with whom it trades and bears the risk of settlement default. Shareholders should note that some of the markets in which the Company may invest may be insufficiently liquid or highly volatile from time to time and this may result in fluctuations in the price of the Shares. In addition, market practices in relation to the settlement of certain securities transactions and the custody of assets could provide increased risks.

Counterparty Risk

The Company takes a credit risk on counterparties with which it trades.

Management Risk

The investment performance of the Company is substantially dependent on the services of the investment manager of the ACD. In the event of the death, disability, departure, insolvency or withdrawal of the ACD's key personnel or the investment managers, the performance of the Company may be adversely affected.

Risks Associated with Derivative Instruments

While the prudent use of derivative instruments can be beneficial, derivatives also involve risks different from, and in certain cases greater than, the risks presented by more traditional investments including: (1) dependence on the ability to predict movements in the prices of securities being hedged and movements in interest rates; (2) imperfect correlation between the price movements of the derivatives and price movements of the related investment; (3) the fact that skills needed to use these instruments are different from those needed to select the Fund's securities; (4) the possible absence of a liquid market for any particular instrument at any particular time; (5) possible impediments to effective portfolio management or the ability to meet redemptions; and (6) possible losses arising from an unexpected application of law or regulation or arising as a result of the unenforceability of a contract.

Each Fund may enter into transactions in OTC markets that expose it to the credit of its counterparty and its ability to satisfy the terms of such contracts. Where the Fund enters into derivatives, it will be exposed to the risk that the counterparty may default on its obligations to perform under the relevant contract. In the event of a bankruptcy or insolvency of a counterparty, the Fund could experience delays in liquidating the position and may incur a significant loss. There is also a possibility that ongoing derivative transactions will be terminated unexpectedly as a result of events outside the control of the Company, for instance, bankruptcy, supervening illegality, a substantial decline in the Net Asset Value or a change in the tax or accounting laws relative to those transactions at the time the agreement was originated. In accordance with standard industry practice, it is the Company's policy to net exposures against its counterparties (see also Appendix 1).

The Funds may be invested in certain derivative instruments, which may involve the assumption of obligations as well as rights and assets. Assets deposited as margin with brokers may not be held in segregated accounts by the brokers and may therefore become available to the creditors of such brokers in the event of their insolvency or bankruptcy.

The Funds will enter into contracts for differences or "swap" transactions with a view to effecting synthetic short positions in certain securities, sectors or indices. The swap market has grown

substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilising standardised swap documentation. As a result, the swap market has become liquid but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap. Derivatives do not always perfectly or even highly correlate or track the value of the securities, rates or indices they are designed to track. Consequently, a Fund's use of derivative techniques may not always be an effective means of, and sometimes could be counter-productive to, achieving the Fund's investment objective. An adverse price movement in a derivative position may require cash payments of variation margin by the Fund that might in turn require, if there is insufficient cash available in the portfolio, the sale of the Fund's investments under disadvantageous conditions.

Net Asset Value

Whilst the Company may use the latest available published price in respect of each investment in order to calculate the Net Asset Value it reserves the right to use more recent valuations where this is considered appropriate. Such valuations may be based on an estimate of a more recent price of any unit or share in an underlying investment fund or other collective investment undertaking in which a Fund invests obtained from or calculated on the basis of more recent information received from the underlying fund or undertaking or any of its service providers or agents. Subject to the FSA rules, in the event that a price or valuation estimate accepted by the Company in relation to an underlying investment subsequently proves to be incorrect or varies from a final published price no adjustment to the Net Asset Value or Shares in issue will be made unless the ACD deems it appropriate in the circumstances.

Conflicts of Interest

The ACD and its associates may, from time to time, act as investment managers or advisers to other funds or sub-funds which follow similar investment objectives to those of the Funds. It is therefore possible that the ACD may in the course of its business have potential conflicts of interest with the Company or a particular Fund. The ACD will, however, have regard in such event to its obligations under the ACD Agreement and, in particular, to its obligation to act in the best interests of the Company so far as practicable, having regard to its obligations to other clients, when undertaking any investment business where potential conflicts of interest may arise.

The Depositary may, from time to time, act as the depositary of other open-ended investment companies with variable capital and as trustee or custodian of other collective investment schemes.

The FSA Rules contain provisions on conflict of interest governing any transaction concerning the Company which is carried out by or with any "affected person", which means the Company, an associate of the Company, the ACD, an associate of the ACD, the Depositary, an associate of the Depositary, any investment manager and any associate of any investment manager.

These provisions, among other things, enable an affected person (a) to sell or deal in the sale of property to the Company or the Depositary for the account of the Company; (b) vest property in the Company or the Depositary against the issue of Shares in the Company; (c) purchase property from the Company (or the Depositary) acting for the account of the Company; (d) enter into a stocklending transaction in relation to the Company; or (e) provide services for the Company. Any such transactions with or for the Company are subject to best execution on exchange, or independent valuation or arm's length requirements as set out in the FSA Rules. An affected person carrying out such transaction is not liable to account to the Depositary, the ACD, any other affected person, or to the holders of Shares or any of them for any benefits or profits thereby made or derived.

Investment of the property of the Company may be made on arm's length terms through a member of an investment exchange (acting as principal) who is an affected person in relation to the ACD. Neither the ACD nor any such affected person will be liable to account to the Company or to the holders of Shares for any profit made or derived out of such dealings. In addition, the ACD is under no obligation to account to the Depositary or the Shareholders for any profit it makes on the issue or reissue of Shares or cancellation of Shares which it has redeemed.

Use of Dealing Commissions

The ACD may effect transactions or arrange for the effecting of transactions through brokers with whom it has arrangements whereby the broker agrees to use a proportion of the commission earned on such transactions to discharge the broker's own costs or the costs of third parties in providing certain services to the ACD as permitted under the FSA Rules. Specifically, the ACD may agree that a broker shall be paid a commission in excess of the amount another broker would have charged for effecting such transaction so long as, in the good faith judgement of the ACD concerned, the amount of the commission is reasonable in relation to the value of the brokerage and other services provided or paid for by such broker. Such services, which may take the form of research, analysis and advisory services, including (depending on the precise nature of the services) market price services, electronic trade confirmation systems or third party electronic dealing or quotation systems, may be used by the ACD concerned in connection with transactions in which the Company may or may not participate.

