

IMPORTANT: IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS PROSPECTUS YOU SHOULD CONSULT YOUR PROFESSIONAL ADVISER.

Capita Financial Managers Limited, 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 contained herein does not contain any untrue or misleading statement or omit any matters required by the New Collective Investment Schemes Sourcebook to be included in it. Capita Financial Managers Limited accepts responsibility accordingly.

PROSPECTUS

OF

CF CHEVIOT INVESTMENT FUNDS

**(An open-ended investment company
incorporated with limited liability and
registered in England and Wales
under registered number IC 000522)**

This document constitutes the Prospectus for CF Cheviot Investment Funds which has been prepared in accordance with the New Collective Investment Schemes Sourcebook.

This Prospectus is dated, and is valid as at, 2 April 2007.

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

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No person has been authorised by the Company to give any information or to make any representations in connection with the offering of Shares other than those contained in the 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 offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended. They may not be offered or sold in the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia or offered or sold to US Persons. The Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. The ACD has not been registered under the United States Investment Advisers Act of 1940.

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

The provisions of the Instrument of Incorporation are binding on each of the Shareholders a summary of which are included in this Prospectus and a copy of the Instrument of Incorporation is available on request.

This Prospectus has been issued for the purpose of section 21 of the Financial Services and Markets Act 2000 by Capita Financial Managers Limited.

The distribution of this Prospectus in certain jurisdictions may require that this Prospectus is translated into the official language of those countries. Should any inconsistency arise between the translated version and the English version, the English version shall prevail.

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 Capita Financial Managers Limited that this is the most recently published prospectus.

1. **DEFINITIONS**

- "ACD"** Capita Financial Managers Limited, the authorised corporate director of the Company
- "ACD Agreement"** An agreement between the Company and the ACD
- "Approved Bank"** (in relation to a bank account opened by the Company):
- (a) if the account is opened at a branch in the United Kingdom:
 - (i) the Bank of England; or
 - (ii) the central bank of a member state of the OECD; or
 - (iii) a bank; or
 - (iv) a building society; or
 - (v) 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:
 - (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
 - (iv) a bank supervised by the South African Reserve Bank
- "Auditor"** PKF (UK) LLP, or such other entity as is appointed to act as auditor to the Company

	from time to time
“business day”	a day on which the London Stock Exchange is open. If the London Stock Exchange is closed as a result of a holiday or for any other reason, or there is a holiday elsewhere or other reason which impedes the calculation of the fair market value of the Sub-fund’s portfolio of securities or a significant portion thereof, the ACD may decide that any business day shall not be construed as such
“Class” or “Classes”	in relation to Shares, means (according to the context) all of the Shares related to a single Sub-fund or a particular class or classes of Share related to a single Sub-fund
“COLL”	refers to the appropriate chapter or rule in the COLL Sourcebook
“the COLL Sourcebook”	the New Collective Investment Schemes Sourcebook issued by the FSA as amended from time to time
“Company”	CF Cheviot Investment Funds
“Dealing Day”	Monday to Friday where these days are business days
“Depositary”	The Bank of New York Trust and Depositary Company Limited, or such other entity as is appointed to act as Depositary
“Director” or “Directors”	the directors of the Company from time to time (including the ACD)
“EEA State”	a member state of the European Union and any other state which is within the European Economic Area
“Efficient Portfolio Management” or “EPM”	an investment technique where derivatives are used for one or more of the following purposes: reduction of risk, reduction of cost or generation of additional income with an acceptably low level of risk

“Eligible Institution”	one of certain eligible institutions as defined in the glossary of definitions to the FSA Handbook
“the FSA”	the Financial Services Authority or any other regulatory body which may assume its regulatory responsibilities from time to time
“the FSA Handbook”	the FSA Handbook of Rules and Guidance, as amended from time to time
“ICVC”	investment company with variable capital
“Instrument of Incorporation”	the instrument of incorporation of the Company as amended from time to time
“Investment Manager”	the investment manager to the ACD in respect of the Company
“Net Asset Value” or “NAV”	the value of the Scheme Property of the Company or of any Sub-fund (as the context may require) less the liabilities of the Company (or of the Sub-fund concerned) as calculated in accordance with the Instrument of Incorporation
“non-UCITS retail scheme”	an authorised fund which is neither a UCITS scheme or a qualified investor scheme
“OEIC Regulations”	the Open-Ended Investment Companies Regulations 2001 as amended or re-enacted from time to time
“Register”	the register of Shareholders of the Company
“Registrar”	Capita Financial Administrators Limited, or such other entity as is appointed to act as Registrar to the Company from time to time
“Regulated Activities Order”	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)
“Regulations”	the OEIC Regulations and the FSA Handbook (including the COLL Sourcebook)
“Scheme Property”	the scheme property of the Company or a Sub-fund (as appropriate) required under the COLL

	Sourcebook to be given for safekeeping to the Depository
"SDRT"	stamp duty reserve tax
"Share" or "Shares"	a share or shares in the Company (including larger denomination shares, and smaller denomination shares equivalent to one thousandth of a larger denomination share)
"Shareholder"	a holder of registered Shares in the Company
"Sub-fund" or "Sub-funds"	a sub-fund of the Company (being part of the Scheme Property of the Company which is pooled separately) to which specific assets and liabilities of the Company may be allocated and which is invested in accordance with the investment objective applicable to such sub-fund
"Switch"	the exchange where permissible of Shares of one Class or Sub-fund for Shares of another Class or Sub-fund
"Valuation Point"	the point on a Dealing Day whether on a periodic basis or for a particular valuation, at which the ACD carries out a valuation of the Scheme Property for the Company or a Sub-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 current Valuation Point is 8.30 am London time on each Dealing Day, with the exception of Christmas Eve and New Year's Eve or a bank holiday in England and Wales, or the last business day prior to those days annually where the valuation may be carried out at a time agreed in advance between the ACD and the Depository
"VAT"	value added tax

2. **DETAILS OF THE COMPANY**

2.1 **General information**

2.1.1 **General**

CF Cheviot Investment Funds (the Company) is an investment company with variable capital incorporated in England and Wales under registered number IC 000522 and authorised by the Financial Services Authority with effect from 30 March 2007. The Company has an unlimited duration.

Shareholders are not liable for the debts of the Company.

The ACD is also the manager of certain authorised unit trusts and open-ended investment companies details of which are set out in Appendix IV.

2.1.2 **Head Office**

The head office of the Company is at Beaufort House, 15 St Botolph Street, London EC3A 7HH.

2.1.3 **Address for Service**

The head office is the address of the place in the UK for service on the Company of notices or other documents required or authorised to be served on it.

2.1.4 **Base Currency**

The base currency of the Company and each Sub-fund is Pounds Sterling.

2.1.5 **Share Capital**

Maximum £100,000,000,000

Minimum £1,000,000

Shares have no par value. The share capital of the Company at all times equals the sum of the Net Asset Values of each of the Sub-funds.

Shares in the Company may be marketed in other Member States and in countries outside the European Union and European Economic Area, subject to the Regulations, and any regulatory constraints in those countries, if the ACD so decides.

Each of the Sub-funds of the Company is designed and managed to support longer-term investment and active trading is discouraged. Short-term or excessive trading into and out of a Sub-fund may harm performance by disrupting portfolio management strategies and by increasing expenses. The ACD may at its discretion refuse to accept applications for, or switching of, Shares, especially where transactions are deemed disruptive, particularly from possible market timers or investors who, in its opinion, have a pattern of short-term or excessive trading or whose trading has been or may be disruptive to a Sub-fund(s). For these purposes, the ACD may consider an investor's trading history in the Sub-fund(s) or other Capita Financial Managers Limited funds and accounts under common ownership or control.

2.2 The structure of the Company

2.2.1 The Sub-funds

The Company is structured as an umbrella company, in that different Sub-funds may be established from time to time by the ACD with the approval of the FSA. On the introduction of any new Sub-fund or Class, a revised prospectus will be prepared setting out the relevant details of each Sub-fund or Class. At present only one Sub-fund has been established.

The Company is a "non-UCITS retail scheme" for the purposes of the OEIC Regulations.

The assets of each Sub-fund will be treated as separate from those of every other Sub-fund and will be invested in accordance with the investment objective and investment policy applicable to that Sub-fund. Investment of the assets of each of the Sub-funds must comply with the COLL Sourcebook and the investment objective and policy of the relevant Sub-fund. Details of the Sub-funds, including their investment objectives and policies, are set out in Appendix I.

The eligible securities markets and eligible derivatives markets on which the Sub-funds may invest are set out in Appendix II. A detailed statement of the general investment and borrowing restrictions in respect of each type of Sub-fund is set out in Appendix III.

Each Sub-fund has a specific portfolio to which that Sub-fund's assets and liabilities are attributable. So far as the Shareholders are concerned, each Sub-fund is treated as a separate entity.

Creditors of the Company may nevertheless look to all the assets of the Company for payment regardless of the Sub-fund in respect of which

that creditor's debt has arisen. Assets may be re-allocated to and from other Sub-funds of the Company in the unlikely event that a Sub-fund's assets are insufficient to meet its liabilities. In the event that any assets are so reallocated, the ACD will advise Shareholders in the next succeeding annual or half yearly report to Shareholders.

Subject to the above, each Sub-fund will be charged with the liabilities, expenses, costs and charges of the Company attributable to that Sub-fund, and within each Sub-fund 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 Sub-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 Sub-funds.

2.2.2 **Shares**

Classes of Share within the Sub-funds

Shares will be issued in larger and smaller denominations. There are 1,000 smaller denomination Shares to each larger denomination Share. Smaller denomination Shares represent what, in other terms, might be called fractions of a larger Share and have proportionate rights.

Shares have no par value and, within each Class in each Sub-fund subject to their denomination, are entitled to participate equally in the profits arising in respect of, and in the proceeds of, the liquidation of the Company or termination of a relevant Sub-fund. Shares do not carry preferential or pre-emptive rights to acquire further Shares.

Further Classes of Share may be established from time to time by the ACD with the approval of the FSA, the agreement of the Depositary and in accordance with the Instrument of Incorporation. On the introduction of any new Sub-fund or Class, either a revised prospectus or a supplemental prospectus will be prepared, setting out the details of each Sub-fund or Class.

The currency in which each new Class of Shares will be denominated will be determined at the date of creation and set out in the Prospectus issued in respect of the new Class of Shares.

The net proceeds from subscriptions to a Sub-fund will be invested in the specific pool of assets constituting that Sub-fund. The Company will maintain for each current Sub-fund a separate pool of assets, each invested for the exclusive benefit of the relevant Sub-fund. The Company as a whole will be responsible for all obligations, whichever

Sub-fund such liabilities are attributable to, unless otherwise agreed with specific creditors.

To the extent that any Scheme Property, or any assets to be received as part of the Scheme Property, or any costs, charges or expenses to be paid out of the Scheme Property, are not attributable to one Sub-fund only, the ACD will allocate such Scheme Property, assets, costs, charges or expenses between Sub-funds in a manner which is fair to all Shareholders of the Company.

The Company may issue income and accumulation Shares in respect of each Sub-fund. Further details of the Shares presently available for each Sub-fund, including details of their criteria for subscription and fee structure, are set out in Appendix I.

Holders of income Shares are entitled to be paid the distributable income attributed to such Shares on any relevant interim and annual allocation dates.

A Regular Savings Plan is available on certain Sub-funds. Details of which Share Classes and Sub-funds are set out in Appendix 1.

Holders of accumulation Shares are not entitled to be paid the income attributed to such Shares, but that income is automatically transferred to (and retained as part of) the capital assets of the relevant Sub-fund on the relevant interim and/or annual accounting dates. This is reflected in the price of an accumulation Share.

The Instrument of Incorporation allows gross income and gross accumulation Shares to be issued, as well as net income and net accumulation Shares, but currently none are issued. 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. All references in this Prospectus are to net Shares unless otherwise stated.

Where a Sub-fund has different Classes, each Class may attract different charges and so monies may be deducted from the Scheme Property attributable to such Classes in unequal proportions. In these circumstances, the proportionate interests of the Classes within a Sub-fund will be adjusted accordingly.

Shareholders are entitled (subject to certain restrictions) to Switch all or part of their Shares in a Class or a Sub-fund for Shares of another Class within the same Sub-fund or for Shares of the same or another Class within a different Sub-fund of the Company. Details of this switching facility and the restrictions are set out in paragraph 3.4 "Switching".

