

Proposals and Changes in Respect of CF FundQuest Investment Funds

On 9th September 2011, Capita Financial Managers Ltd (“Capita”) wrote to investors in the CF FundQuest Select Income (“FQ Select Income”) and CF FundQuest Select (“FQ Select”) Funds, setting out a series of resolutions. The purpose of this document is to provide clients of PFP, who are invested in these Funds, with our comments in respect of these resolutions.

The three resolutions that shareholder agreement is required for are as follows:

1. Whether the Funds should change from a non-UCITS (NURS) to a UCITS scheme (“Extraordinary Resolution”).
2. Whether the Funds’ investment objectives should be changed (“Extraordinary Resolution 1”).
3. Whether a new transaction charge of £17.50 is applied to the Funds (“Extraordinary Resolution 2”).

Three meetings are to be held on Friday, 30th September 2011 for shareholders to vote on these three matters.

In order for the above proposals to be adopted, each resolution requires a majority in favour of not less than 75% of the votes cast at the relevant meeting¹.

In addition, the following changes are also to be made, but are not to be voted upon:

1. To change the name of the FQ Select Income Fund;
2. Increase of the potential dilution levy from 0.5% to 0.75%;
3. Changes to ‘in specie’ provisions;
4. Increase of registration fees; and
5. Increase the maximum potential initial charge.

We have set out below an overview of what this means to you.

1. Changing the Funds from being a NURS to a UCITS

The only difference between the current NURS investment structure and the proposed UCITS investment structure is that the UCITS investment structure cannot invest in the following assets:

- Unregulated schemes;
- Gold; and
- Real property.

¹ For Extraordinary Resolutions 1 and 2 to be voted upon, Extraordinary Resolution must first have been passed.



FundQuest has confirmed to us that neither the FQ Select Income nor the FQ Select Fund has ever held such assets and, even if the change to the investment structure was not passed, there is no plan to invest in such assets.

The obvious question is, therefore, why bother changing the investment structure?

The reason is that as a UCITS investment, they can offer the Funds to a wider market (specifically Europe). The benefit of this is that as the Funds grow further, all investors would benefit from 'economies of scale'.

Therefore, we consider this change to be advantageous for current investors. Consequently, it would be in investors' interests to vote 'for' the Extraordinary Resolution.

2. Changing the Funds' objectives

The principal change with regard to the Funds' objectives is the ability to change the geographical focus from a UK to a global emphasis. When we asked the Fund managers as to what this means in practice, we received the following response:

The change in wording will provide a larger element of flexibility in the geographical allocation of the Sub-funds. Nevertheless, given the UK allocation within the benchmark of both Sub-funds, it is very unlikely that there will be any material change to the allocation within the Sub-fund. Of course, we would not rule out any changes in future, for example, if there are major strategic changes to our asset allocation in the event of extreme market events.

We consider it appropriate in the modern global economy not to tie the Fund managers' hands to any one particular geographic region, if it is their belief that either better capital protection or greater opportunity is achievable elsewhere in the world.

Therefore, we consider this change to be advantageous for current investors.

With regard to FQ Select Income, it is also proposed that the objective is changed from an aim to "achieve a reasonable level of income, together with capital growth" to an aim to "provide a higher total return, with an emphasis on capital growth".

FundQuest say that "the new objective more appropriately reflects the way the Sub-fund has historically been managed", which is true as the current income yield is 1.83%. Therefore, this change does not mean that the Fund will be managed differently, just that the stated aim will better reflect what is being done.

Therefore, we consider this change to be advantageous for current investors. Consequently, it would be in investors' interests to vote 'for' Extraordinary Resolution 1.



3. Application of a transaction charge

It is proposed that a new charge is to be added to the Funds when an investor either adds or withdraws money from the Funds or switches between the two.

We see no benefit in voting in favour of a new charge. Consequently, it would be in investors' interests to vote 'against' Extraordinary Resolution 2.

If this resolution is passed, please note that it is expected that the 'economies of scale' savings created by making the Funds available to the wider investment market will mitigate the impact of the introduction of this new charge. However, we may need to reconsider the suitability of modest drips into the Funds or between them.

4. Other changes

It is important to note that these proposed changes do not require the investors' approval and can be implemented in any event. For completeness, we have considered the impact of each, in turn.

With regard to the proposed change of name for the FQ Select Income Fund, FundQuest state the following:

The change of name from Select Income to Select Cautious will have no impact on the way the Sub-fund is currently managed. We believe the new objective and name more appropriately reflects the way the Sub-fund has historically been managed and how we would prefer to manage it going forward.

Therefore, we consider this change to be advantageous for current investors.

With regard to the proposed increase in the maximum dilution levy, the purpose of this levy is to protect those within the Funds from potential losses created by large transactions out of the Funds. These potential losses can be caused by the underlying asset price being moved by large withdrawals.

Therefore, we consider that increasing the potential dilution levy provides long-term investors with greater protection. Furthermore, subject to changes set out below, if we advised all of our clients to move out of the Funds which could give rise to the dilution levy applying, we would look to transfer the underlying assets 'in specie' to another provider (as we have done previously).

Therefore, we consider this change to be advantageous at best and neutral at worst for current investors.



With regard to the 'in specie' provisions, it is proposed that the investor would lose the right to request an 'in specie' transfer from the Funds. We have previously been given an assurance from Mr Antony John, the CEO of FundQuest, that our clients would always have this right. We are meeting with Mr John on Wednesday, 21st September 2011 to obtain clarification in this respect.

If there is to be a material change that will apply to you, we will write to inform you.

With regard to the increase in registration fee, the increase is modest in that it will increase from £11.50 to £17.50 per annum. It is expected that the 'economies of scale' savings created by making the Funds available to the wider investment market will mitigate the impact of this increase.

Consequently, we consider this change does not materially impact on the suitability of the Funds.

With regard to the increase in the maximum potential initial charge, this has no bearing on existing investors.

Furthermore, the purpose of this change is to align the maximum initial charge on the institutional share class with that of the retail share class (the share class your investments were in prior to the recent switch) for our clients.

Consequently, we consider this change does not impact on the suitability of the Funds.

It is important to note that you are not required to vote and you can choose not to.

However, we would suggest that you vote in the following manner:

- Vote **in favour of** the Extraordinary Resolution; and
- Vote **in favour of** the Extraordinary Resolution 1; and
- Vote **against** of the Extraordinary Resolution 2.