APPENDIX 1 INVESTMENT AND BORROWING POWERS AND RESTRICTIONS

1. General

- 1.1 The property of each Fund will be invested with the aim of achieving the investment objective of that Fund subject to the limits on investment set out in this Prospectus, in Chapter 5 of the FSA Rules, ISA regulations (where applicable) and the relevant Fund's investment policy. These limits apply to each Fund as summarised below.
- 1.2 The ACD must ensure that, taking account of the investment objectives and policy of each Fund, the Scheme Property of each Fund aims to provide a prudent spread of risk.
- 1.3 The rules in this section relating to spread of investments do not apply until the expiry of a period of six months after the date on which the authorisation order of the relevant Fund takes effect or on which the initial offer commenced, if later, provided that the Fund aims to provide a prudent spread of risk during such period.

2. UCITS schemes - general

- 2.1 The Scheme Property of each Fund, subject to its investment objective and policy and except where otherwise provided in COLL 5 only consist of any or all of:
 - (A) transferable securities;
 - (B) approved money market instruments;
 - (C) permitted derivatives and forward transactions;
 - (D) permitted deposits;
 - (E) permitted units in collective investment schemes; and
 - (F) movable and immovable property that is necessary for the direct pursuit of the Company's business.
- 2.2 Transferable securities and approved money market instruments held within a Fund must (subject to paragraph 2.3) be:
 - (A) admitted to or dealt in on an eligible market as described in paragraphs 3.13.2 and 3.2; or
 - (B) for an approved money market instrument not admitted to or dealt in on an eligible market, within paragraph 9.12.2: or
 - (C) recently issued transferable securities (provided that the terms of issue include an undertaking that application will be made to be admitted to an eligible market; and such admission is secured within a year of issue).
- 2.3 Not more than 10% in value of the Scheme Property is to consist of transferable securities and approved money market instruments (other than those that are referred to in paragraph 2.2).

2.4 It is not intended that any Fund will have an interest in any immovable property or tangible movable property.

3. Eligible markets requirements

3.1 A market is eligible for the purposes of the paragraph 2.2 if it is:

- (A) a regulated market (as defined for the purposes of the FSA Rules);
- (B) a market in an EEA State which is regulated, operates regularly and is open to the public; or
- (C) any market within 3.2.

3.2 If a market does not fall within paragraph 3.1 it may be eligible if the ACD, after consultation and notification with the Depositary, decides that:

- (A) the market is appropriate for investment of, or dealing in, the Scheme Property;
- (B) the market is included in a list in the Prospectus; and
- (C) the Depositary has taken reasonable care to determine that adequate custody arrangements can be provided for the investment dealt in on that market and all reasonable steps have been taken by the ACD in deciding whether that market is eligible.

3.3 In paragraph 3.2 a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self regulating organisation by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or to the order of investors.

3.4 The eligible securities and derivatives markets for each Fund of the Company are set out in Appendix 2 below.

3.5 New eligible securities markets may be added to the existing list in accordance with the FSA Rules.

4. Transferable securities

4.1 A transferable security is an investment falling within the following articles of the Regulated Activities Order:

- (A) article 76 (Shares etc.);
- (B) article 77 (Instruments creating or acknowledging indebtedness);
- (C) article 78 (Government and public securities);
- (D) article 79 (Instruments giving entitlement to investments); or
- (E) article 80 (Certificate representing certain securities).

4.2 An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party.

4.3 In applying paragraph 4.2 to an investment which is issued by a body corporate, and which is an investment falling within paragraphs 4.1(A) or 4.1(B), the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.

4.4 An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.

5. Investment in transferable securities

5.1 A Fund may invest in a transferable security only to the extent that the transferable security fulfils the following criteria:

(A) the potential loss which the Fund may incur with respect to holding the transferable security is limited to the amount paid for it;

(B) its liquidity does not compromise the ability of the ACD to comply with its obligation to redeem shares at the request of any qualifying shareholder under COLL 6.2;

(C) reliable valuation is available for it as follows:

(1) in the case of a transferable security admitted to or dealt in on an eligible market, where there are accurate, reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers;

(2) in the case of a transferable security not admitted to or dealt in on an eligible market, where there is a valuation on a periodic basis which is derived from information from the issuer of the transferable security or from competent investment research;

(D) appropriate information is available for it as follows:

(1) in the case of a transferable security admitted to or dealt in on an eligible market, where there is regular, accurate and comprehensive information available to the market on the transferable security or, where relevant, on the portfolio of the transferable security;

(2) in the case of a transferable security not admitted to or dealt in on an eligible market, where there is regular and accurate information available to the ACD on the transferable security or, where relevant, on the portfolio of the transferable security;

(E) it is negotiable; and

(F) its risks are adequately captured by the risk management process of the ACD.

5.2 Unless there is information available to the ACD that would lead to a different determination, a transferable security which is admitted to or dealt in on an eligible market shall be presumed:

(A) not to compromise the ability of the ACD to comply with its obligation to redeem Shares at the request of any qualifying Shareholder; and

(B) to be negotiable.

6. Closed end funds constituting transferable securities

- 6.1 A unit in a closed end fund shall be taken to be a transferable security for the purposes of investment by a Fund, provided it fulfils the criteria for transferable securities set out in paragraph 5 (investment in transferable securities), and either:
- (A) where the closed end fund is constituted as an investment company or a unit trust:
 - (1) it is subject to corporate governance mechanisms applied to companies; and
 - (2) where another person carries out asset management activity on its behalf, that person is subject to national regulation for the purpose of investor protection; or
 - (B) where the closed end fund is constituted under the law of contract:
 - (1) it is subject to corporate governance mechanisms equivalent to those applied to companies; and
 - (2) it is managed by a person who is subject to national regulation for the purpose of investor protection.

7. Transferable securities linked to other assets

- 7.1 A Fund may invest in any other investment which shall be taken to be a transferable security for the purposes of investment by the Fund provided the investment:
- (A) fulfils the criteria for transferable securities set out in paragraph 5 (investment in transferable securities); and
 - (B) is backed by or linked to the performance of other assets, which may differ from those in which the Fund can invest.
- 7.2 Where an investment in paragraph 7.1 contains an embedded derivative component the requirements of this section with respect to derivatives and forwards will apply to that component.

8. Approved Money Market Instruments

- 8.1 An approved money-market instrument is a money-market instrument which is normally dealt in on the money market, is liquid and has a value which can be accurately determined at any time.
- 8.2 A money-market instrument shall be regarded as normally dealt in on the money market if it:
- (A) has a maturity at issuance of up to and including 397 days;
 - (B) has a residual maturity of up to and including 397 days;
 - (C) undergoes regular yield adjustments in line with money market conditions at least every 397 days; or

(D) has a risk profile, including credit and interest rate risks, corresponding to that of an instrument which has a maturity as set out in paragraphs 8.2(A) or 8.2(B) or is subject to yield adjustments as set out in paragraph 8.2(C).