3. **BUYING, REDEEMING AND SWITCHING SHARES**

The dealing office of the ACD is normally open from 9.00 a.m. to 5.30 p.m. (London time) on each business day to receive postal requests for the purchase, sale and switching of Shares. The ACD may vary these times at its discretion. Requests to deal in Shares may also be made by telephone on each business day (at the ACD's discretion) between 9.00 a.m. and 5.30 p.m. (London time) directly to the office of the ACD (telephone: 0845 922 0044 or such other number as published from time to time). The initial purchase must, at the discretion of the ACD, be accompanied by an application form.

In addition, the ACD may from time to time make arrangements to allow Shares to be bought or sold on-line or through other communication media.

Telephone calls will be recorded. The ACD may also, at its discretion, introduce further methods of dealing in Shares in the future.

In its dealings in Shares of the Sub-funds the ACD is dealing as principal. The ACD does not actively seek to make a profit from dealing in Shares as principal but does so in order to facilitate the efficient management of the Company. The ACD is not accountable to Shareholders for any profit it makes from dealing in Shares as principal.

3.1 **Money laundering**

As a result of legislation in force in the UK to prevent money laundering, the ACD is responsible for compliance with anti money laundering regulations. In order to implement these regulations, in certain circumstances investors may be asked to provide proof of identity when buying or redeeming Shares. Until satisfactory proof of identity is provided, the ACD reserves the right to refuse to issue Shares, pay the proceeds of a redemption of Shares, or pay income on Shares to the investor. In the case of a purchase of Shares where the applicant is not willing or is unable to provide the information requested within a reasonable period, the ACD also reserves the right to sell the Shares purchased and return the proceeds to the account from which the subscription was made. These proceeds may be less than the original investment.

3.2 **Buying Shares**

3.2.1 **Procedure**

Shares may be bought directly from the ACD or through a professional adviser or other intermediary. Any intermediary who recommends an investment in the Company to Shareholders may be entitled to receive commission from the ACD. An ongoing commission, based on the value of Shares held may also be paid to qualifying intermediaries. In addition, the ACD may from time to time make arrangements to allow

Shares to be bought through other communication media. For details of dealing charges see paragraph 3.5 below. Application forms may be obtained from the ACD.

Valid applications to purchase Shares in a Sub-fund will be processed at the Share price calculated, based on the Net Asset Value per Share, at the next Valuation Point following receipt of the application, except in the case where dealing in a Sub-fund has been suspended as set out in paragraph 3.10.

The ACD, at its discretion, has the right to cancel a purchase deal if settlement is materially overdue and any loss arising on such cancellation shall be the liability of the applicant. For postal applications payment in full must accompany the instruction. At the ACD's discretion, payment for large purchases of Shares may be made by telegraphic transfer.

A purchase of Shares in writing or by telephone or any other communication media made available is a legally binding contract. Applications to purchase, once made are, except in the case where cancellation rights are applied, irrevocable. However, subject to its obligations under the Regulations, 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.

Any subscription monies remaining after a whole number of Shares have been issued will not be returned to the applicant. Instead, smaller denomination Shares will be issued. A smaller denomination Share is equivalent to one thousandth of a larger denomination Share.

Applicants who have received advice may have the right to cancel their application to buy Shares at any time during the 14 days after the date on which they receive a cancellation notice from the ACD. If an applicant (except for those investors who subscribe through the Regular Savings Plan) decides to cancel the contract, and the value of the investment has fallen at the time the ACD receives the completed cancellation notice, they will not receive a full refund as an amount equal to any fall in value will be deducted from the sum originally invested. Investors who invest through the Regular Savings Plan will be entitled to cancel their first subscription only. If a Regular Saver decides to cancel their contract within 14 days after the date on which they receive the cancellation notice then they will receive back the full amount of their initial subscription. The ACD may extend cancellation rights to other investors but is under no obligation to do so.

3.2.2 **Documents the buyer will receive**

A confirmation giving details of the number and price of Shares bought will be issued no later than the end of the business day following the Valuation Point by reference to which the price is determined, together with, where appropriate, a notice of the applicant's right to cancel.

Registration of Shares can only be completed by the ACD upon receipt of any required registration details. These details may be supplied in writing to the ACD or by returning to the ACD the properly completed registration form and copy of the confirmation.

Settlement is due within 4 business days of the Valuation Point. An order for the purchase of Shares will only be deemed to have been accepted by the ACD once it is in receipt of cleared funds for the application. If settlement is not made within a reasonable period, then the ACD has the right to cancel any Shares issued in respect of the application.

Share certificates will not be issued in respect of Shares. Ownership of Shares will be evidenced by an entry on the Register. Tax vouchers in respect of periodic distributions on Shares will show the number of Shares held by the recipient.

3.2.3 **Regular Savings Plan**

The ACD may make available certain Classes of Shares of any Sub-fund through the Regular Savings Plan (details of current Classes of Shares and Sub-funds which are available are shown in Appendix 1). Further information on how to invest through the Regular Savings plan is available from the ACD.

3.2.4 **Minimum subscriptions and holdings**

The minimum initial subscriptions, subsequent subscriptions and holdings levels for each Class of Share in a Sub-fund are set out in Appendix I.

The ACD may at its sole discretion accept subscriptions and/or holdings lower than the minimum amount(s).

If following a redemption, Switch or transfer, a holding in any Class of Share should fall below the minimum holding for that Class, the ACD has the discretion to effect a redemption of that Shareholder's entire holding in that Class of Share. The ACD may use this discretion at any time. Failure not to do so immediately after such redemption, Switch or transfer does not remove this right.

3.3 **Redeeming Shares**

3.3.1 **Procedure**

Every Shareholder is entitled on any Dealing Day to redeem its Shares, which shall be purchased by the ACD dealing as principal.

Valid instructions to the ACD to redeem Shares in a Sub-fund will be processed at the Share price calculated, based on the Net Asset Value per Share, at the next Valuation Point following receipt of the instruction, except in the case where dealing in a Sub-fund has been suspended as set out in paragraph 3.10.

A redemption instruction in respect of Shares in writing or by telephone or any other communication media made available is a legally binding contract. However, an instruction to the ACD to redeem Shares, although irrevocable, may not be settled by either the Company or the ACD if the redemption represents Shares where the money due on the earlier purchase of those Shares has not yet been received or if insufficient documentation or anti-money laundering information has been received by the ACD.

For details of dealing charges see paragraph 3.5 below.

3.3.2 **Documents a redeeming Shareholder will receive**

A confirmation giving details of the number and price of Shares redeemed will be sent to the redeeming Shareholder (or the first named Shareholder, in the case of joint Shareholders) together with (if sufficient written instructions have not already been given) a form of renunciation for completion and execution by the Shareholder (or, in the case of a joint holding, by all the joint Shareholders) no later than the end of the business day following the later of the request to redeem Shares or the Valuation Point by reference to which the price is determined.

Payment of redemption proceeds will normally be made by cheque to the first named Shareholder (at their risk), or, at the ACD's discretion, via telegraphic transfer in accordance with any instruction received (the ACD may recover any bank charge levied on such transfers). Instructions to make payments to third parties (other than intermediaries associated with the redemption) will not normally be accepted.

Such payment will be made within four business days of the later of (a) receipt by the ACD of the form of renunciation (or other sufficient written instructions) duly signed and completed by all the relevant

Shareholders together with any other documentation and appropriate evidence of title, any required anti-money laundering related documentation, and (b) the Valuation Point following receipt by the ACD of the request to redeem.

3.3.3 **Minimum redemption**

Part of a Shareholder's holding may be redeemed but the ACD reserves the right to refuse a redemption request if the value of the Shares of any Sub-fund to be redeemed is less than the minimum stated in respect of the appropriate Class in the Sub-fund in question (see Appendix I).

3.4 **Switching**

At present the Company only has one Sub-fund, although in due course it is expected that additional Sub-funds will be launched.

Subject to any restrictions on the eligibility of investors for a particular Share Class, a Shareholder in a Sub-fund may at any time Switch all or some of his Shares of one Class or Sub-fund ("the Original Shares") for Shares of another Class or Sub-fund ("the New Shares") in the Company. The number of New Shares issued 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.

Telephone switching instructions may be given but Shareholders are required to provide written instructions to the ACD (which, in the case of joint Shareholders, must be signed by all the joint Shareholders) before switching is effected.

The ACD may at its discretion make a charge on the switching of Shares between Sub-funds or Classes. Any such charge on switching does not constitute a separate charge payable by a Shareholder, but is rather the application of any redemption charge on the Original Shares and any initial charge on the New Shares, subject to certain waivers. For details of the charges on switching currently payable, please see paragraph 3.5.3 "Charges on Switching".

If a partial Switch 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 the Class concerned, the ACD may, if it thinks fit, convert the whole of the applicant's holding of Original Shares to New Shares (and make a charge on switching on such conversion) or refuse to effect any Switch of the Original Shares. Save as otherwise specifically set out, the general provisions on procedures relating to redemption will apply equally to a Switch. Written instructions must be received by the ACD before the Valuation Point on a Dealing Day in the Sub-fund or Sub-funds concerned to be dealt with at the prices at the Valuation Point on that

Dealing Day or at such other Valuation Point as the ACD at the request of the Shareholder giving the relevant instruction may agree. Switching requests received after a Valuation Point will be held over until the next day which is a Dealing Day in each of the relevant Sub-fund or Sub-funds.

The ACD may adjust the number of New Shares to be issued to reflect the application of any charge on switching 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 COLL Sourcebook.

Please note that under UK tax law a Switch of Shares in one Sub-fund for Shares in any other Sub-fund is treated as a redemption of the Original Shares and a purchase of New Shares and will, for persons subject to taxation, be a realisation of the Original Shares for the purposes of capital gains taxation, which may give rise to a liability to tax, depending upon the Shareholder's circumstances.

A Shareholder who Switches Shares in one Sub-fund for Shares in any other Sub-fund (or who Switches between Classes of Shares) will not be given a right by law to withdraw from or cancel the transaction.

3.5 Dealing Charges

The price per Share at which Shares are bought, redeemed or switched is the Net Asset Value per Share. Any initial charge or redemption charge, (or dilution levy or SDRT on a specific deal, if applicable) is payable in addition to the price or deducted from the proceeds and is taken from the gross subscription or redemption monies.

3.5.1 Initial charge

The ACD may impose a charge on the purchase of Shares in each Class. The current initial charge is calculated as a percentage of the amount invested by a potential Shareholder in respect of each Sub-fund is set out in Appendix I. The ACD may waive or discount the initial charge at its discretion.

The initial charge (which is deducted from subscription monies) is payable by the Shareholder to the ACD.

The current initial charge of a Class may only be increased in accordance with the Regulations.

From the initial charge received, or out of its other resources, the ACD may pay a commission to relevant intermediaries including the Investment Manager and its Associates.

3.5.2 **Redemption Charge**

The ACD may make a charge on the redemption of Shares in each Class. At present, no redemption charge is levied.

The ACD may only introduce a redemption charge in accordance with the Regulations. Also, if such a charge was introduced, it would not apply to Shares issued before the date of the introduction (i.e., those not previously subject to a redemption charge).

3.5.3 **Charges on Switching**

On the switching of Shares between Sub-funds or Classes in the Company the Instrument of Incorporation authorises the Company to impose a charge on switching. If a redemption charge is payable in respect of the Original Shares, this may become payable instead of, or as well as, the then prevailing initial charge for the New Shares. The charge on switching is payable by the Shareholder to the ACD.

The ACD's current policy is to only levy a charge on switching between Sub-funds that is no more than the excess of the initial charge applicable to New Shares over the initial charge applicable to the Original Shares. There is currently no charge for switching Shares in one Class of a Sub-fund for Shares in another Class of the same Sub-fund.

3.5.4 **Dilution Levy**

The actual cost of purchasing, selling or switching assets and investments in a Sub-fund may deviate from the mid-market value used in calculating its Share price, due to dealing charges, taxes, and any spread between buying and selling prices of the Sub-fund's underlying investments. These costs could have an adverse effect on the value of a Sub-fund, known as "dilution". In order to mitigate the effect of dilution the Regulations allow the ACD to make a dilution levy on the purchase, sale or Switch of Shares in a Sub-fund. A dilution levy is a separate charge of such amount or at such rate as is determined by the ACD to be made for the purpose of reducing the effect of dilution. This amount is not retained by the ACD, but is paid into the Sub-fund.

As a dilution levy is not currently charged except on large deals (which for these purposes are defined as a 1% of the net asset value of the relevant Sub-fund), the cost of purchasing or selling investments for the Sub-funds subsequent to Shareholder dealing will be borne by the Sub-funds with the consequent effect on future growth. If the ACD decides in the future to charge a dilution levy, it will be calculated by reference to

the costs of dealing in the underlying investments of the Company, including any dealing spreads, commission and transfer taxes.

The need to charge a dilution levy will depend on the volume of sale and redemptions. The ACD may require a dilution levy on the sale and redemption of Shares if, in its opinion, the existing Shareholders (for sales) or remaining Shareholders (for redemptions) might otherwise be adversely affected. In particular, the dilution levy may be charged in the following circumstances: where the Scheme Property is in continual decline; on a Sub-fund experiencing large levels of net sales relative to its size; on "large deals"; in any case where the ACD is of the opinion that the interests of remaining Shareholders require the imposition of a dilution levy. It is not possible to predict accurately whether dilution would occur at any point in time. If a dilution levy is required then, based on future projections the estimated rate or amount of such a levy would be 0.5%.

The ACD may alter its current dilution policy in accordance with the procedure set out in the Regulations.

3.5.5 **Stamp duty reserve tax ("SDRT")**

SDRT is charged on the surrender of Shares to the Company and on certain transfers of Shares requiring reregistration, with the Company liable for the SDRT. The SDRT due is calculated at the rate of 0.5 per cent. of the market value of the Shares surrendered. This charge is subject to reduction to the extent that:

- (i) the number of Shares surrendered in a Sub-fund in the two week period in which the redemption occurs exceeds the number of Shares of the same Sub-fund issued in that period; and
- (ii) the Sub-fund is invested in certain exempt investments in the two week period.

No SDRT arises in respect of pro rata in specie cancellations of a holder's Shares.

The current policy is that all SDRT costs will be paid out of the Company's Scheme Property and charged to capital. SDRT will not be recovered from Shareholders. However, the ACD reserves the right to require Shareholders to pay SDRT whenever it considers that the circumstances have arisen which make such imposition fair to all Shareholders or potential Shareholders. The ACD may impose an SDRT provision on large deals when no SDRT provision is imposed on smaller

deals or which is larger than that imposed on smaller deals. A "large deal" is a transaction (or a series of transactions in one dealing period) by any person to buy, sell or exchange Shares of £15,000 or more. In the event there is a change in this policy the ACD will give prior notification of such change to Shareholders prior to it taking effect.

Since the authorisation of the Company to the date of this Prospectus it has not been necessary to recover any SDRT from Shareholders on any dealings in the Shares of the Sub-funds.

Although it cannot be guaranteed, it is the opinion of the ACD that SDRT will rarely be recovered from Shareholders on the sale of Shares in any Sub-fund. This statement is based on the ACD's current policy for SDRT as detailed above. If imposed on a particular deal the maximum provision for SDRT shall always be equivalent to the current rate of SDRT.

SDRT at 0.5% is also payable on certain dealings in shares in ICVCs not requiring reregistration.

3.6 Transfers

Shareholders are entitled to transfer their Shares to another person or body. All transfers must be in writing in the form of an instrument of transfer approved by the ACD for this purpose. Completed instruments of transfer must be returned to the ACD in order for the transfer to be registered by the ACD. The ACD may refuse to register a transfer unless any provision for SDRT due has been paid.

3.7 Restrictions and Compulsory Transfer and Redemption

The ACD may from time to time impose such restrictions as it may think necessary for the purpose of ensuring 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 or which would result in the Company incurring any liability to taxation which the Company is not able to recoup itself or suffering any other adverse consequence. In this connection, the ACD may, inter alia, reject in its discretion any application for the purchase, redemption, transfer or switching of Shares.

If it comes to the notice of the ACD that any Shares ("affected Shares"):

- (a) are owned directly or beneficially in breach of any law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory; or

- (b) would result in the Company incurring any liability to taxation which the Company would not be able to recoup itself or suffering any other adverse consequence (including a requirement to register under any securities or investment or similar laws or governmental regulation of any country or territory); or
- (c) are held in any manner by virtue of which the Shareholder or Shareholders in question is/are not qualified to hold such Shares or if it reasonably believes this to be the case;

the ACD may give notice to the Shareholder(s) of the affected Shares requiring the transfer of such Shares to a person who is qualified or entitled to own them or that a request in writing is given for the redemption of such Shares in accordance with the COLL Sourcebook. If any Shareholder upon whom such a notice is served does not within 30 days after the date of such notice transfer his affected Shares to a person qualified to own them or submit a written request for their redemption to the ACD or establish to the satisfaction of the ACD (whose judgement is final and binding) that he or the beneficial owner is qualified and entitled to own the affected Shares, he shall be deemed upon the expiry 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.

A Shareholder who becomes aware that he is holding or owns affected Shares shall immediately, unless he has already received a notice as set out above, either transfer all his affected Shares to a person qualified to own them or submit a request in writing to the ACD for the redemption of all his affected Shares.

Where a request in writing is given or deemed to be given for the redemption of affected Shares, such redemption will (if effected) be effected in the same manner as provided for in the COLL Sourcebook.

3.8 Issue of Shares in exchange for in specie assets

The ACD may arrange for the Company to issue Shares in exchange for assets other than cash, but will only do so where the Depositary has taken reasonable care to determine that the Company's acquisition of those assets in exchange for the Shares concerned is not likely to result in any material prejudice to the interests of Shareholders.

The ACD will ensure that the beneficial interest in the assets is transferred to the Company with effect from the issue of the Shares.

The ACD will not issue Shares in any Sub-fund in exchange for assets the holding of which would be inconsistent with the investment objective or policy of that Sub-fund.

3.9 **In specie redemptions**

If a Shareholder requests the redemption of Shares the ACD may, where it considers the deal to be substantial in relation to the total size of the Sub-fund concerned or in some way detrimental to the Sub-fund, arrange, having given prior notice in writing to the Shareholder, that, in place of payment for the Shares in cash, the Company transfers property or, if required by the Shareholder, the net proceeds of sale of the relevant property, to the Shareholder. Before the redemption proceeds of the Shares become payable, the ACD must give written notice to the Shareholder that the relevant property or the proceeds of sale of the relevant property will be transferred to that Shareholder so that the Shareholder can require the net proceeds of redemption rather than the relevant property if he so desires.

For this purpose, the ACD may consider a deal to be substantial if the relevant Shares constitute 5% (or a lesser or higher percentage if considered appropriate) of those in issue in the relevant Sub-fund.

The ACD will select the property to be transferred or sold in consultation with the Depositary. They must ensure that the selection is made with a view to achieving no more advantage or disadvantage to the Shareholder requesting the redemption than to the continuing Shareholders.

3.10 **Suspension of dealings in the Company**

The ACD may, with the prior agreement of the Depositary, or must if the Depositary so requires, for a period of up to 28 days suspend, without notice to Shareholders, the purchase and redemption of Shares (including any purchase and redemption on switching) in any or all of the Sub-funds, if the ACD (or the Depositary in the case of any requirement by it) is of the opinion that due to exceptional circumstances there is good and sufficient reason to do so having regard to the interests of Shareholders or potential Shareholders (for example, but without limitation, on the closure or suspension of dealing on a relevant stock exchange, or the inability of the ACD to ascertain properly the value of any or all of the assets or realise any material part of the assets of a Sub-fund).

Recalculation of the Share price for the purposes of purchases and redemptions will commence on the next relevant Valuation Point following the ending of the suspension.

During any suspension, in the exercise of its discretion, the ACD will permit a Shareholder to withdraw their redemption notice provided that this withdrawal is in writing and is received before the period of suspension ends. Any notice not withdrawn will be dealt with on the next Dealing Day following the end of the suspension.

3.11 **Governing law**

All deals in Shares are governed by the law of England and Wales.

4. **VALUATION OF THE COMPANY**

4.1 **General**

The price of a Share is calculated by reference to the Net Asset Value of the Sub-fund to which it relates. The Net Asset Value per Share of a Sub-fund is currently calculated at 8.30 a.m. (London time) (this being the Valuation Point) on each Dealing Day.

The ACD may at any time during a business day carry out an additional valuation if it considers it desirable to do so. The ACD shall inform the Depositary of any decision to carry out any such additional valuation. Valuations may be carried out for effecting a scheme of amalgamation or reconstruction which does not create a Valuation Point for the purposes of dealings. Where permitted and subject to the Regulations, the ACD may, in certain circumstances (for example where a significant event has occurred since the closure of a market) substitute a price with a more appropriate price which in its opinion reflects a fair and reasonable price for that investment.

The ACD will, upon completion of each valuation, notify the Depositary of the price of Shares, of each Class of each Sub-fund and the amount of any dilution levy applicable in respect of any purchase or redemption of Shares.

A request for dealing in Shares must be received by the Valuation Point on a particular Dealing Day in order to be processed on that Dealing Day. A dealing request received after this time will be held over and processed on the next Dealing Day, using the Net Asset Value per Share calculated as at the Valuation Point on that next Dealing Day.

4.2 **Calculation of the Net Asset Value**

The value of the Scheme Property shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions:

4.2.1 All the Scheme Property (including receivables) is to be included, subject to the following provisions.

4.2.2 Scheme Property which is not cash (or other assets dealt with in paragraph 4.2.2.4 below) or a contingent liability transaction shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:

4.2.2.1 Units or shares in a collective investment scheme:

(a) if a single price for buying and redeeming units or shares is quoted, at that price; or

(b) if separate buying and redemption 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 redemption price has been increased by any exit or redemption charge attributable thereto; or

(c) 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 or if the most recent price available does not reflect the ACD's best estimate of the value of the units or shares, at a value which, in the opinion of the ACD, is fair and reasonable;

4.2.2.2 Any other transferable security:

(a) if a single price for buying and redeeming the security is quoted, at that price; or

(b) if separate buying and redemption prices are quoted, at the average of the two prices; or

(c) 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 or if the most recent price available does not reflect the ACD's best estimate of the value of the security, at a value which, in the opinion of the ACD, is fair and reasonable;

4.2.2.3 Scheme Property other than that described in paragraphs 4.2.2.1 and 4.2.2.2 above, at a value which, in the opinion of the ACD, is fair and reasonable;

4.2.2.4 Cash and amounts held in current and deposit accounts and in other time related deposits shall be valued at their nominal values.

4.2.3 Scheme Property which is a contingent liability transaction shall be treated as follows:

4.2.3.1 if it is a written option (and the premium for writing the option has become part of the Scheme Property), deduct the amount of the net valuation of premium receivable. If the Scheme Property is an off exchange option the method of valuation shall be agreed between the ACD and the Depositary;

- 4.2.3.2 if it is an off exchange future, include it at the net value of closing out in accordance with a valuation method agreed between the ACD and the Depositary;
- 4.2.3.3 if it is any other form of contingent liability transaction, include it at the net value of margin on closing out (whether as a positive or negative value). If the Scheme Property is an off exchange derivative, include it at a valuation method agreed between the ACD and the Depositary.
- 4.2.4 In determining the value of the Scheme Property, all instructions given to issue or cancel Shares shall be assumed to have been carried out (and any cash paid or received) whether or not this is the case.
- 4.2.5 Subject to paragraphs 4.2.6 and 4.2.7 below, agreements for the unconditional sale or purchase of Scheme 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 if, in the opinion of the ACD, their omission will not materially affect the final net asset amount.
- 4.2.6 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 4.2.5.
- 4.2.7 All agreements are to be included under paragraph 4.2.5 which are, or ought reasonably to have been, known to the person valuing the Scheme Property.
- 4.2.8 Deduct an estimated amount for anticipated tax liabilities at that point in time including (as applicable and without limitation) capital gains tax, income tax, corporation tax, VAT, stamp duty, SDRT and any foreign taxes or duties.
- 4.2.9 Deduct 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.
- 4.2.10 Deduct the principal amount of any outstanding borrowings whenever repayable and any accrued but unpaid interest on borrowings.
- 4.2.11 Add an estimated amount for accrued claims for tax of whatever nature which may be recoverable.

- 4.2.12 Add any other credits or amounts due to be paid into the Scheme Property.
- 4.2.13 Add a sum representing any interest or any income accrued due or deemed to have accrued but not received.
- 4.2.14 Currencies or values in currencies other than Sterling 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.