8.3 A money-market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the ACD to redeem Shares at the request of any qualifying Shareholder.

8.4 A money-market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuations systems, which fulfil the following criteria, are available:

(A) enabling the ACD to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and

(B) based either on market data or on valuation models including systems based on amortised costs.

8.5 A money-market instrument that is normally dealt in on the money market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time unless there is information available to the ACD that would lead to a different determination.

9. Money-market instruments with a regulated issuer

9.1 In addition to instruments admitted to or dealt in on an eligible market, a Fund may invest in an approved money-market instrument provided it fulfils the following requirements:

(A) the issue or the issuer is regulated for the purpose of protecting investors and savings; and

(B) the instrument is issued or guaranteed in accordance with paragraph 10 (issuers and guarantors of money market instruments).

9.2 The issue or the issuer of a money-market instrument, other than one dealt in on an eligible market, shall be regarded as regulated for the purpose of protecting investors and savings if:

(A) the instrument is an approved money-market instrument;

(B) appropriate information is available for the instrument (including information which allows an appropriate assessment of the credit risks related to investment in it), in accordance with paragraph 11 (appropriate information for money market instruments); and

(C) the instrument is freely transferable.

10. Issuers and guarantors of money-market instruments

10.1 A Fund may invest in an approved money-market instrument if it is:

(A) issued or guaranteed by any one of the following:

- (1) a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation;
 - (2) a regional or local authority of an EEA State;
 - (3) the European Central Bank or a central bank of an EEA State;
 - (4) the European Union or the European Investment Bank;
 - (5) a non-EEA State or, in the case of a federal state, one of the members making up the federation;
 - (6) a public international body to which one or more EEA States belong; or
- (B) issued by a body, any securities of which are dealt in on an eligible market; or
- (C) issued or guaranteed by an establishment which is:
- (1) subject to prudential supervision in accordance with criteria defined by European Community law; or
 - (2) subject to and complies with prudential rules considered by the FSA to be at least as stringent as those laid down by European Community law.

10.2 An establishment shall be considered to satisfy the requirement in paragraph 10.1(C)(2) if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria:

- (A) it is located in the European Economic Area;
- (B) it is located in an OECD country belonging to the Group of Ten;
- (C) it has at least investment grade rating;
- (D) on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by European Community law.

11. Appropriate information for money-market instruments

11.1 In the case of an approved money-market instrument within paragraph 10.1(B) or issued by a body of the type referred to in COLL 5.2.10E(G); or which is issued by an authority within paragraph 10.1(A)(2) or a public international body within paragraph 10.1(A)(6) but is not guaranteed by a central authority within paragraph 10.1(A)(1), the following information must be available:

- (A) information on both the issue or the issuance programme, and the legal and financial situation of the issuer prior to the issue of the instrument, verified by appropriately qualified third parties not subject to instructions from the issuer;
- (B) updates of that information on a regular basis and whenever a significant event occurs; and
- (C) available and reliable statistics on the issue or the issuance programme.

- 11.2 In the case of an approved money-market instrument issued or guaranteed by an establishment within paragraph 10.1(C), the following information must be available
- (A) information on the issue or the issuance programme or on the legal and financial situation of the issuer prior to the issue of the instrument;
 - (B) updates of that information on a regular basis and whenever a significant event occurs; and
 - (C) available and reliable statistics on the issue or the issuance programme, or other data enabling an appropriate assessment of the credit risks related to investment in those instruments.

11.3 In the case of an approved money-market instrument:

- (A) within paragraphs 10.1(A)(1), 10.1(A)(4) or 10.1(A)(5); or
- (B) which is issued by an authority within paragraph 10.1(A)(2) or a public international body within paragraph 10.1(A)(6) and is guaranteed by a central authority within paragraph 10.1(A)(1);

information must be available on the issue or the issuance programme, or on the legal and financial situation of the issuer prior to the issue of the instrument.

12. Spread: general

- 12.1 This paragraph 12 on spread does not apply to government and public securities.
- 12.2 For the purposes of this requirement companies included in the same group for the purposes of consolidated accounts as defined in accordance with Directive 83/349/EEC or in the same group in accordance with international accounting standards are regarded as a single body.
- 12.3 Not more than 20% in value of the Scheme Property is to consist of deposits with a single body.
- 12.4 Not more than 5% in value of the Scheme Property is to consist of transferable securities or approved money market instruments issued by any single body, except that the limit of 5% is raised to 10% in respect of up to 40% in value of the Scheme Property. Covered bonds need not be taken into account for the purposes of applying the limit of 40%. For these purposes certificates representing certain securities are treated as equivalent to the underlying security.
- 12.5 The limit of 5% in paragraph 12.4 is raised to 25% in value of the Scheme Property in respect of covered bonds, provided that when a Fund invests more than 5% in covered bonds issued by a single body, the total value of covered bonds must not exceed 80% in value of the Scheme Property.
- 12.6 Not more than 20% in value of the Scheme Property is to consist of the units of any one collective investment scheme.
- 12.7 Not more than 20% in value of the Scheme Property may consist of transferable securities and approved money market instruments issued by the same group (as referred to in paragraph 12.2).

- 12.8 The exposure to any one counterparty in an OTC derivative transaction must not exceed 5% in value of the Scheme Property. This limit is raised to 10% where the counterparty is an Approved Bank.
- 12.9 In applying the limits in paragraphs 12.3, 12.4, 12.6, 12.7 and 12.8, and subject to paragraph 12.5, not more than 20% in value of the Scheme Property is to consist of any combination of two or more of the following:
- (A) transferable securities or approved money market instruments issued by; or
 - (B) deposits made with; or
 - (C) exposures from OTC derivatives transactions made with;
- a single body.
- 12.10 For the purposes of calculating the limits in paragraphs 12.8 and 12.9 above, the exposure in respect of an OTC derivative may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the following conditions:
- (A) it is marked-to-market on a daily basis and exceeds the value of the amount at risk;
 - (B) it is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
 - (C) it is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
 - (D) can be fully enforced by the Fund at any time.
- 12.11 For the purposes of calculating the limits in paragraphs 12.8 and 12.9 above, OTC derivative positions with the same counterparty may be netted provided that the netting procedures:
- (A) comply with the conditions set out in Section 3 (Contractual netting (Contracts for novation and other netting agreements)) of Annex III to the Banking Consolidation Directive; and
 - (B) are based on legally binding agreements.
- 12.12 In applying this paragraph 12, all derivatives transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:
- (A) it is backed by an appropriate performance guarantee; and
 - (B) it is characterised by a daily mark-to-market valuation of the derivative positions and at least daily margining.