4.3 **Price per Share in each Sub-fund and each Class**

The price per Share at which Shares are bought or are redeemed is the Net Asset Value per Share. Any initial charge or redemption charge, (or dilution levy or SDRT on a specific deal, if applicable) is payable in addition to the price or deducted from the proceeds and is taken from the gross subscription or redemption monies.

Each allocation of income made in respect of any Sub-fund at a time when more than one Class is in issue in respect of that Sub-fund shall be done by reference to the relevant Shareholder's proportionate interest in the income property of the Sub-fund in question calculated in accordance with the Instrument of Incorporation.

4.4 **Pricing basis**

The ACD deals on a forward pricing basis. A forward price is the price calculated at the next Valuation Point after the purchase or redemption is deemed to be accepted by the ACD. Shares in the Company are single priced.

4.5 **Publication of Prices**

The prices of all Shares are published in The Financial Times under "Cheviot Asset Management" and on the Investment Management Association's website: www.investmentuk.org. As the ACD deals on a forward pricing basis, the price that appears in these sources will not necessarily be the same as the one at which investors can currently deal. The ACD may also, at its sole discretion, decide to publish certain Share prices in other third party websites or publications but the ACD does not accept responsibility for the accuracy of the prices published in, or for the non-publication of prices by, these sources for reasons beyond the control of the ACD.

5. **RISK FACTORS**

Potential investors should consider the following risk factors before investing in the Company (or in the case of specific risks applying to specific Sub-funds, in those Sub-funds).

5.1 **General**

The investments of the Company are subject to normal market fluctuations and other risks inherent in investing in securities. There can be no assurance that any appreciation in the value of investments will occur. The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest in the Company. There is no certainty that the investment objective of the Sub-funds will actually be achieved and no warranty or representation is given to this effect. The level of any yield for a Sub-fund may be subject to fluctuations and is not guaranteed.

5.2 **Effect of Initial Charge or Redemption Charge**

Where an initial charge or redemption charge is imposed, an investor who realises his Shares may not (even in the absence of a fall in the value of the relevant investments) realise the amount originally invested.

In particular, where a redemption charge is payable, investors should note that the percentage rate at which the redemption charge is calculated is based on the market value rather than the initial value of the Shares. If the market value of the Shares has increased the redemption charge will show a corresponding increase. Currently there is no redemption charge levied on Shares.

The Shares therefore should be viewed as medium to long term investments.

5.3 **Dilution and SDRT provision**

A Sub-fund may suffer a reduction in the value of its Scheme Property due to dealing costs incurred when buying and selling investments. To offset this dilution effect the ACD may require the payment of a dilution levy in addition to the price of Shares when bought or as a deduction when sold.

Certain investment transactions can result in the payment of stamp duty reserve tax ("SDRT"). When such payment results in the diminution in value of the Shares, an additional charge may be levied in addition to the price of the Shares when issued or deducted when sold.

5.4 **Suspension of Dealings in Shares**

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

5.5 **Liabilities of the Company**

Although each Sub-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 Sub-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 Sub-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.

5.6 **Currency Exchange Rates**

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

5.7 **Unregulated Collective Investment Schemes**

The Company may make investments in collective investment schemes. Such investments may involve risks not present in direct investments, including, for example, the possibility that an investee collective investment scheme may at any time have economic or business interests or goals which are not fully consistent with those of the Company.

Unregulated collective investment schemes in which the Company may invest up to 20% of its scheme property may invest in highly illiquid securities that may be difficult to value. Moreover, many alternative investment strategies give themselves significant discretion in valuing securities. An investor should be aware that liquidity constraints and the extent to which the Company's securities are valued by independent sources are factors which could have an impact on the Company's valuation.

5.8 **Derivatives**

The Investment Manager may employ derivatives in the pursuit of the investment objectives but solely for the purposes of hedging with the aim of reducing the risk profile of the Sub-funds in accordance with Efficient Portfolio Management.

5.9 **Emerging Markets**

Investments in emerging markets may be more volatile than investments in more developed markets. Some of these markets may have relatively unstable governments, economies based on only a few industries and securities markets that trade only a limited number of securities. Many emerging markets do not have well developed regulatory systems and disclosure standards may be less stringent than those of developed markets.

The risks of expropriation, nationalisation and social, political and economic instability are greater in emerging markets than in more developed markets.

The following is a brief summary of some of the more common risks associated with emerging markets investment:

Fraudulent Securities – Given the lack of a regulatory structure it is possible that securities in which investments are made may be found to be fraudulent. As a result, it is possible that loss may be suffered.

Currency Fluctuations – Significant changes in the currencies of the countries in which investments are made in respect of the currency of denomination of the relevant Sub-fund may occur following the investment of the Company in these currencies. These changes may impact the total return of the Sub-fund to a significant degree. In respect of currencies of certain emerging countries, it is not possible to undertake currency hedging techniques.

Settlement and Custody Risks – Settlement and custody systems in emerging markets are not as well developed as those in developed markets. Standards may not be as high and supervisory and regulatory authorities not as sophisticated. As a result there may be risks that settlement may be delayed and that cash or securities could be disadvantaged.

Investment and Remittance Restrictions – In some cases, emerging markets may restrict the access of foreign investors to securities. As a result, certain equity securities may not always be available to a Sub-fund because the maximum permitted number of or investment by foreign shareholders has been reached. In addition, the outward remittance by foreign investors of their share of net profits, capital and dividends may be restricted or require governmental approval. The Company will only invest in markets in which it believes these restrictions to be acceptable. However, there can be no guarantee that additional restrictions will not be imposed.

Accounting – Accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to companies in emerging markets differ from those applicable in more developed markets in respect of the nature, quality and

timeliness of the information disclosed to investors and, accordingly, investment possibilities may be difficult to properly assess.

5.10 **Credit and Fixed Interest Securities**

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

The value of a fixed interest security will fall in the event of the default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. High yield bonds with lower credit ratings (also known as sub-investment grade bonds) are potentially more risky (higher credit risk) than investment grade bonds. A sub-investment grade bond has a Standard & Poor's credit rating of below BBB or equivalent.

6. MANAGEMENT AND ADMINISTRATION

6.1 Regulatory Status

The ACD, the Depositary and the Investment Manager are authorised and regulated by the Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS.

6.2 Authorised Corporate Director

6.2.1 General

The ACD is Capita Financial Managers Limited which is a private company limited by shares incorporated in England and Wales on 21 November 1973.

The directors of the ACD are:-

J Eadie
L Everitt
K Marsden
K Midl
N Morar
D Page

No director is engaged in any significant business activity not connected with the business of the ACD or other Capita Group Plc subsidiaries.

Registered Office and Head Office:	Beaufort House, 15 St Botolph Street, London EC3A 7HH
Share Capital:	It has a share capital of £125,000 issued and paid up.
Ultimate Holding Company:	The Capita Group Plc, a company incorporated in England and Wales and listed on the London Stock Exchange.

The ACD is responsible for managing and administering the Company's affairs in compliance with the COLL Sourcebook. The ACD may delegate its management and administration functions, but not responsibility, to third parties, including associates subject to the rules in the COLL Sourcebook.

It has therefore delegated to the Investment Manager the function of managing and acting as the investment adviser for the investment and reinvestment of the assets of the Sub-funds (as further explained in paragraph 6.4 below). It has also delegated to the Registrar certain

functions relating to the register (as further explained in paragraph 6.5 below).

6.2.2 **Terms of Appointment:**

The appointment of the ACD has been made under an agreement between the Company and the ACD, as amended from time to time (the "ACD Agreement").

Pursuant to the ACD Agreement, the ACD manages and administers the affairs of the Company in accordance with the Regulations, the Instrument of Incorporation and this Prospectus. The ACD Agreement incorporates detailed provisions relating to the ACD's responsibilities. Copies of the ACD Agreement are available on request.

The ACD Agreement may be terminated by either party after the expiry of three years from the date of incorporation of the Company on not less than 12 months written notice or earlier upon the happening of certain specified events. The ACD Agreement contains detailed provisions relating to the responsibilities of the ACD and excludes it from any liability to the Company or any Shareholder for any act or omission except in the case of negligence, wilful default, breach of duty or breach of trust in relation to the Company on its part. The ACD Agreement provides indemnities to the ACD to the extent allowed by the Regulations and other than for matters arising by reason of its negligence, wilful default, breach of duty or breach of trust in the performance of its duties and obligations. Subject to certain limited exceptions set out in the Regulations, the ACD may retain the services of any person to assist it in the performance of its functions.

Details of the fees payable to the ACD are set out in paragraph 7.2 "Charges payable to the ACD" below.

The ACD receives payments on an annual basis from The Bank of New York as the preferred supplier to the funds operated by the ACD. The ACD is not obliged to account to Shareholders for these payments.

The ACD is also under no obligation to account to the Depositary, the Company or the Shareholders for any profit it makes on the issue or re-issue or cancellation of Shares which it has redeemed.

The Company has no directors other than the ACD. The ACD is the manager of certain authorised unit trusts and open-ended investment companies details of which are set out in Appendix IV.

6.3 **The Depositary**

6.3.1 **General**

The Depositary of the Company is The Bank of New York Trust and Depositary Company Limited (registered no. 3588038), a private company limited by shares incorporated in England and Wales on 25 June 1998. Its ultimate holding company is The Bank of New York Inc., incorporated in New York. Its registered office is at One Canada Square, Canary Wharf, London E14 5AL. The principal business activity of the Depositary is acting as a trustee and depositary. It is authorised and regulated by the Financial Services Authority.

The Depositary is responsible for the safekeeping of all the Scheme Property (other than tangible moveable property) of the Company and has a duty to take reasonable care to ensure that the Company is managed in accordance with the Instrument of Incorporation and the provisions of the COLL Sourcebook relating to the pricing of, and dealing in, Shares and relating to the income and the investment and borrowing powers of the Sub-funds.

6.3.2 **Terms of Appointment:**

The appointment of the Depositary has been made under an agreement between the Company, the ACD and the Depositary, (the "Depositary Agreement").

Subject to the COLL Sourcebook, the Depositary has full power under the Depositary Agreement to delegate (and authorise its delegate to sub-delegate) all or any part of its duties as depositary.

The terms of the Depositary Agreement between the Company, the ACD and the Depositary provide that the Depositary be engaged to maintain the safe custody of the Scheme Property and to fulfil other duties required in the Regulations. Under the Agreement the Depositary has the power to appoint sub-Custodians and may include in such appointment powers of sub-delegation. The Depositary has delegated custody to The Bank of New York Inc. under a custody agreement dated 26 February 1999.

The Depositary will not be held liable for any loss incurred by it, or through any of its agents in carrying out its obligations or functions, unless such loss arises from its negligence, fraud or wilful default.

The Depositary Agreement provides indemnities to the Depositary to the extent allowed by the Regulations 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 Depositary is entitled to receive remuneration out of the Scheme Property for its services, as explained in paragraph 7.3 "Depositary's fee and expenses" below. The Depositary is under no obligation to account to the ACD, the Company or the Shareholders for any profits or benefits it makes or receives that are made or derived from or in connection with its role as depositary.

6.4 **The Investment Manager**

6.4.1 **General**

The ACD has appointed the Investment Manager, Cheviot Asset Management, to provide investment management services to the ACD. The Investment Manager is authorised by the FSA.

The Investment Manager's registered office is at 90 Long Acre, London WC2E 9RA.

The principal activity of the Investment Manager is managing money for institutions and high net worth individuals.

6.4.2 **Terms of Appointment:**

The terms of the Investment Management Agreement between the ACD and the Investment Manager include the provision of investment management to attain the investment objectives of the Sub-funds, the purchase and sale of investments and on the exercise of voting rights relating to such investments. The Investment Manager has authority to make decisions on behalf of the ACD on a discretionary basis in respect of day to day investment management of the Scheme Property including authority to place purchase orders and sale orders with regulated dealers and preparation of the Investment Manager's report half yearly for inclusion in the Company's Report for circulation to Shareholders. The Agreement may be terminated by either party on not less than six months' written notice or earlier upon the happening of certain specified events.

The Investment Manager will receive a fee paid by the ACD out of its remuneration received each month from the Sub-funds as explained in paragraph 7.4 below, and is also entitled to receive commission paid by the ACD in respect of investment in the Sub-funds by its clients.

The Investment Manager will not be considered as a broker fund adviser under the FSA Handbook in relation to the Company.

6.5 **The Registrar**

6.5.1 **General**

On behalf of the Company the ACD has also appointed Capita Financial Administrators Limited to act as registrar to the Company.

The registered office of the Registrar is Beaufort House, 15 St Botolph Street, London EC3A 7HH.

6.5.2 **Register of Shareholders**

The Register of Shareholders will be maintained by the Registrar at the address of its registered office as noted above, and may be inspected at that address during normal business hours by any Shareholder or any Shareholder's duly authorised agent.

The plan register (being a record of persons who subscribe for Shares through Personal Equity Plans (PEPs) or Individual Savings Accounts (ISAs)) can be inspected at the office of the Registrar.

6.6 **The Auditors**

The auditors of the Company are PKF (UK) LLP, whose address is Farringdon Place, 20 Farringdon Road, London EC1M 3AP.

6.7 **Conflicts of Interest**

The ACD, the Investment Manager and other companies within the Capita and/or the Investment Manager's group 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 Sub-funds. It is therefore possible that the ACD and/or the Investment Manager may in the course of their business have potential conflicts of interest with the Company or a particular Sub-fund. Each of the ACD and the Investment Manager will, however, have regard in such event to its obligations under the ACD Agreement and the Investment Management Agreement respectively 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 act as the depositary of other open-ended investment companies and as trustee or custodian of other collective investment schemes.

7. FEES AND EXPENSES

7.1 Ongoing

All costs, charges, fees or expenses, other than the charges made in connection with the subscription and redemption of Shares (see paragraph 3.5) payable by a Shareholder or out of Scheme Property are set out in this section.

The Company or each Sub-fund (as the case may be) may, so far as the COLL Sourcebook allows, also pay out of the Scheme Property all relevant costs, charges, fees and expenses including the following:

- 7.1.1 broker's commission, fiscal charges (including stamp duty and/or stamp duty reserve tax) and other disbursements which are necessary to be incurred in effecting transactions for the Sub-funds and normally shown in contract notes, confirmation notes and difference accounts as appropriate;
- 7.1.2 fees and expenses in respect of establishing and maintaining the register of Shareholders, including any sub-registers kept for the purpose of the administration of (when applicable) Personal Equity Plans and Individual Savings Accounts, are payable quarterly out of the property of the Sub-funds;
- 7.1.3 any costs incurred in or about the listing of Shares in the Company on any Stock Exchange, and the creation, conversion and cancellation of Shares;
- 7.1.4 any costs incurred by the Company in publishing the price of the Shares in a national or other newspaper or any other form of media;
- 7.1.5 any costs incurred in producing and dispatching any payments made by the Company, or the yearly and half-yearly reports of the Company;
- 7.1.6 any fees, expenses or disbursements of any legal or other professional adviser of the Company;
- 7.1.7 any costs incurred in taking out and maintaining an insurance policy in relation to the Company;
- 7.1.8 any costs incurred in respect of meetings of Shareholders convened for any purpose;
- 7.1.9 any payment permitted by clause 6.7.15R of the COLL Sourcebook;
- 7.1.10 interest on borrowings and charges incurred in effecting or terminating such borrowings or in negotiating or varying the terms of such borrowings;

- 7.1.11 taxation and duties payable in respect of the Scheme Property of the Sub-funds or the issue or redemption of Shares;
- 7.1.12 the audit fees of the Auditors (including VAT) and any expenses of the Auditors;
- 7.1.13 the fees of the FSA, in accordance with the FSA's Fee Manual, together with any corresponding periodic fees of any regulatory authority in a country or territory outside the United Kingdom in which shares in the Company are or may be marketed;
- 7.1.14 any expense incurred in relation to company secretarial duties including the cost of maintenance of minute books and other documentation required to be maintained by the Company;
- 7.1.15 the total amount of any cost relating to amending the prospectus where this is permitted by the Regulations;
- 7.1.16 any payments otherwise due by virtue of a change to the Regulations; and;
- 7.1.17 any value added or similar tax relating to any change or expense set out herein;
- 7.1.18 any costs incurred which are associated with independent risk monitoring or daily "value at risk" or "VaR" calculations (part of the risk monitoring process); and
- 7.1.19 any costs incurred in preparing, translating, producing (including printing), distributing and modifying the instrument of incorporation, Prospectus and Simplified Prospectus (apart from the costs of distributing the Simplified Prospectus) or reports, accounts, statements, contract notes and other like documentation, or any other relevant document required under the Regulations.

The ACD is also entitled to be paid by the Company out of the Scheme Property any expenses incurred by the ACD or its delegates of the kinds described above.

Expenses are allocated between capital and income in accordance with the Regulations. However, the approach for a given Sub-fund is set out in Appendix I. Where expenses are deducted in the first instance from income if and only if this is insufficient, deductions will be made from capital (save for any charge made in respect of SDRT under paragraph 3.5.5 "Stamp Duty Reserve Tax"). If deductions were made from capital, this would result in capital erosion and constrain growth.

7.2 **Charges payable to the ACD**

7.2.1 *Annual Management Charge*

In payment for carrying out its duties and responsibilities the ACD is entitled to take an annual fee out of each Sub-fund as set out in Appendix I. The annual management charge will accrue on a daily basis in arrears by reference to the Net Asset Value of the Sub-fund on the immediately preceding Dealing Day and the amount due for each month is payable on the last Dealing Day of each month. The current annual management charges for the Sub-funds (expressed as a percentage per annum of the Net Asset Value of each Sub-fund) are set out in Appendix I.

7.2.2 *Registration Fees*

The ACD is entitled to receive a fee out of the Scheme Property for providing registration services, (including establishing and maintaining sub-registers where applicable) out of which the ACD will pay the fees of the Registrar. Such fee is a quarterly fee. The current fees payable to the ACD are as follows (plus any applicable VAT): £12.50 per annum per Shareholder and £12.50 per transaction, with a minimum payment of £3,500 per annum per Sub-fund.

7.2.3 *Expenses*

The ACD is also entitled to all reasonable, properly documented, out of pocket expenses incurred in the performance of its duties as set out above.

VAT is payable on the charges or expenses mentioned above, where appropriate.

If a Class's expenses in any period exceed its income the ACD may take that excess from the capital property attributable to that Class.

The current annual fee payable to the ACD for a Class may only be increased or a new type of remuneration introduced in accordance with the Regulations.

7.3 **Depositary's fee and expenses**

The Depositary is entitled to receive out of the Scheme Property by way of remuneration a periodic charge, which will be calculated and accrue daily and be paid monthly as soon as practicable after the end of each month, and certain additional charges and expenses. The rate of the Depositary's periodic charge in respect of each Sub-fund will be such rate or rates as agreed from time to time

between the ACD and the Depositary in accordance with the COLL Sourcebook. The current rate of the Depositary's periodic charge in respect of each Sub-fund is:

Value of Sub-fund:	Fee
First £70 million	0.04%
Next £30 million	0.03%
Next £50 million	0.02%
Balance of the value of the Scheme Property.	0.01%

Subject to a minimum of £5,000 plus £2,000 plus VAT per annum for any additional investment manager.

In addition VAT on the amount of the periodic charge will be paid out of Scheme Property.

In the event of the termination of a Sub-fund, the Depositary shall continue to be entitled to a periodic charge in respect of that Sub-fund for the period up to and including the day on which the final distribution in the termination of the Sub-fund shall be made or, in the case of a termination following the passing of an extraordinary resolution approving a scheme of arrangement, up to and including the final day on which the Depositary is responsible for the safekeeping of the Scheme Property. Such periodic charge will be calculated, be subject to the same terms and accrue and be paid as described above, except that for the purpose of calculating the periodic charge in respect of any day falling after the day on which the termination of the Sub-fund commences, the value of the Scheme Property shall be its Net Asset Value determined at the beginning of each such day.

The Depositary Agreement between the Company and the Depositary provides that in addition to a periodic charge the Depositary may also be paid by way of remuneration custody fees where it acts as Custodian and other transaction and bank charges. At present the Depositary delegates the function of custody of the Scheme Property to The Bank of New York Inc.

The remuneration for acting as custodian is calculated at such rate and/or amount as the ACD, the Depositary and the Custodian may agree from time to time.

The current remuneration ranges from between 0.01% per annum to 0.70 % per annum of the value of the Scheme Property, plus VAT (if any), calculated at an ad valorem rate determined by the territory or country in which the assets of the Sub-funds are held. The current range of transaction charges is between £10 and

£175 per transaction plus VAT (if any). Charges for principal investment markets are:

	Transaction charge per trade	Custody charge % per annum
UK	£10	0.01
United States	£14	0.02
Germany	£25	0.03
Japan	£30	0.03

Custody and transaction charges will be payable monthly in arrears.

In addition to the remuneration referred to above, the Depositary is entitled to receive reimbursement for expenses properly incurred by it in discharge of its duties or exercising any powers conferred upon it in relation to the Company and each Sub-fund. Such expenses include, but are not restricted to:

- (i) all charges imposed by, and any expenses of, any agents appointed by the Depositary to assist in the discharge of its duties;
- (ii) delivery of stock to the Depositary or custodian;
- (iii) custody of assets;
- (iv) collection and distribution of income and capital;
- (v) submission of tax returns;
- (vi) handling tax claims;
- (vii) preparation of the Depositary's annual report;
- (viii) arranging insurance;
- (ix) calling Shareholder meetings and otherwise communicating with Shareholders;
- (x) dealing with distribution warrants;
- (xi) taking professional advice;
- (xii) conducting legal proceedings;
- (xiii) such other duties as the Depositary is permitted or required by law to perform.

VAT (if any) in connection with any of the above is payable in addition.

Expenses not directly attributable to a particular Sub-fund will be allocated between Sub-funds. In each such case such expenses and disbursements will also be payable if incurred by any person (including the ACD or an 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.

7.4 Investment Manager's fee

The Investment Manager's fees and expenses (plus VAT thereon) for providing investment management services will be paid by the ACD out of its remuneration under the ACD Agreement.

Further details of this agreement are summarised in paragraph 6.4.2 "Terms of Appointment" above.

7.5 Allocation of fees and expenses between Sub-funds

All the above fees, duties and charges (other than those borne by the ACD) will be charged to the Sub-fund in respect of which they were incurred. This includes any charges and expenses incurred in relation to the Register of Shareholders, except that these will be allocated and charged to each class of Shares on a basis agreed between the ACD and the Depositary.

Where an expense is not considered to be attributable to any one Sub-fund, the expense will normally be allocated to all Sub-funds pro rata to the value of the Net Asset Value of the Sub-funds, although the ACD has discretion to allocate these fees and expenses in a manner which it considers fair to Shareholders generally.

Where income is insufficient to pay charges the residual amount is taken from capital.

8. **INSTRUMENT OF INCORPORATION**

The Instrument of Incorporation is available for inspection at the ACD's offices at Beaufort House, 15 St Botolph Street, London EC3A 7HH.

9. **SHAREHOLDER MEETINGS AND VOTING RIGHTS**

9.1 **Class, Company and Sub-fund Meetings**

The Company will not hold annual general meetings.

The provisions below, unless the context otherwise requires, apply to Class meetings and meetings of Sub-funds as they apply to general meetings of the Company, but by reference to Shares of the Class or Sub-fund concerned and the Shareholders and value and prices of such Shares.

9.2 **Requisitions of Meetings**

The ACD may requisition a general meeting at any time.

Shareholders may also requisition a general meeting of the Company. A requisition by Shareholders must state the objects of the meeting, be dated, be signed by Shareholders who, at the date of the requisition, are registered as holding not less than one tenth in value of all Shares then in issue and the requisition must be deposited at the head office of the Company. The ACD must convene a general meeting no later than eight weeks after receipt of such requisition.

9.3 **Notice and Quorum**

Shareholders will receive at least 14 days' notice of a general meeting and are entitled to be counted in the quorum and vote at such meeting either in person or by proxy. The quorum for a meeting is two Shareholders, present in person or by proxy. The quorum for an adjourned meeting is one person entitled to be counted in a quorum. Notices of meetings and adjourned meetings will be sent to Shareholders at their registered addresses.

9.4 **Voting Rights**

At a general meeting, on a show of hands every Shareholder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, has one vote.

On a poll vote, a Shareholder may vote either in person or by proxy. The voting rights attaching to each Share are such proportion of the voting rights attached to all the Shares in issue that the price of the Share bears to the aggregate price of all the Shares in issue at a reasonable date, before the notice of meeting is sent out, such date to be decided by the ACD.