13. Spread: government and public securities

- 13.1 The following applies to government and public securities (“such securities”).

- 13.2 Where no more than 35% in value of the Scheme Property is invested in such securities issued by any one body, there is no limit on the amount which may be invested in such securities or in any one issue.
- 13.3 A Fund may invest more than 35% in value of the Scheme Property in such securities issued by any one body provided that:
- (A) before any such investment is made, the ACD has consulted with the Depositary and as a result considers that the issuer of such securities is one which is appropriate in accordance with the investment objectives of the authorised fund;
 - (B) no more than 30% in value of the Scheme Property consists of such securities of any one issue; and
 - (C) the Scheme Property includes such securities issued by that or another issuer, of at least six different issues.
- 13.4 In relation to such securities:
- (A) issue, issued and issuer include guarantee, guaranteed and guarantor; and
 - (B) an issue differs from another if there is a difference as to repayment date, rate of interest, guarantor or other material terms of the issue.
- 13.5 Notwithstanding paragraph 12.1 and subject to paragraphs 12.2 and 12.3, in applying the 20% limit in paragraph 12.9 with respect to a single body, government and public securities issued by that body shall be taken into account.
- 13.6 A Fund may invest over 35% of Scheme Property in the securities issued by or on behalf of or guaranteed by those issuers listed in Appendix 4.

14. Collective Investment Schemes

- 14.1 A Fund may invest in units in a collective investment scheme provided that no more than 30% of the value of that investing scheme is invested in collective investment schemes which are not UCITS schemes and only if the second scheme complies with the following requirements:
- (A) it is a scheme which complies with the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or
 - (B) is recognised under the provisions of section 270 of the Act (Schemes authorised in designated countries or territories); or
 - (C) is authorised as a non-UCITS retail scheme (provided the requirements of article 19(1)(e) of the UCITS Directive are met); or
 - (D) is authorised in another EEA State (provided the requirements of article 19(1)(e) of the UCITS Directive are met); or
 - (E) is authorised by the competent authority of an OECD Country (other than another EEA State) which has:
 - (1) signed the IOSCO Multilateral Memorandum of Understanding; and

- (2) approved the scheme's management company, rules and depositary/custody arrangements

provided the requirements of article 19(1)(e) of the UCITS Directive are met);

- (F) it is a scheme which complies where relevant with paragraph 14.5 below; and
- (G) it is a scheme which has terms which prohibit more than 10% in value of its scheme property consisting of units in collective investment schemes.

14.2 Unless otherwise specified in paragraph 14.7 below, up to 100% of the Scheme Property of any Fund may consist of units in collective investment schemes.

14.3 For the purposes of paragraphs 14.1 and 14.2 each sub-fund of an umbrella scheme is to be treated as if it were a separate scheme but no sub-fund of an umbrella scheme may invest in another sub-fund of that umbrella scheme.

14.4 In accordance with COLL 5.2.15R each of the Funds may include units in collective investment schemes managed or operated by (or, if it is an open-ended investment company, has as its authorised corporate director), the ACD or an Associate of the ACD.

14.5 The Funds must not invest in or dispose of units in another collective investment scheme (the second scheme), which is managed or operated by (or in the case of an open-ended investment company, has as its authorised corporate director), the ACD, or an Associate of the ACD, unless:

- (A) there is no charge in respect of the investment in or the disposal of units in the second scheme; or

- (B) the ACD is under a duty to pay to the Fund the following amount by the close of business on the fourth Business Day next after the agreement to invest in or dispose of shares in the second scheme:

- (1) on investment, either:

- (a) any amount by which the consideration paid by the Fund for the units in the second scheme exceeds the price that would have been paid for the benefit of the second scheme had the units been newly issued or sold by it; or

- (b) if such price cannot be ascertained by the ACD, the maximum amount of any charge permitted to be made by the seller of units in the second scheme;

- (2) on disposal, the amount of any charge made for the account of the authorised fund manager or operator of the second scheme or an Associate of any of them in respect of the disposal.

14.6 In paragraphs 14.5(A) and 14.5(B) above:

- (A) any addition to or deduction from the consideration paid on the acquisition or disposal of units in the second scheme, which is applied for the benefit of the second scheme and is, or is like, a dilution levy, dilution adjustment or SDRT provision, is to be treated as part of the price of the units and not as part of any charge; and

- (B) any switching charge made in respect of an exchange of units in one sub-fund or separate part of the second scheme for units in another sub-fund or separate part of that scheme is to be included as part of the consideration paid for the units.

14.7 Notwithstanding clause 14.2 no more than 10% of the value of the Scheme Property of the Querns Income First Fund may be invested in other collective investment schemes.

15. Investment in nil and partly paid securities

A transferable security or an approved money market instrument on which any sum is unpaid may be held provided that it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Fund, at any time when payment is required without contravening the FSA Rules.

16. Investment in Deposits

A Fund may only invest in deposits with an Approved Bank and which are repayable on demand, or have the right to be withdrawn, and maturing in no more than 12 months.

17. Significant Influence

17.1 The Company must not acquire transferable securities issued by a body corporate and carrying rights to vote (whether or not on substantially all matters) at a general meeting of that body corporate if:

- (A) immediately before the acquisition, the aggregate of any such securities held by the Company gives the Company power to significantly influence the conduct of business of that body corporate; or

- (B) the acquisition gives the Company that power.

17.2 For the purposes of paragraph 17.1, the Company is to be taken to have power significantly to influence the conduct of business of a body corporate if it can, because of the transferable securities held by it, exercise or control the exercise of 20% or more of the voting rights in that body corporate (disregarding for this purpose any temporary suspension of voting rights in respect of the transferable securities of that body corporate).

18. Concentration

18.1 The Company must not hold more than:

- 10% of the transferable securities (other than debt securities) issued by a body corporate which do not carry rights to vote on any matter at a general meeting of that body; or
- 10% of the debt securities issued by any single body*; or
- 10% of the approved money market instruments issued by any single body*; or
- 25% of the units in a collective investment scheme*.

*The Company need not comply with these limits if, at the time of acquisition, the net amount in issue of the relevant investment cannot be calculated.