A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

In the case of joint Shareholders, the vote of the most senior Shareholder who votes, whether in person or by proxy, must be accepted to the exclusion of the votes of the other joint Shareholders. For this purpose seniority must be determined by the order in which the names stand in the Register.

Except where the COLL Sourcebook or the Instrument of Incorporation require an extraordinary resolution (which needs at least 75% of the votes cast at the meeting to be in favour if the resolution is to be passed) any resolution required by the COLL Sourcebook will be passed by a simple majority of the votes validly cast for and against the resolution.

The ACD may not be counted in the quorum for a meeting and neither the ACD nor any associate (as defined in the COLL Sourcebook) of the ACD is entitled to vote at any meeting of the Company except in respect of Shares which the ACD or associate holds on behalf of or jointly with a person who, if the registered Shareholder, would be entitled to vote and from whom the ACD or associate has received voting instructions.

Where all the Shares in a Sub-fund are registered to, or held by, the ACD or its associates and they are therefore prohibited from voting and a resolution (including an extraordinary resolution) is required to conduct business at a meeting, it shall not be necessary to convene such a meeting and a resolution may, with the prior written agreement of the Depositary, instead be passed with the written consent of Shareholders representing 50% or more, or for an extraordinary resolution 75% or more, of the Shares in issue.

“Shareholders” in this context means Shareholders entered on the register at a time to be determined by the ACD and stated in the notice of the meeting which must not be more than 48 hours before the time fixed for the meeting.

10. **TAXATION**

10.1 **General**

The information below is a general guide based on current United Kingdom law and HM Revenue & Customs practice, all of which are subject to change. It summarises the tax position of the Company and of investors who are United Kingdom resident and hold Shares as investments. Prospective investors who are in any doubt about their tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, are recommended to take professional advice.

10.2 **The Company**

Each Sub-fund will be treated as a separate entity for United Kingdom tax purposes.

The Sub-funds are generally exempt from United Kingdom tax on capital gains realised on the disposal of investments (including interest-paying securities and derivatives) held within them.

Dividends from United Kingdom companies (whether received directly or through another authorised investment fund) are received by a Sub-fund with a tax credit and no further tax is payable by the Sub-fund on that income. The Sub-funds will each be subject to corporation tax at 20% on most other types of income but after deducting allowable management expenses and the gross amount of any interest distributions. Where a Sub-fund suffers foreign tax on income received, this may normally be deducted from the United Kingdom tax due on that income.

A Sub-fund will make dividend distributions except where over 60% of its property has been invested throughout the distribution period in interest-paying investments, in which case it will make interest distributions.

10.3 **Shareholders**

10.3.1 **Income**

The Sub-funds will pay distributions (which will be automatically retained in the Sub-fund in the case of accumulation Shares) with a tax credit. Individuals liable to income tax at the basic rate will have no further liability to tax. Higher rate taxpayers will have to pay an additional amount of income tax of 25% of the amount received. Non-taxpayers may reclaim the tax credits on interest distributions paid, and starting rate taxpayers may reclaim part of them, but neither can reclaim tax credits on dividend distributions.

Corporate Shareholders who receive dividend distributions may have to divide them into two (in which case the division will be indicated on the tax voucher). Any part representing dividends received from a United Kingdom company will be treated as dividend income (that is, franked investment income) and no further tax will be due on it. The remainder will be received as an annual payment after deduction of income tax at the lower rate, and corporate Shareholders may, depending on their circumstances, be liable to tax on the grossed up amount, with the benefit of a 20% income tax credit attached or to reclaim part of the tax credit as shown on the tax voucher. Corporate Shareholders are also subject to corporation tax on the gross amount of interest distributions.

10.3.2 **Income equalisation**

The first income allocation received by an investor after buying Shares may include an amount of income equalisation. This is effectively a repayment of the income equalisation paid by the investor as part of the purchase price. It is a return of capital, and is not taxable. Rather it should be deducted from the acquisition cost of the Shares for capital gains tax purposes. Equalisation will be applied to all of the Sub-funds.

10.3.3 **Gains**

Shareholders may, depending on their personal circumstances, be liable to capital gains tax or, if a corporate Shareholder, corporation tax on gains arising from the redemption, transfer or other disposal of Shares (but not on Switches between Classes within a Sub-fund). Any corporate Shareholder in a Sub-fund which is over 60% invested in interest-paying investments at a material time must treat the holding as a creditor relationship.

Part of any increase in value of accumulation Shares represents the accumulation of income (including income equalisation but excluding tax credit). These amounts may be added to the acquisition cost when calculating the capital gain realised on their disposal.

10.3.4 **EU Savings Directive**

The EU Council Directive 2003/48/EC on taxation of savings income (the "Directive") came into force on 1 July 2005. 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, Belgium and Luxembourg will instead impose a system of withholding tax for a transitional period unless during such period they elect otherwise.

11. **WINDING UP OF THE COMPANY OR A SUB-FUND**

The Company will not be wound up except as an unregistered company under Part V of the Insolvency Act 1986 or under the COLL Sourcebook. A Sub-fund may only be wound up under the COLL Sourcebook.

Where the Company or a Sub-fund is to be wound up under the COLL Sourcebook, such winding up may only be commenced following approval by the FSA. The FSA may only give such approval if the ACD provides a statement (following an investigation into the affairs of the Company) either that the Company will be able to meet its liabilities within 12 months of the date of the statement or that the Company will be unable to do so. The Company may not be wound up under the COLL Sourcebook if there is a vacancy in the position of ACD at the relevant time.

The Company shall be wound up or a Sub-fund must be terminated under the COLL Sourcebook:

- 11.1 if an extraordinary resolution to that effect is passed by Shareholders; or
- 11.2 when the period (if any) fixed for the duration of the Company or a particular Sub-fund by the Instrument of Incorporation expires, or any event occurs on the occurrence of which the Instrument of Incorporation provides that the Company or a particular Sub-fund is to be wound up (for example, if the Share capital of the Company or (in relation to any Sub-fund) the Net Asset Value of the Sub-fund is below £1 million, or if a change in the laws or regulations of any country means that, in the ACD's opinion, it is desirable to terminate the Sub-fund); or
- 11.3 on the date stated in any agreement by the FSA to a request by the ACD for the revocation of the authorisation order in respect of the Company or for the termination of the relevant Sub-fund.

On the occurrence of any of the above:

- 11.4 COLL 6.2 (Dealing), COLL 6.3 (Valuation and Pricing) and COLL 5 (Investment and borrowing powers) will cease to apply to the Company or the relevant Sub-fund;
- 11.5 the Company will cease to issue and cancel Shares in the Company or the relevant Sub-fund and the ACD shall cease to sell or redeem Shares or arrange for the Company to issue or cancel them for the Company or the relevant Sub-fund;
- 11.6 no transfer of a Share shall be registered and no other change to the Register of Shareholders shall be made without the sanction of the ACD;
- 11.7 where the Company is being wound up, the Company shall cease to carry on its business except in so far as it is beneficial for the winding up of the Company;

- 11.8 the corporate status and powers of the Company and subject to 11.4 to 11.7 above, the powers of the Depositary shall continue until the Company is dissolved.

The ACD shall, as soon as practicable after the Company or the Sub-fund falls to be wound up, realise the assets and meet the liabilities of the Company and, after paying out or retaining adequate provision for all liabilities properly payable and retaining provision for the costs of winding up, arrange for the Depositary to make one or more interim distributions out of the proceeds to Shareholders proportionately to their rights to participate in the Scheme Property. If the ACD has not previously notified Shareholders of the proposal to wind up the Company or terminate the Sub-fund, the ACD shall, as soon as practicable after the commencement of winding up of the Company or the termination of the Sub-fund, give written notice of the commencement to Shareholders. When the ACD has caused all of the Scheme Property to be realised and all of the liabilities of the Company or the particular Sub-fund to be realised, the ACD shall arrange for the Depositary to make a final distribution to Shareholders on or prior to the date on which the final account is sent to Shareholders of any balance remaining in proportion to their holdings in the Company or the particular Sub-fund.

As soon as reasonably practicable after completion of the winding up of the Company or the particular Sub-fund, the Depositary shall notify the FSA that the winding up has been completed.

On completion of a winding up of the Company, the Company will be dissolved and any money (including unclaimed distributions) still standing to the account of the Company, will be paid into court by the ACD within one month of the dissolution.

Following the completion of a winding up of either the Company or a Sub-fund, the ACD must prepare a final account showing how the winding up took place and how the Scheme Property was distributed. The auditors of the Company shall make a report in respect of the final account stating their opinion as to whether the final account has been properly prepared. This final account and the auditors' report must be sent to the FSA and to each Shareholder (or the first named of joint Shareholders) on it within two months of the completion of the winding up or termination.

As the Company is an umbrella company, any liabilities attributable or allocated to a particular Sub-fund under the COLL Sourcebook shall be met first out of the Scheme Property attributable or allocated to that particular Sub-fund. If the liabilities of a particular Sub-fund are greater than the proceeds of the realisation of the Scheme Property attributable or allocated to the Sub-fund, the deficit shall be met out of the Scheme Property attributable or allocated to the solvent Sub-funds in respect of which the proceeds of realisation exceed liabilities and will be divided between those Sub-funds in a manner which is fair to Shareholders in those solvent Sub-funds.

12. **GENERAL INFORMATION**

12.1 **Accounting Periods**

The annual accounting period of the Company ends each year on 31 March (the accounting reference date) with an interim accounting period ending on 30 September.

The ACD may even out the payments of income within an accounting period by carrying forward income otherwise distributable with a view to augmenting amounts to be paid out at a later date. Details of the Sub-funds for which this policy is currently considered are set out in Appendix I.

12.2 **Notice to Shareholders**

All notices or other documents sent by the ACD to a Shareholder will be sent by normal post to the last address notified in writing to the Company by the Shareholder.

12.3 **Income Allocations**

Some Sub-funds may have interim and final income allocations and other Sub-funds may have quarterly income allocations and some Sub-funds may only have final income allocation dates (see Appendix I). For each of the Sub-funds income is allocated in respect of the income available at each accounting date.

In relation to income Shares, distributions of income for each Sub-fund in which income Shares are issued are paid by cheque or telegraphic transfer directly into a Shareholder's bank account on or before the relevant income allocation date in each year as set out in Appendix I.

For Sub-funds in which accumulation Shares are issued, income will become part of the capital property of the Sub-fund and will be reflected in the price of each such accumulation Share as at the end of the relevant accounting period.

If a distribution made in relation to any income Shares remains unclaimed for a period of six years after it has become due, it will be forfeited and will revert to the relevant Sub-fund (or, if that no longer exists, to the Company).

The amount available for distribution in any accounting period is calculated by taking the aggregate of the income received or receivable for the account of the relevant Sub-fund in respect of that period, and deducting the charges and expenses of the relevant Sub-fund paid or payable out of income in respect of that accounting period. The ACD then makes such other adjustments as it considers appropriate (and after consulting the Company's auditors as appropriate) in relation to taxation, income equalisation, income unlikely to be received within 12 months following the relevant income allocation date, income which should not be

accounted for on an accrual basis because of lack of information as to how it accrues, transfers between the income and capital account and other matters.

12.4 **Fewer than two Sub-funds**

If for a period of 24 consecutive months beginning at any time after the first issue of Shares, Shares in only one Sub-fund are in issue, the ACD must take such action as is necessary to change the type of Company or cause Shares in respect of more than one Sub-fund to be in issue. This does not apply if winding up of the Company has begun on or before the expiry of the 24 month period.

12.5 **Annual Reports**

The annual report of the Company will normally be published and sent to Shareholders within four months from the end of each annual accounting period and the half yearly report will be published within two months of each interim accounting period. The ACD will issue short reports. A long report containing the full accounts is available to any person free of charge on request.

12.6 **Documents of the Company**

The following documents may be inspected free of charge during normal business hours on any business day at the offices of the ACD at Beaufort House, 15 St Botolph Street, London EC3A 7HH:

- 12.6.1 the most recent annual and half yearly reports of the Company;
- 12.6.2 the Instrument of Incorporation (and any amending documents); and
- 12.6.3 the material contracts referred to below.

Shareholders may obtain copies of the above documents from the ACD. The ACD may make a charge at its discretion for copies of documents (apart from the most recent annual and half yearly long reports of the Company which are available free of charge to anyone who requests).

12.7 **Material Contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and are, or may be, material:

- 12.7.1 the ACD Agreement between the Company and the ACD; and
- 12.7.2 the Depositary Agreement between the Company, the Depositary and the ACD.

Details of the above contracts are given under section 6 "Management and Administration".

12.8 **Provision of Investment Advice**

All information concerning the Company and about investing in Shares of the Company is available from the ACD at Beaufort House, 15 St Botolph Street, London EC3A 7HH. The ACD is not authorised to give investment advice and persons requiring such advice should consult a professional financial adviser. All applications for Shares are made solely on the basis of the current prospectus of the Company, and investors should ensure that they have the most up to date version.

12.9 **Telephone Recordings**

Please note that the ACD may record telephone calls for training and monitoring purposes and to confirm investors' instructions.

12.10 **Complaints**

Complaints concerning the operation or marketing of the Company may be referred to the Compliance Officer of the ACD at Beaufort House, 15 St Botolph Street, London EC3A 7HH or, if you subsequently wish to take your complaint further, direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

12.11 **Risk Management**

The ACD will provide upon the request of a Shareholder further information relating to:

- 12.11.1 the quantitative limits applying in the risk management of any Sub-fund;
- 12.11.2 the methods used in relation to 12.11.1; and
- 12.11.3 any recent development of the risk and yields of the main categories of investment.

12.12 **Indemnity**

The Instrument of Incorporation contains provisions indemnifying the Directors, other officers and the Company's auditors or the Depositary against liability in certain circumstances otherwise than in respect of their negligence, default, breach of duty or breach of trust, and indemnifying the Depositary against liability in certain circumstances otherwise than in respect of its failure to exercise due care and diligence in the discharge of its functions in respect of the Company.

APPENDIX I

SUB-FUND DETAILS

Name:	CF Cheviot Balanced Fund
Type of Sub-fund:	non-UCITS retail scheme
Investment Objective and Policy:	<p>The investment objective of the Sub-fund is to provide a balance of income and capital growth through investment in a diversified portfolio of predominantly collective investment schemes, which may be both regulated and unregulated. There may be occasions when the Sub-fund invests in equities, government securities, bonds, cash and money market instruments. Investments will not be confined to any particular economic or geographic sectors.</p> <p>The Fund may use derivatives and forward transactions for hedging purposes but may, on giving shareholders 60 days' notice, use derivatives and forward transactions for investment purposes, which may make the portfolio composition of the Fund highly volatile.</p>
Performance Benchmark	FT APCIMS Balanced Index will be the benchmark comparison against which the Sub-fund's performance is measured.
Final accounting date:	31 March
Interim accounting date:	30 September
Income distribution dates:	31 May and 30 November
Shares Classes and type of Shares:	A Shares Income and Accumulation B Shares Income and Accumulation C Shares Income and Accumulation
Initial charge:	A Shares 5% B Shares 0% C Shares 10%
Redemption charge:	Nil
Switching charge:	Nil

Annual Management Charge:	A Shares	1.5%
	B Shares	1%
	C Shares	0%
Charges taken from Income:		Yes
Investment minima:*		
Lump sum	A Shares	£1,000
	B Shares	£250,000
	C Shares	£100,000
Holding	A Shares	£1,000
	B Shares	£250,000
	C Shares	£100,000
Top-up		N/A (providing minimum holding is maintained)
Regular Savings Plan		Yes
Redemption		N/A (provided minimum holding is maintained)
Past performance:		Past performance information is set out in Appendix V
Initial offer period:		
	Length	14 days
	Initial price	£1
Arrangements for issuing units during the initial offer		On an up and running basis
Circumstances when initial offer will end		If share prices move by 2% of the Net Asset Value
Whether units will be issued in any other currency		No

* The ACD may waive the minimum levels at its discretion.

APPENDIX II

ELIGIBLE SECURITIES MARKETS AND ELIGIBLE DERIVATIVES MARKETS

At present the Company only has one Sub-fund, although in due course it is expected that additional Sub-funds will be launched. All the Sub-funds may deal through securities markets which are regulated markets (as defined in the glossary to the FSA Handbook) or markets established in an EEA State which are regulated, operate regularly and are open to the public.

Each Sub-fund may also deal through the securities markets and derivatives markets indicated below:

Eligible Securities Markets:

United States of America	The New York Stock Exchange (NYSE) The NASDAQ Stock Market (NASDAQ) The American Stock Exchange (AMEX)
Australia	The Australian Stock Exchange
Canada	Montreal Exchange Toronto Stock Exchange TSX Venture Exchange
Hong Kong	Hong Kong Stock Exchange
Japan	Tokyo Stock Exchange Osaka Securities Exchange Nagoya Stock Exchange Sapporo Stock Exchange
Korea	Korea Stock Exchange (KSE)
Mexico	Mexican Stock Exchange
New Zealand	New Zealand Stock Exchange (NZSE)
Singapore	Stock Exchange of Singapore (SES)
South Africa	Johannesburg Stock Exchange (JSE)
Switzerland	The Swiss Exchange (SWX)
Thailand	The Stock Exchange of Thailand (SET)

Eligible Derivatives Markets:

France	Marché à Terme International de France (MATIF) Marché des Options Négociable de Paris (MONEP)
Germany	Deutsche Terminbörse (DTB) (German Futures Exchange)
UK	Financial Futures and Options Exchange
U.S.	Chicago Board of Trade Chicago Mercantile Exchange Chicago Board Options Exchange

APPENDIX III

INVESTMENT AND BORROWING POWERS OF THE COMPANY

At present the Company only has one Sub-fund, although in due course it is expected that additional Sub-funds will be launched. The contents of this Appendix III will apply to all Sub-funds of the Company from time to time.

1. General

The Scheme Property will be invested with the aim of achieving the investment objective of that Sub-fund but subject to the limits set out in the Sub-fund's investment policy and the limits set out in Chapter 5.6 of the COLL Sourcebook ("COLL 5.6") applicable to non-UCITS retail schemes and this Prospectus. These limits apply to each Sub-fund as summarised below.

1.1 Prudent spread of risk

The ACD must ensure that, taking account of the investment objectives and policy of each Sub-fund, the Scheme Property aims to provide a prudent spread of risk.

1.2 Cover

1.2.1 Where the COLL Sourcebook allows a transaction to be entered into or an investment to be retained only (for example, investment in warrants and nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5.6, it must be assumed that the maximum possible liability of the Sub-fund under any other of those rules has also to be provided for.

1.2.2 Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transaction, or the retention, or other similar transactions, are covered:

1.2.2.1 it must be assumed that in applying any of those rules, the Sub-fund must also simultaneously satisfy any other obligation relating to cover; and

1.2.2.2 no element of cover must be used more than once.

1.3 Transferable Securities

1.3.1 A transferable security is an investment falling within article 76 (Shares etc), article 77 (instruments creating or acknowledging indebtedness),

article 78 (government and public securities), article 79 (instruments giving entitlement to investments) and article 80 (certificates representing certain securities) of the Regulated Activities Order.

- 1.3.2 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.
- 1.3.3 In applying paragraph 1.3.2 of this Appendix to an investment which is issued by a body corporate, and which is an investment falling within articles 76 (shares, etc) or 77 (instruments creating or acknowledging indebtedness) of the Regulated Activities Order, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.
- 1.3.4 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.

2. non-UCITS retail schemes - general

- 2.1 Subject to the investment objectives and policy of a Sub-fund and the restrictions set out in this Prospectus, the Scheme Property must, except where otherwise provided in COLL 5.6, only consist of transferable securities, money-market instruments, units in permitted collective investment schemes, gold, immovable property, permitted derivatives and forward transactions and permitted deposits.
- 2.2 Transferable securities and money-market instruments held within a Sub-fund must (subject to paragraph 2.4 of this Appendix) be admitted to or dealt on an eligible market as described below.
- 2.3 Not more than 20% of the Company can be invested in transferable securities which are not approved securities (being securities officially listed in an EEA State or traded on or under the rules of an eligible securities market) and unregulated schemes, nor in money-market instruments which are liquid and have a value which can be determined accurately at any time.
- 2.4 The requirements on spread of investments generally and in relation to investment in government and public securities do not apply until the expiry of a period of six months after the date of effect of the authorisation order in respect of the Sub-fund (or on which the initial offer commenced if later) provided that the requirement to maintain prudent spread of risk in paragraph 1.1 of this Appendix is complied with.

3. Eligible markets regime: purpose

- 3.1 To protect investors the markets on which investments of a Sub-fund are dealt in

or traded on should be of an adequate quality ("eligible") at the time of acquisition of the investment and until it is sold.

3.2 Where a market ceases to be eligible, investments on that market cease to be approved securities. The 20% restriction on investing in non approved securities applies and exceeding this limit because a market ceases to be eligible will generally be regarded as an inadvertent breach.

3.3 A market is eligible for the purposes of the rules if it is:

3.3.1 a regulated market as defined in the FSA Handbook; or

3.3.2 a market in an EEA State which is regulated, operates regularly and is open to the public.

3.4 A market not falling within paragraph 3.3 of this Appendix is eligible for the purposes of COLL 5.6 if:

3.4.1 the ACD, after consultation and notification with the Depositary, decides that market is appropriate for investment of, or dealing in, the Scheme Property;

3.4.2 the market is included in a list in the Prospectus; and

3.4.3 the Depositary has taken reasonable care to determine that:

3.4.3.1 adequate custody arrangements can be provided for the investment dealt in on that market; and

3.4.3.2 all reasonable steps have been taken by the ACD in deciding whether that market is eligible.

3.5 In paragraph 3.4.1, a market must not be considered appropriate unless it is regulated, operates regularly, is recognised, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or for the order of investors.

4. **Spread: general**

4.1 This rule on spread does not apply to government and public securities.

4.2 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.

4.3 With the exception of those instruments specified in paragraph **5** below, not more than 10% in value of the property of a Sub-fund may be invested in transferable securities or money market instruments issued by any single body.

5. Spread: government and public securities

5.1 The following section applies to government and public securities ("such securities").

5.2 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.

5.3 The Company or any Sub-fund may invest more than 35% in value of the Scheme Property in such securities issued by any one body provided that:

5.3.1 the ACD has before any such investment is made 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;

5.3.2 no more than 30% in value of the Scheme Property consists of such securities of any one issue;

5.3.3 the Scheme Property includes such securities issued by that or another issuer, of at least six different issues;

5.3.4 the disclosures required by the FSA have been made.

In giving effect to the foregoing object more than 35 % of the property of the Company or any sub-fund, as the case may be, may be invested in Government and other public securities issued or guaranteed by the Government of the United Kingdom and Northern Ireland, the Scottish Administration, the Executive Committee of the Northern Ireland Assembly or the National Assembly of Wales, the Governments of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and Sweden, and the Governments of Australia, Canada, Japan, New Zealand, Switzerland or the United States of America, and securities issued by the European Investment Bank.

6. Investment in collective investment schemes

6.1 Up to 100% may be invested in units in collective investment schemes, but not more than 35% in value of the property of the Company may be invested in units or shares of any one collective investment scheme. The Company, or Sub-funds, may be invested in schemes managed or operated by the ACD or its associates, (including an ICVC whose operator is the ACD or an associate of the ACD), provided that the ACD pays into the relevant scheme property the amount or

equivalent of any charges on issue or disposal of such units or shares (excluding any form of dilution levy) borne by the Company in accordance with COLL 5.2.16R. The Company may invest in collective investment schemes provided the investee scheme (1) satisfies the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or (2) is a non-UCITS retail scheme; or (3) is a recognised scheme; or (4) is constituted outside the United Kingdom and the investment and borrowing powers of which are the same or more restrictive than those of a non-UCITS retail scheme; or (5) is a scheme not falling within (1) to (4) and in respect of which no more than 20% in value of the scheme property (including any transferable securities which are not approved securities) is invested. In addition the investee scheme must operate on the principle of the prudent spread of risk, must be prohibited from having more than 15% in value of its scheme property consisting of units in collective investment schemes and its participants must be entitled to have their units redeemed in accordance with the scheme at a price related to the net value of the property to which the units relate and determined in accordance with the scheme.

7. Investment in warrants and nil and partly paid securities

7.1 Where a Sub-fund invests in a warrant, the exposure created by the exercise of the right conferred by the warrant must not exceed the limits set out in the COLL Sourcebook in relation to spread (COLL 5.2.11R Spread: General; COLL 5.2.12R Spread: government and public securities) subject to the restrictions set out in this Prospectus.

7.2 A transferable security on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Sub-fund, at the time when payment is required, without contravening the rules in COLL 5.6.