19. Cash and Near Cash

- 19.1 Cash or near cash must not be retained in the Scheme Property except to the extent that this may reasonably be regarded as necessary in order to enable:
- (A) the pursuit of that Fund's investment objective;
 - (B) the redemption of Shares in that Fund;
 - (C) efficient management of the Fund in accordance with its investment objective;
 - (D) a purpose which may reasonably be regarded as ancillary to the investment objectives of that Fund.
- 19.2 During the period of the initial offer the Scheme Property may consist of cash and near cash without limitation. Within the context of the ACD's policy of active asset allocation, the liquidity of each Fund may vary in response to market conditions.

20. Stock lending

- 20.1 The entry into stocklending arrangements or repo contracts for the account of a Fund is permitted for the generation of additional income for the benefit of the Fund, and hence for its investors.
- 20.2 The stock lending permitted by this section may be exercised by a Fund when it reasonably appears to the Company to be appropriate to do so with a view to generating additional income for the Fund with an acceptable degree of risk.
- 20.3 The Company or the Depositary at the request of Company may enter into a repo contract or a stock lending arrangement of the kind described in section 263B of the Taxation of Chargeable Gains Act 1992 (without extension by section 263C), but only if:
- (A) all the terms of the agreement under which securities are to be reacquired by the Depositary for the account of the Company are in a form which is acceptable to the Depositary and are in accordance with good market practice;
 - (B) the counterparty is:
 - an authorised person; or
 - a person authorised by a Home State regulator; or
 - a person registered as a broker-dealer with the Securities and Exchange Commission of the United States of America; or
 - a bank, or a branch of a bank, supervised and authorised to deal in investments as principal, with respect to OTC derivatives by at least one of the following federal banking supervisory authorities of the United States of America: the Office of the Comptroller of the Currency; the Federal Deposit Insurance Corporation; the Board of Governors of the Federal Reserve System; and the Office of Thrift Supervision; and
 - (C) collateral is obtained to secure the obligation of the counterparty under the terms referred to in 20.3.1 and the collateral is:
 - acceptable to the Depositary;

- adequate ; and
- sufficiently immediate.

20.4 The counterparty for the purpose of paragraph 20.3 is the person who is obliged under the agreement referred to in paragraph 20.3(A) to transfer to the Depositary the securities transferred by the Depositary under the stock lending arrangement or securities of the same kind.

20.5 Paragraph 20.3(C) does not apply to a stock lending transaction made through Euroclear Bank SA/NV's Securities Lending and Borrowing Programme.

20.6 There is no limit on the value of the Scheme Property which may be the subject of stock lending transactions.

21. Treatment of collateral

21.1 Collateral is adequate for the purposes of this paragraph only if it is:

- (A) transferred to the Depositary or its agent;
- (B) at least equal in value, at the time of the transfer to the Depositary, to the value of the securities transferred by the Depositary; and
- (C) in the form of one or more of:
 - cash; or
 - a certificate of deposit; or
 - a letter of credit; or
 - a readily realisable security ; or
 - commercial paper with no embedded derivative content; or
 - a qualifying money market fund.

21.2 Where the collateral is invested in units in a qualifying money market fund managed or operated by (or, for an ICVC, whose authorised corporate director is) the ACD or an associate of the ACD, the conditions in paragraph 14.5 must be complied with.

21.3 Collateral is sufficiently immediate for the purposes of this paragraph if:

- (A) it is transferred before or at the time of the transfer of the securities by the Depositary; or
- (B) the Depositary takes reasonable care to determine at the time referred to in paragraph 21.3(A) that it will be transferred at the latest by the close of business on the day of the transfer.

21.4 The Depositary must ensure that the value of the collateral at all times is at least equal to the value of the securities transferred by the Depositary.

- 21.5 The duty in paragraph 21.4 may be regarded as satisfied in respect of collateral the validity of which is about to expire or has expired where the Depositary takes reasonable care to determine that sufficient collateral will again be transferred at the latest by the close of business on the day of expiry.
- 21.6 Any agreement for transfer at a future date of securities or of collateral (or of the equivalent of either) under this paragraph may be regarded, for the purposes of valuation and pricing of the Company or this Appendix, as an unconditional agreement for the sale or transfer of property, whether or not the property is part of the property of the authorised fund.
- 21.7 Collateral transferred to the Depositary is part of the Scheme Property for the purposes of the FSA Rules, except in the following respects:
- (A) it does not fall to be included in any calculation of NAV or this Appendix, because it is offset under paragraph 21.6 by an obligation to transfer; and
 - (B) it does not count as Scheme Property for any purpose of this Appendix other than this paragraph.
- 21.8 Paragraphs 31.6 and 31.7.1 not apply to any valuation of collateral itself for the purposes of this paragraph.

22. Underwriting and Stock Placings

- 22.1 Any power in COLL 5 to invest in transferable securities may be used for the purpose of entering into transactions to which this section applies, subject to compliance with any restriction in the Instrument of Incorporation.
- 22.2 This section applies, subject to paragraph 23.3, to any agreement or understanding which:
- (A) is an underwriting or sub-underwriting agreement; or
 - (B) contemplates that securities will or may be issued or subscribed for or acquired for the account of the Fund.
- 22.3 Paragraph 22.2 does not apply to:
- (A) an option; or
 - (B) a purchase of a transferable security which confers a right to:
 - to subscribe for or acquire a transferable security; or
 - to convert one transferable security into another.
 - (C) The exposure of the Fund to agreements and understandings within paragraph 22.2 must, on any Business Day:
 - be covered in accordance with the requirements of rule COLL 5.3.3R (see paragraph 32); and
 - be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in COLL 5.

23. Borrowing powers

- 23.1 The Company may, subject to the FSA Rules, borrow money from an Eligible Institution or an Approved Bank for the use of the Company on the terms that the borrowing is to be repayable out of the Scheme Property.
- 23.2 Borrowing must be on a temporary basis and must not be persistent and in any event must not exceed three months without the prior consent of the Depositary, which may be given only on such conditions as appear appropriate to the Depositary to ensure that the borrowing does not cease to be on a temporary basis.
- 23.3 The ACD must ensure that borrowing does not, on any Business Day, exceed 10% of the value of the Scheme Property. For these purposes borrowing includes, as well as borrowing in a conventional manner, any other arrangement (including a combination of derivatives) designed to achieve a temporary injection of money into the Scheme Property in the expectation that the sum will be repaid.
- 23.4 These borrowing restrictions do not apply to “back to back” borrowing for cover for transactions in derivatives and forward transactions (see paragraph 33).
- 23.5 The Company must not issue any debenture unless it acknowledges or creates a borrowing that complies with paragraphs 23.1 and 23.2.

24. Derivatives: general

- 24.1 Funds which may use derivatives in pursuit of their investment objectives, as well as Funds which may use derivatives for efficient portfolio management purposes, must do so in accordance with the following rules.
- 24.2 **The use of derivatives for efficient portfolio management will generally not increase the risk profile of a Fund (see paragraph 38 for further details on efficient portfolio management). The use of derivatives for investment purposes may increase the risk profile of a Fund.**
- 24.3 A transaction in derivatives or a forward transaction must not be effected for a Fund unless:
- (A) the transaction is of a kind specified in 25 below (Permitted transactions (derivatives and forwards)); and
 - (B) the transaction is covered, as required by paragraph 32 (Cover for transactions in derivatives and forward transactions).
- 24.4 Where a Fund invests in derivatives, the exposure to the underlying assets must not exceed the limits in paragraphs 12 (Spread: general) and paragraphs 13 (Spread: government and public securities) save as provided in 24.6.
- 24.5 Where a transferable security or money-market instrument embeds a derivative, this must be taken into account for the purposes of complying with this section.
- 24.6 Where a Fund invests in an index based derivative, provided the relevant index falls within paragraph 34.4 – 34.8 (Relevant indices) the underlying constituents of the index do not have to be taken into account for the purposes of paragraphs 12 and 13.
- 24.7 The relaxation in 24.6 is subject to the ACD taking account of paragraph 1.2 (Prudent spread of risk).

25. Permitted transactions (derivatives and forwards)

25.1 A transaction in a derivative must:

- (A) be in an approved derivative; or
- (B) be one which complies with paragraph 28 (OTC transactions in derivatives).

25.2 The underlying of a transaction in a derivative must consist of any one or more of the following to which the Fund is dedicated:

- (A) transferable securities permitted under paragraphs 2.2(A) and 2.2(C);
- (B) money-market instruments permitted under paragraph 8;
- (C) deposits permitted under paragraph 17;
- (D) derivatives permitted under this rule;
- (E) collective investment scheme units permitted under paragraph 14;
- (F) financial indices which satisfy the criteria set out in COLL 5.2.20 A R;
- (G) interest rates;
- (H) foreign exchange rates; and
- (I) currencies.

25.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market as set out in Appendix 2.

25.4 A transaction in a derivative must not cause a Fund to diverge from its investment objectives as stated in the Instrument of Incorporation and this Prospectus.

25.5 A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more transferable securities, money-market instruments, units in collective investment schemes or derivative provided that a sale is not to be considered as uncovered if the conditions in COLL 5.2.22R (3) (Requirement to cover sales) are satisfied.

25.6 Any forward transaction must be made with an Eligible Institution or an Approved Bank.

25.7 The Company will not undertake transactions in derivatives on commodities.

26. Transactions for the purchase of property

26.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of a Fund may be entered into only if:

- (A) that property can be held for the account of the Fund; and
- (B) the ACD having taken reasonable care determines that delivery of the property under the transaction will not occur or will not lead to a breach of the rules in COLL.

27. Requirement to cover sales

27.1 No agreement by or on behalf of a Fund to dispose of property or rights may be made unless:

- (A) the obligation to make the disposal and any other similar obligation could immediately be honoured by the Fund by delivery of property or the assignment (or, in Scotland, assignation) of rights; and
- (B) the property and rights at 27.1.1 are owned by the Fund at the time of the agreement.

27.2 Paragraph 27.1 does not apply to a deposit.

27.3 Paragraph 27.1 does not apply where:

- (A) the risks of the underlying financial instrument of a derivative can be appropriately represented by another financial instrument and the underlying financial instrument is highly liquid; or
- (B) the ACD or the Depositary has the right to settle the derivative in cash, and cover exists within the Fund's property which falls within one of the following asset classes:
 - (1) cash;
 - (2) liquid debt instruments (e.g. government bonds of first credit rating) with appropriate safeguards (in particular, haircuts); or
 - (3) other highly liquid assets having regard to their correlation with the underlying of the financial derivative instruments, subject to appropriate safeguards (e.g. haircuts where relevant).

27.4 In the asset classes referred to in 27.3, an asset may be considered as liquid where the instrument can be converted into cash in no more than seven Business Days at a price closely corresponding to the current valuation of the financial instrument on its own market.

28. OTC transactions in derivatives

28.1 A transaction in an OTC derivative under paragraph 25.1(B) must be:

- (A) with an approved counterparty; a counterparty to a transaction in derivatives is approved only if the counterparty is:
 - an Eligible Institution or an Approved Bank; or
 - a person whose permission (including any requirements or limitations), as published in the FSA Register, or whose home state authorisation, permits it to enter into the transaction as principal off-exchange;
- (B) on approved terms; the terms of the transaction in derivatives are approved only if the ACD:

- carries out, at least daily, a reliable and verifiable valuation in respect of that transaction corresponding to its fair value (i.e. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction) and which does not rely only on market quotations by the counterparty; and
 - can enter into one or more further transactions to sell, liquidate or close out that transaction at any time, at its fair value; and
- (C) capable of reliable valuation; a transaction in derivatives is capable of reliable valuation only if the ACD having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy:
- on the basis of an up-to-date market value which the ACD and the Depositary have agreed is reliable; or
 - if the value referred to above is not available, on the basis of a pricing model which the ACD and the Depositary have agreed uses an adequate recognised methodology; and
- (D) subject to verifiable valuation; a transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into) verification of the valuation is carried out by:
- an appropriate third party which is independent from the counterparty of the derivative, at an adequate frequency and in such a way that the ACD is able to check it; or
 - a department within the ACD which is independent from the department in charge of managing the scheme property and which is adequately equipped for such a purpose.

29. Risk management: derivatives

- 29.1 The ACD uses a risk management process enabling it to monitor and measure as frequently as appropriate the risk of a Fund's positions and their contribution to the overall risk profile of the Fund.
- 29.2 The following details of the risk management process must be notified by the ACD to the FSA in advance of the use of the process as required by 29.1:
- (A) the methods for estimating risks in derivative and forward transactions; and
 - (B) the types of derivative and forwards to be used within the Fund together with their underlying risks and any relevant quantitative limits.
- 29.3 The ACD must notify the FSA in advance of any material alteration to the details in 29.2.1 and 29.2.2.

30. Risk management process

- 30.1 The risk management process should take account of the investment objectives and policy of the Fund as stated in this prospectus.

- 30.2 The Depositary should take reasonable care to review the appropriateness of the risk management process in line with its duties under COLL 6.6.14(1) (Duties of the depositary and authorised fund manager: investment and borrowing powers), as appropriate.
- 30.3 The ACD is expected to demonstrate more sophistication in its risk management process for a Fund with a complex risk profile than for one with a simple risk profile. In particular, the risk management process should take account of any characteristic of non-linear dependence in the value of a position to its underlying.
- 30.4 The ACD should take reasonable care to establish and maintain such systems and controls as are appropriate to its business as required by SYSC 3.1 (Systems and controls).
- 30.5 The risk management process should enable the analysis required by paragraph 29 to be undertaken at least daily or at each valuation point whichever is the more frequent.

31. Derivatives exposure

- 31.1 A Fund may invest in derivatives and forward transactions as long as the exposure to which the Fund is committed by that transaction itself is suitably covered from within its Scheme Property. Exposure will include any initial outlay in respect of that transaction.
- 31.2 Cover ensures that a Fund is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the Scheme Property. Therefore, a Fund must hold Scheme Property sufficient in value or amount to match the exposure arising from a derivative obligation to which the Fund is committed. Paragraph 32 (Cover for transactions in derivatives and forward transactions) sets out detailed requirements for cover of a Fund.
- 31.3 Cover used in respect of one transaction in derivatives or forward transaction must not be used for cover in respect of another transaction in derivatives or a forward transaction.

32. Cover for transactions in derivatives and forward transactions

- 32.1 A transaction in derivatives or forward transaction is to be entered into only if the maximum exposure, in terms of the principal or notional principal created by the transaction to which the scheme is or may be committed by another person is covered globally.
- 32.2 Exposure is covered globally if adequate cover from within the Scheme Property is available to meet the scheme's total exposure, taking into account the value of the underlying assets, any reasonably foreseeable market movement, counterparty risk, and the time available to liquidate any positions.
- 32.3 Cash not yet received into the Scheme Property but due to be received within one month is available as cover.
- 32.4 Property the subject of a stock lending transaction is only available for cover if the ACD has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.
- 32.5 The global exposure relating to derivatives held in a Fund may not exceed the net value of the Scheme Property.

33. Cover and borrowing

- 33.1 Cash obtained from borrowing, and borrowing which the ACD reasonably regards an Eligible Institution or an Approved Bank to be committed to provide, is available for cover

under the previous paragraph 32 (cover for transactions in derivatives and forward transactions) as long as the normal limits on borrowing (see below) are observed.

- 33.2 Where, for the purposes of this paragraph the Company borrows an amount of currency from an Eligible Institution or an Approved Bank; and keeps an amount in another currency, at least equal to such borrowing for the time on deposit with the lender (or his agent or nominee), then this applies as if the borrowed currency, and not the deposited currency, were part of the Scheme Property, and the normal limits on borrowing under paragraph 23 (Borrowing powers) do not apply to that borrowing.

34. Schemes replicating an index

Please note that this investment power is not relevant for any of the existing Funds although it may be applicable to any new Funds of the Company.

- 34.1 Notwithstanding paragraph 12 (spread: general) a Fund may invest up to 20% in value of the Scheme Property in shares and debentures which are issued by the same body where the stated investment policy is to replicate the composition of a relevant index as defined below.
- 34.2 Replication of the composition of a relevant index shall be understood to be a reference to replication of the composition of the underlying assets of that index, including the use of techniques and instruments permitted for the purpose of efficient portfolio management.
- 34.3 The 20% limit in 34.1 can be raised for a particular Fund up to 35% in value of the Scheme Property, but only in respect of one body and where justified by exceptional market conditions. In the event that 20% limit is raised the ACD will provide appropriate information in the Simplified Prospectus in order to explain the ACD's assessment of why this increase is justified by exceptional market conditions.
- 34.4 In the case of a Fund replicating an index the Scheme Property need not consist of the exact composition and weighting of the underlying in the relevant index in cases where the Fund's investment objective is to achieve a result consistent with the replication of an index rather than an exact replication.
- 34.5 The indices referred to above are those which satisfy the following criteria:
- (A) The composition is sufficiently diversified;
 - (B) The index represents an adequate benchmark for the market to which it refers; and
 - (C) The index is published in an appropriate manner.
- 34.6 The composition of an index is sufficiently diversified if its components adhere to the spread and concentration requirements in this section.
- 34.7 An index represents an adequate benchmark if its provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers.
- 34.8 An index is published in an appropriate manner if:
- (A) it is accessible to the public;

- (B) the index provider is independent from the index-replicating Fund; this does not preclude index providers and the Fund from forming part of the same group, provided that effective arrangements for the management of conflicts of interest are in place.

35. Restrictions on lending of money

- 35.1 None of the money in the Scheme Property of the Fund may be lent and, for the purposes of this prohibition, money is lent by the Fund if it is paid to a person (“the payee”) on the basis that it should be repaid, whether or not by the payee.
- 35.2 Acquiring a debenture is not lending for the purposes of paragraph 35.1; nor is the placing of money on deposit or in a current account.
- 35.3 Paragraph 35.1 does not prevent the Fund from providing an officer of the Fund with funds to meet expenditure to be incurred by him for the purposes of the Fund (or for the purposes of enabling him properly to perform his duties as an officer of the Fund) or from doing anything to enable an officer to avoid incurring such expenditure.

36. Restrictions on lending of property other than money

- 36.1 The Scheme Property of the Fund other than money must not be lent by way of deposit or otherwise.
- 36.2 Transactions permitted by paragraph 20 (stocklending) are not lending for the purposes of paragraph 36.1.
- 36.3 The Scheme Property of the Fund must not be mortgaged.
- 36.4 Nothing in this paragraph prevents a Fund from providing an officer of the Fund with funds to meet expenditure to be incurred by him for the purposes of the Fund (or for the purposes of enabling him properly to perform his duties as an officer of the Fund) or from doing anything to enable an officer to avoid incurring such expenditure.

37. Guarantees and indemnities

- 37.1 The Fund or the Depositary for the account of the Fund must not provide any guarantee or indemnity in respect of the obligation of any person.
- 37.2 None of the Scheme Property of the Fund may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.
- 37.3 Paragraphs 37.1 and 37.2 do not apply in respect of the Fund to:
 - (A) any indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with the FSA rules;
 - (B) an indemnity falling within the provisions of regulation 62(3) (Exemptions from liability to be void) of the OEIC Regulations;
 - (C) an indemnity (other than any provision in it which is void under regulation 62 of the OEIC Regulations) given to the Depositary against any liability incurred by it as a consequence of the safekeeping of any of the Scheme Property by it or by anyone retained by it to assist it to perform its function of the safekeeping of the Scheme Property; and

- (D) an indemnity given to a person winding up a scheme if the indemnity is given for the purposes of arrangements by which the whole or part of the property of that scheme becomes the first property of the Fund and the holders of units in that scheme become the first shareholders in the Fund.

38. Efficient Portfolio Management

- 38.1 Each Fund may in addition to the ability to use derivatives for investment purposes as referred to above, utilise the Scheme Property of the Fund to enter into transactions for the purposes of hedging or efficient portfolio management (“EPM”). Permitted EPM transactions include transactions in derivatives e.g. to hedge against price or currency fluctuations, dealt with or traded on an eligible derivatives market; off-exchange options or contracts for differences; or synthetic futures in certain circumstances. The Funds may effect synthetic short positions by using derivatives for EPM purposes. There is no limit on the amount or value of the Scheme Property of any Fund which may be used for EPM but the ACD must take reasonable care to ensure that the transaction is economically appropriate to the reduction of the relevant risks (whether in the price of investments, interest rates or exchange rates) or to the reduction of the relevant costs and/or to the generation of additional capital or income with an acceptably low level of, risk. The exposure must be fully “covered” by cash and/or other property sufficient to meet any obligation to pay or deliver that could arise (see below).
- 38.2 Permitted transactions are those that the Fund reasonably regards as economically appropriate to EPM, that is:
 - (A) Transactions undertaken to reduce risk or cost in terms of fluctuations in prices, interest rates or exchange rates where the ACD reasonably believes that the transaction will diminish a risk or cost of a kind or level which it is sensible to reduce; or
 - (B) Transactions for the generation of additional capital growth or income for the Fund by taking advantage of gains which the ACD reasonably believes are certain to be made (or certain, barring events which are not reasonably foreseeable) as a result of:
 - (1) pricing imperfections in the market as regards the property which the Fund holds or may hold; or
 - (2) receiving a premium for the writing of a covered call option or a covered put option on property of the Fund which the Company is willing to buy or sell at the exercise price.
- 38.3 Transactions may take the form of “derivatives transactions” (that is, transactions in options, futures or contracts for differences) or forward currency transactions. A derivatives transaction must either be in a derivative which is traded or dealt in on an eligible derivatives market (and effected in accordance with the rules of that market), or be an off-exchange derivative which complies with the relevant conditions set out in the FSA Rules, or be a “synthetic future” (i.e. a composite derivative created out of two separate options). Forward currency transactions must be entered into with counterparties who satisfy the FSA Rules. A permitted transaction may at any time be closed out.

APPENDIX 2

ELIGIBLE MARKETS

The Fund may deal through securities markets established in EEA States on which transferable securities admitted to official listing in the EEA State are dealt in or traded.

Up to 10% of the Scheme Property may be invested in transferable securities which are not traded on or under the rules of an Eligible Market.

The Eligible Markets for investment by the Company shall also comprise any of the following stock exchanges or markets:

The NASDAQ Stock Market

The New York Stock Exchange

Singapore Stock Exchange

SIX Swiss Exchange

The London Securities and Derivatives Exchange;

For the purposes only of determining the value of the assets of a Fund, the term "Eligible Market" shall be deemed to include, in relation to any futures or options contract utilised by the Fund for the purposes of efficient portfolio management or to provide protection against exchange rate risk, any organised exchange or market on which such futures or options contract is regularly traded.

APPENDIX 3

FUNDS

Name of Fund	Querns Income First Fund
Investment Objective	The investment objective of the Fund is to achieve a high level of income, together with some long term capital growth.
Investment Policy	The Fund intends to invest primarily in equities listed on a UK stock exchange and in Sterling corporate bonds, but may also invest internationally. The Fund may also invest in other transferable securities (for example, without limitation, other equities or debt instruments), units in collective investment schemes, money market instruments, warrants and deposits as detailed in the Prospectus. No more than 10% of the Scheme Property of the Fund will be invested in other collective investment schemes.
Use of Derivatives	Derivatives may be used for the purposes of efficient portfolio management. The use of derivatives for efficient portfolio management will generally not increase the risk profile of a Fund.
Investor Profile	A retail or institutional investor who is prepared to accept some risk and whose primary goal is the receipt of a high level of income but who wishes to have the potential for capital growth. The investor understands that the value of their investment and the income from it will fluctuate as an investment in equity and bond markets will always involve an element of risk. Some investors are likely to hold shares in the Fund through tax efficient wrappers such as ISAs or pensions.
Valuation Point	12:00 pm (UK time)
Frequency of Dealing	Daily
Price Publication	www.querns.co.uk, www.fundlistings.com, 0845 305 4212
Share classes and types of Shares	Net Income Shares Net Accumulation Shares Gross Income Shares Gross Accumulation Shares
Regular Savings Scheme	Net Accumulation Shares Gross Accumulation Shares
Currency of Denomination	Sterling
Annual Accounting Period	01 April - 31 March
Interim Accounting Period	each calendar month
Annual Income Distribution Date	30 April

Interim Income Distribution Date the last Business Day of each calendar month immediately following an Interim Accounting Period.

Minimum Investment £1,000

Minimum Subsequent Investment £500

Minimum Investment for Regular Savings Scheme £100 per month

Minimum Holding £1,000

Initial Charge 0%

Annual Management Charge

Rate 0.75%

Charged to Capital

Grouping Periods for Income Equalisation Interim Accounting Periods

The ACD may increase, reduce or waive the minimum initial and subsequent investment amounts, the minimum withdrawal and holding amounts at its absolute discretion in any particular case or cases.

Shares will not be sold or issued in any other currency apart from Sterling.

The Querns Income First Fund is a Tax Elected Fund. It is intended that throughout the relevant accounting periods of the Querns Income First Fund, the Tax Elected Fund Conditions will be met.

APPENDIX 4

GOVERNMENT AND PUBLIC SECURITIES

List of issuers of Government and public securities in which the Company may invest up to 100% of the Scheme Property of each Fund. These are the only public bodies in which the Company may invest more than 35% of the assets of each Fund:

1. the government of or a local authority in the United Kingdom of Great Britain and Northern Ireland; or
2. the Scottish Administration; or
3. the Executive Committee of the Northern Ireland Assembly; or
4. the National Assembly for Wales; or
5. the government of any of the following countries or territories outside the United Kingdom:
 - 5.1 Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Portugal, Poland, Romania, Slovakia, Slovenia, Spain and Sweden; or
 - 5.2 Australia, Canada, Japan, New Zealand, Switzerland and the United States of America.

APPENDIX 5

HISTORICAL PERFORMANCE OF THE FUNDS

As the Fund was only launched on 14 June 2010, and we are only able to show performance for full calendar years in this document, no performance figures are included.