7.3 A warrant which is an investment falling within article 80 of the Regulated Activities Order (certificates representing certain securities) and which is akin to an investment falling within article 79 (instruments giving entitlement to investments) of the Regulated Activities Order may not be included in the Scheme Property unless it is listed on an eligible securities market.

7.4 No more than 5% of the value of the Scheme Property of a Sub-fund may invest in warrants.

8. Use of derivatives and forward transactions

8.1 The Company may also utilise the Scheme Property to enter into hedging transactions for the purposes of Efficient Portfolio Management ("EPM"). Permitted EPM transactions (excluding stock lending arrangements) are transactions in derivatives and forward transactions 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 resembling options; or synthetic futures in certain circumstances. 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.

8.2 Permitted transactions are those that the Company reasonably regards as economically appropriate to EPM, that is:

8.2.1 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

8.2.2 Transactions for the generation of additional capital growth or income for the Sub-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:

8.2.2.1 pricing imperfections in the market as regards the property which the Sub-fund holds or may hold; or

8.2.2.2 receiving a premium for the writing of a covered call option or a cash covered put option on property of the Sub-fund which the Company is willing to buy or sell at the exercise price, or

8.2.2.3 stock lending arrangements.

A permitted arrangement in this context may at any time be closed out.

8.3 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 COLL Sourcebook, 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 COLL Sourcebook. A permitted transaction may at any time be closed out.

8.4 **The Sub-funds will not invest in derivatives and forward transactions for purposes other than hedging/EPM unless the ACD has given shareholders not less than 60 days' notice that the relevant Sub-fund intends to invest in derivatives and forward transactions for investment purposes. Should the**

ACD decide to invest in derivatives and forward transactions for investment purposes, the net asset value of the relevant Sub-fund may at times be highly volatile (in the absence of compensating investment techniques).

However, it is the ACD's intention that the Sub-funds, owing to their portfolio composition, or the portfolio management techniques used, will not have volatility over and above the general market volatility of the markets of their underlying investments.

9. **Risk management: derivatives**

9.1 The ACD uses a risk management process, enabling it to monitor and measure as frequently as appropriate the risk of a Sub-fund's derivatives and forwards positions and their contribution to the overall risk profile of a Sub-fund. Before using the process, the ACD will notify the FSA of the details of the risk management process.

10. **Stock lending**

10.1 The entry into stock lending transactions for the account of a Sub-fund is permitted for the generation of additional income for the benefit of a Sub-fund, and hence for its investors.

10.2 The specific method of stock lending permitted in this section is in fact not a transaction which is a loan in the normal sense. Rather it is an arrangement of the kind described in section 263B of the Taxation of Chargeable Gains Act 1992, under which the lender transfers securities to the borrower otherwise than by way of sale and the borrower is to transfer those securities, or securities of the same type and amount, back to the lender at a later date. In accordance with good market practice, a separate transaction by way of transfer of assets is also involved for the purpose of providing collateral to the "lender" to cover him against the risk that the future transfer back of the securities may not be satisfactorily completed.

10.3 The stock lending permitted by this section may be exercised by a Sub-fund when it reasonably appears to the Company to be appropriate to do so with a view to generating additional income for the Sub-fund with an acceptable degree of risk.

10.4 The Company or the Depositary at the request of Company may enter into 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 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, the counterparty is an authorised person or a person authorised by a home state regulator, and collateral is obtained to secure the obligation of the counterparty. Collateral must be acceptable to the Depositary, adequate and sufficiently immediate.

- 10.5 The Depository must ensure that the value of the collateral at all times is at least equal to the value of the securities transferred by the Depository. This duty may be regarded as satisfied in respect of collateral the validity of which is about to expire or has expired where the Depository 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.
- 10.6 Any agreement for transfer at a future date of securities or of collateral (or of the equivalent of either) may be regarded, for the purposes of valuation under the COLL Sourcebook, as an unconditional agreement for the sale or transfer of property, whether or not the property is part of the property of the Sub-fund.
- 10.7 There is no limit on the value of the Scheme Property which maybe the subject of stock lending transactions.

11. Cover for transactions in derivatives and forward transactions

- 11.1 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.
- 11.2 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.
- 11.3 Cash not yet received into the Scheme Property but due to be received within one month is available as cover.
- 11.4 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.
- 11.5 The global exposure relating to derivatives held in a Sub-fund may not exceed the net value of the Scheme Property.

12. Cover and Borrowing

- 12.1 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 paragraph 11 of this Appendix as long as the normal limits on borrowing (see below) are observed.
- 12.2 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 16 (Borrowing powers) of this Appendix do not apply to that borrowing.

13. Cash and near cash

13.1 Cash and near cash must not be retained in the Scheme Property except to the extent that, where this may reasonably be regarded as necessary in order to enable:

13.1.1 the pursuit of the Sub-funds investment objectives; or

13.1.2 the redemption of units; or

13.1.3 efficient management of a Sub-fund in accordance with its investment objectives; or

13.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of a Sub-fund.

13.2 During the period of the initial offer the Scheme Property may consist of cash and near cash without limitation.

14. General

14.1 It is not intended that any Sub-fund will have an interest in any immovable property or tangible movable property.

14.2 It is envisaged that a Sub-funds will normally be fully invested but there may be times that it is appropriate not to be fully invested when the ACD reasonably regards this as necessary in order to enable the redemption of units, efficient management of a Sub-fund or any one purpose which may reasonably be regarded as ancillary to the investment objectives of a Sub-fund.

14.3 No Sub-fund may invest in the Shares of another Sub-fund within the Company.

14.4 Where the Company invests in or disposes of units or shares in another collective investment scheme which is managed or operated by the ACD or an associate of the ACD, the ACD must pay to the Company by the close of business on the fourth business day the amount of any preliminary charge in respect of a purchase, and in the case of a sale, any charge made for the disposal.

14.5 A potential breach of any of these limits does not prevent the exercise of rights conferred by investments held by a Sub-fund but, in the event of a consequent breach, the ACD must then take such steps as are necessary to restore compliance with the investment limits as soon as practicable having regard to the interests of Shareholders.

15. **Underwriting**

15.1 Underwriting and sub underwriting contracts and placings may also, subject to certain conditions set out in the COLL Sourcebook, be entered into for the account of the Company.

16. **Borrowing powers**

16.1 The Company may borrow money repayable out of the property of the Company in accordance with the Regulations, provided that all such sums borrowed and outstanding do not exceed, on any business day, 10% in value of the property of the Company. However, this 10% limit does not apply in the case of back-to-back borrowing to be cover for transactions in derivatives and forward transactions.

16.2 Borrowings may be made from and deposits made with the Depositary or any of its associates, provided they are bankers and any such borrowings and deposits are on normal commercial terms. There is no liability on such bankers to account to the ACD or to shareholders for any profit they may derive therefrom.

APPENDIX IV

LIST OF OTHER AUTHORISED COLLECTIVE INVESTMENT SCHEMES OPERATED BY THE ACD

Open-Ended Investment Companies

The ACD is also the authorised corporate director of the following open-ended investment companies:

Asperior Investment Funds	The Arbor Fund
The Aurinko Fund	Banner Real Life Fund
The Broden Fund	CAF Socially Responsible Fund
CF Asset Value Investors Global Funds	Capita BPM Investment Fund
Celestial Investment Funds	The Circus Fund
CF Balanced Growth Fund	CF Bentley Capital Investment Funds
CF Bespoke Investment Funds	CF Berkeley Investment Funds
CF Charles Stanley Investment Funds	CF Cornelian Investment Funds
CF EPIC Investment Funds	CF Heartwood Investment Funds
CF JM Finn Investment Funds	CF KB Enterprise Funds
CF KB Explorer Funds	CF KB Prokit Fund
CF Lord Abbett Investment Funds	CF Luna Investment Funds
CF Miton Investment Funds	CF Morant Wright Japan Fund
CF Odey Investment Funds	CF Richmond Core Fund
CF Ruffer Investment Funds	CF SPPM Investment Funds
CF Techinvest Technology Fund	CF Techinvest Special Situations Fund
CF Turcan Connell Investment Funds	CF US Equity High Yield Fund
Christows Investment Funds	Deer Investment Funds
DSMCP Investment Funds	FEM Investment Funds
GHC Investment Funds	Global Discretionary Investment
IMS Investment Funds	Gresham Defined Funds

JOHIM Investment Funds	Melchior Investment Funds
New Square Investment Funds	Nereid Investment Funds
Orchard Investment Funds	CF KB Glendean Fund
Pendennis Fund ICVC	
Purisima Global Total Return Fund	Sheldon Investment Funds
smartinvest growth portfolio	The Davids Fund
The Floco Fund	The Folla Fund
The Grande Motte Fund	The Gulland Fund
The Helm Investment Fund	The Hendom Fund
The Jaguar Fund	The Marten Fund
The Mazener Fund	The Montana Fund
The Mulberry Fund	The Navajo Fund
The Norton Fund	The Oenoke Fund
The Penrhos Fund	The Prestney Fund
The Triple Six Investment Fund	The Viaduct Fund
Trojan Investment Funds	TY Investment Funds
Westferry Investment Funds	

The ACD is also the Manager of the following authorised unit trusts:

CF Avaloc Trust	CF BWH International Fund
CF Cheviot Managed Fund	CF Cobra Trust
CF Dream Trust	CF Greenaway Fund
CF Greenmount Fun	CF Heartwood Balanced Growth Fund
CF Independence Trust	CF Institutional World Fund
CF James Brearley High Income Trust	CF Jaycap Trust
CF KB Albert Trust	CF KB Anfield Trust
CF KB Bircham Trust	CF KB Catalyst Trust
CF KB Dragon Trust	CF KB Feelgood Trust
CF KB Gorthleck Trust	CF KB Hawthorn Trust

CF KB Ilex Trust	CF KB Imperial Trust
CF KB Jetwave Trust	CF KB Lancastrian Trust
CF KB Paradise Trust	CF KB Ramogan Trust
CF KB Topline Trust	CF Lacomp World Fund
CF Lighthouse Fund	CF London York UK Growth & Income Trust
CF Midas Balanced Growth Fund	CF Midas Balanced Income Fund
CF Mitchell Trust	CF Rowan Portfolio Trust
CF Stewart Ivory Investment Markets Fund	CF Stewart Ivory Managed Equity Fund
CF Stoodley Trust	CF Thameside Managed Fund
CF Villture Trust	CF Walker Crips Corporate Bond Fund
CF Walker Crips Equity Income Fund	CF Walker Crips Global Growth Trust
CF Walker Crips Select Income Trust	CF Walker Crips UK Growth Fund
CF Wismac Trust	CF Worldwide Fund
Fitzwilliam Multi-Manager Trust	Junior Oils Trust
Sackville Balanced Portfolio Trust	Sackville Growth Portfolio Trust
St Andrew's Growth Fund	The Amadeus Trust
The Beaver Trust	The Drygate Trust
The Elfyinn Trust	The Esk Fund
The Holly Fund	The Heathway Fund
The Lancaster Trust	The Mermaid Trust
The Newgate Trust	The Sycamore Fund
The Willow Fund	CF Kb Capital Portfolio Trust

APPENDIX V

PAST PERFORMANCE AND INVESTOR PROFILE

Investor profile

The Sub-funds are marketable to all eligible investors provided they can meet the minimum age and subscription levels. The Sub-funds may be suitable for investors who see collective investment schemes as a convenient way of participating in investment markets. They may be suitable for investors wishing to seek to achieve defined investment objectives. Such investors must have experience with, or understand, products where the capital is at risk. Investors must be able to accept some risk to their capital, thus the Sub-funds may be suitable for investors who are looking to set aside the capital for at least 5 years. If you are uncertain whether these products are suitable for you, please contact a financial adviser.

APPENDIX VI

DIRECTORY

The Company and Head Office:

CF Cheviot Investment Funds
4th Floor Beaufort House
15 St Botolph Street
London EC3A 7HH

Authorised Corporate Director:

Capita Financial Managers Limited
Beaufort House
15 St Botolph Street
London EC3A 7HH

Depositary:

The Bank of New York Trust and Depositary Company Limited
One Canada Square
Canary Wharf
London E14 5AL

Investment Manager:

Cheviot Asset Management
90 Long Acre
London WC2E 9RA

Registrar:

Capita Financial Administrators Limited
Beaufort House
15 St Botolph Street
London EC3A 7HH

Auditors:

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP