

26 February 2010

**THIS LETTER IS IMPORTANT – PLEASE READ IT CAREFULLY**

Dear Shareholder

**CF Arch cru Finance Fund (a sub-fund of the CF Arch cru Diversified Funds, an Investment Company with Variable Capital) (the "Fund")**

In our letter of 7 December 2009 and the accompanying briefing note, we explained the results of our review of the Fund, dealings in which were suspended on 13 March 2009. We reported on our review of the existence, ownership, liquidity and value of the underlying assets of the Guernsey incorporated cell companies (the "Cells") in which the Fund is substantially invested. We explained that there had been a decline in the value of the Cells, and in turn the Fund, and provided an estimated value of the Fund as at 30 September 2009. We also informed shareholders that we had concluded that the only feasible option in the interests of shareholders as a whole was for the Fund to be wound up, with the assets of the Cells being realised in an orderly fashion over a period of time and the proceeds being ultimately returned to shareholders of the Fund. We have not repeated in this letter the detail of these and the other matters described in our letter of 7 December 2009. Please refer to that letter if you need further information - all previous investor communications in relation to the suspension of the Fund can be found on our website, [www.capitafinancial.com](http://www.capitafinancial.com), by following the link "Communications".

The purpose of this letter is to provide investors with an update on the actions we have taken since our letter of 7 December 2009. In particular:

- We provide updated valuation information, based on the audited financial statements and finalised Net Asset Values ("NAVs") for the Cells;
- We provide an update on the winding up of the Fund and the related changes to the investment objectives of the Cells to facilitate the orderly realisation process; and
- We explain the process for and timing of the first distribution to shareholders out of the assets of the Fund, and the arrangements for future distributions and communications.

**The value of the Cells and the Fund**

In our letter of 7 December 2009, we provided an estimated NAV for the Fund as at 30 September 2009, based on the estimated NAVs for the Cells as at that date that had been published by the Cells to the Channel Islands Stock Exchange ("CISX").

On 31 December 2009, the former directors of the Cells published to the CISX the audited financial statements of the Cells for the year ended 31 March 2009. The new directors of the Cells, appointed on 31 December 2009, have now published the finalised monthly NAVs for the Cells covering the period 31 March 2009 to 31 December 2009. We have used these figures to prepare an updated NAV and share price for the Fund. As at 31 December 2009, the NAV of the Fund was £35,384,845. We have set out in the table below the price of each class of share in the Fund as at 31 December 2009. For reference, the table also includes the share price as at 13 March 2009, being the date on which the Fund was suspended.

Share class	Last published share price (as at 13 March 2009) (based on published CISX price of Cells)	NAV per share as at 31 December 2009 (based on published NAVs of Cells)	% change since 13 March 2009
'A' accumulation	£0.9563	£0.5963	-37.6%
'B' accumulation	£0.9601	£0.5991	-37.6%
'C' accumulation	£0.9581	£0.5976	-37.6%

We have used the updated NAVs and share prices to calculate the value of your individual investment in the Fund. An investor statement setting out the value of your holding(s) in the Fund will be sent to you separately. You should receive this statement by 15 March 2010.

### Reasons for the decline in the value of the Fund

It is clear from the published NAVs of the Cells and from the above table that there has been a fall in the value of the Cells, and consequently a fall in value of the Fund, compared to the last published price of the Fund as at 13 March 2009. Capita Financial Managers Limited ("CFML"), as the authorised corporate director ("ACD") of the Fund, is keen to ensure that both it and shareholders in the Fund have a full and proper explanation of the reasons for and timing of the fall in the value of the Fund's investments in the Cells.

As shareholders are aware, Arch Financial Products LLP ("Arch") was, until 1 December 2009, the investment adviser to the Cells and CFML's investment manager delegate in respect of the Fund. Arch has published on its website an investment commentary for independent financial advisers ("IFAs") and professional investors setting out Arch's views in relation to the reasons for the decline in value. It has also provided an investment commentary for inclusion within the audited financial statements of the Cells as at 31 March 2009 which have now been finalised and published to the CISX. We have summarised below, in a simplified form, our understanding of the information provided by Arch in relation to the decline in the value of the Cells (and therefore the Fund). The explanations relate to the movements in the global markets during the recent economic downturn. We continue to explore the fall in the value of particular assets held by the Cells, and the extent to which this is explicable by reference to such 'macro-economic' factors. This summary (see italicised text below) has been provided for information in the interim.

#### *Summary of Arch's reasons for the decline in value:*

*Arch have said that the "private market" investments made by the Cells (which include, amongst other investments, private equity, hedge funds, asset backed loans linked to ships, real estate linked investments and direct investments into various entities, including investments into a fine wine investment company) held their value relative to many public market investments, particularly equities (i.e. shares), during the early phases of the financial crisis in late 2008. Since then there has been a sharp deterioration of liquidity in the markets and a general lack of credit availability in the banking system, combined with the general downturn in world trade.*

*Specifically, private finance and asset-based lending were under downward pressure, especially in the aftermath of the global financial crisis. The earnings and cash flows of many underlying assets and businesses have fallen. This has led to both interest servicing issues and declining values of collateral (i.e. the security provided by borrowers for asset-backed loans). Asset prices of virtually all types had fallen by more than 30% in 2008, and some fell still further in 2009. In addition, with the liquidity of asset markets deteriorating very sharply, the marketability of most forms of collateral also suffered. From the end of September 2008, this led the Cells to make some provisions for non-performing loans (i.e. to reflect in their accounts that such loans might be worth less than was previously thought).*

*Arch have said that the global recession hit the shipping industry particularly hard, both in terms of earnings and asset values. This resulted in a significant decline in the value of the collateral which backed the shipping loans undertaken by the Cells. Once the reported values for collateral fall below certain threshold values, then the corresponding loans also fall in value. This erosion of the loan "cushions" (i.e. excess collateral) would have occurred on or around March 2009.*

*Arch have also said that some of the private finance-related external funds in which the Cells invested experienced some difficulties in the second half of 2008 and the early months of 2009. At that time, there was widespread redeeming of fund investments, whether they were mutual funds, hedge funds or any other form of open-end fund. The managers of such funds were forced to rapidly sell some of their loans and other assets at a time of collapsing liquidity.*

*Since March 2009, global capital markets have experienced a significant recovery but remain volatile. Private market assets have generally lagged the recovery in public markets as they are based on actual reported information, rather than market sentiment. The same was true in late 2008, when capital markets were falling rapidly but private market assets did not fall as hard, again being based on lagged earnings and asset price information.*

In addition, Spearpoint Limited ("Spearpoint"), the new investment adviser to the Cells, has published factsheets on the CISX which detail the underlying assets of each of the Cells and provide some further information regarding their decline in value. Should you wish to review these factsheets in further detail, we suggest that you refer to the CISX website ([www.cisx.com](http://www.cisx.com)) and consult your IFA.

As mentioned above, we are keen to obtain clarity with respect to the reasons for, and timing of, the fall in the value of the Cells. In particular, we are keen to understand whether the previously published NAVs of the Cells were accurate in the period prior to the suspension of the Fund. We have written to Arch and to the new boards of the Cells to seek further information about these issues and will keep shareholders informed of our findings. The new boards of the Cells share our desire to understand fully the reasons for the fall in the value of the Cells and have agreed to work closely with us to ensure that this is properly investigated. We will report on this to shareholders as soon as we are able.

As reported in our previous letters, an interim audit of the Cells as at 31 December 2008 is also being undertaken. The findings of this audit will assist in understanding whether the previously published NAVs for the Cells as at this date were accurately calculated and reported, and will also assist in the production of the 31 December 2008 annual report and accounts for the Fund. The interim audit work is not yet complete, but we understand that this is expected to be completed by 31 March 2010. We will keep shareholders informed of progress in this regard.

### **The future of the Cells**

In our letter of 7 December 2009 we informed shareholders that the directors of the Cells had appointed Spearpoint as investment adviser to the Cells, in place of Arch, with effect from 1 December 2009. We also informed shareholders that the composition of the boards of the Cells was also in the course of being changed. Three new directors were appointed to the boards of the Cells with effect from 31 December 2009, and the previous directors resigned with effect from either 31 December 2009 (in the case of one of the directors) or 28 January 2010 (in the case of the other two directors).

As explained to shareholders in our letter of 7 December 2009, the boards of the Cells were in agreement with us that the assets of the Cells should be managed by Spearpoint so as to achieve an orderly realisation of the assets, balancing the need to achieve a fair value for the investments against the need to generate liquidity for shareholders in the Cells. This required a change in the investment objectives of the Cells, which was subject to the approval of shareholders in the Cells.

Extraordinary General Meetings of the shareholders of the Cells were therefore held on 28 January 2010 to consider, amongst other things, proposals for the investment objectives of the Cells to be changed. We are pleased to report that the resolutions for the change in the investment objectives of the Cells were passed.

Spearpoint is, therefore, now mandated and has already commenced the orderly realisation process, under the supervision of the new boards of the Cells. We understand that Spearpoint is in regular dialogue with the boards of the Cells to keep them apprised of progress with the realisation process. The Cells have now published, on the CISX, information factsheets relating to the end of November 2009 and the end of December 2009. The Cells have advised that they intend to publish information factsheets relating to the end of January, February and March 2010, and thereafter they intend to publish factsheets every two months containing updated information regarding the value of the Cells and the progress being made with the orderly realisation process. Given the illiquid nature of some of the assets, this process is likely to take several years for some Cells (such as those invested in private equity), although for certain other Cells this process will be quicker assuming that there are normal market conditions. We will provide a link to these factsheets on our website.

### **The future of the Fund**

We explained in our letter of 7 December 2009 the reasons for concluding that the only feasible option for the Fund, in the best interests of shareholders as a whole, was for the Fund to be wound up, with the assets realised in an orderly manner.

CFML, acting as ACD to the Fund, therefore applied to the Financial Services Authority ("FSA") in December 2009 for approval of the commencement of termination of the Fund with effect from 1 February 2010. The FSA has now granted this approval, and the winding up of the Fund on an orderly realisation basis has commenced with effect from 1 February 2010.

The next step is for the assets of the Fund to be realised and distributed to shareholders. We explain the process for achieving this below.

### **Periodic payments to shareholders of the Fund ("distributions")**

#### First distribution – cash held within the Fund

We explained in our last letter to investors that, once the FSA had granted approval for the winding up of the Fund, we would take steps to make an interim distribution to shareholders of the cash held in the Fund. This cash is being returned to shareholders on a pro rata basis, in proportion to the size of each shareholder's investment in the Fund, and after deduction of any necessary expenses of the Fund (see 'Fees and charges' below).

We are making this first distribution as at 28 February 2010, and the same will be sent under separate cover. The amount payable per share is as follows:-

'A' accumulation shares – 16.40pence  
'B' accumulation shares – 16.48pence  
'C' accumulation shares – 16.44pence

This first payment will be made by cheque. Future distribution payments will be paid directly to your nominated bank account if we hold bank account details for you. If we do not hold bank details for you, cheques will continue to be sent to you. In order to streamline payment of future distributions, we would ask that all shareholders who have not already provided us with their bank details now do so. To this end your first distribution payment/notice will be accompanied by a 'Bank Account Payment Details' form and business reply envelope. Please complete this form and return it to us at your earliest possible convenience thus allowing all future distributions to be made electronically to your nominated bank account. Please also ensure that you inform us if your account details have changed or do change in the future.

We understand that as these distribution payments will be a return of capital they will be treated for tax purposes in the same manner as the encashment of units by investors. Please note, however, that we are unable to provide shareholders with tax advice regarding their investments in the Fund and the impact of the distributions. We therefore recommend that shareholders should contact their IFA or tax adviser for specific tax advice in relation to the implications of these distributions.

Please note that if you hold your investment in the Fund through an Individual Savings Account (“ISA”) and CFML is the plan manager for that ISA, we have written to you separately to ask you to confirm whether you wish to reinvest the distribution proceeds in another investment (in which case you will be required to provide details of the ISA plan manager responsible for managing such investment), or whether you wish instead to receive a cash payment (in which case you will cease to be entitled to the tax benefits associated with an ISA investment in respect of the cash payment you receive). Where you hold your investment in the Fund through an ISA managed by a third party ISA plan manager, we will be remitting the distribution to that third party plan manager, who should then contact you with a request to confirm how you wish this and future distribution payments to be dealt with.

#### Future distributions

The timetable for making future distributions, and the amount of those future distributions, is dependent on the progress made by Spearpoint and the boards of the Cells in realising the underlying assets of the Cells. As assets are realised by the Cells, the proceeds of the realisation will be returned periodically to shareholders in the Cells (including the Fund), for example through share buybacks. The Fund will in turn make distributions to its shareholders of these proceeds.

Because of the nature of the underlying assets of the Cells and the need to achieve a reasonable value for these assets, it may take up to five years to complete the winding up of the Fund. As explained above, Spearpoint and the Cells intend to publish information factsheets every two months containing updated information regarding the value of the Cells, the progress being made with the orderly realisation process and the likely timing of future distributions to shareholders in the Cells. We will use this information to provide shareholders in the Fund with further information regarding the likely timing of future distributions by the Fund to them.

We will provide a further update to investors in relation to the timing of the next distribution in our next investor letter, which we aim to issue by the end of March 2010. We will subsequently provide shareholders with further information on the orderly realisation and distribution process at least every six months. We will also send you a statement setting out the value of your individual holding(s) in the Fund every six months. If, however, there are material developments between these scheduled reports, we will of course report on these as they occur.

#### Future NAV information

We appreciate that shareholders will wish to remain apprised of the value of their investment in the Fund during the winding up process. As such, we intend to calculate the NAV of the Fund and the price of each share class on a monthly basis, although calculation of the NAV for the Fund will be dependent on the Cells publishing their NAVs in a timely manner. The Cells’ NAVs are typically published 6 weeks after the end of the month to which the NAV relates, and we will aim to publish the NAV at Fund level within 10 working days of the relevant NAVs for the Cells being published. This information will be published on our website.

#### Future report and accounts for the Fund

We have made proposals to the Depositary and the FSA as to how we will report to shareholders of the Fund during the realisation process. We will confirm the details of the reporting process in our next letter to investors, which we aim to issue by the end of March 2010.

### **Fees and charges**

#### The Fund

Given the circumstances, and consistent with what was reported to shareholders in our letter of 7 December 2009, CFML, the administrator, depositary and custodian have each agreed to continue to waive all fees in relation to the Fund, other than the following costs and expenses: audit fees, FSA periodic fees, custody transaction charges, printing and mailing costs associated with making distributions or issuing documents such as the Fund’s report and accounts.

## The Cells

A number of shareholders have asked for further information regarding the fees being charged at Cell level by Spearpoint as investment adviser to the Cells, following their appointment by the boards of the Cells. Attached to this letter is a table setting out the investment management and performance fees that the boards of the Cells have agreed to pay to Spearpoint with effect from 1 December 2009. The table includes, for comparison purposes, the fees previously payable to Arch as investment adviser to the Cells – as previously explained to shareholders, the fees payable to Spearpoint are either the same as or lower than those previously paid to Arch.

Those Cells that are wholly owned by the Fund, either alone or in conjunction with other CF Arch cru Funds, have now been delisted from the CISX in order to save listing costs.

## **Update on production of report and accounts for the Fund**

As we reported in our letter of 7 December 2009, the ability to finalise the audited report and accounts of the Fund for the year ended 31 December 2008 is dependent upon completion of the interim audit of the Cells as at 31 December 2008 by Moore Stephens. This interim audit work is still ongoing. We will publish the audited report and accounts for the Fund as soon as we are in a position to do so. Once we have agreed with the Depositary and the FSA the reporting requirements in respect of the Fund during the realisation process, we will advise shareholders as to what historic reports and accounts for the Fund, if any, will be produced.

## **Compensation review**

In our letter of 7 December 2009 we informed shareholders that we were assessing whether shareholders of the Fund have suffered detriment beyond that caused by the extreme economic conditions which impacted on markets from 2008 onwards and, if so, to what extent any of the parties involved should be responsible for compensating shareholders for any such detriment. The work in relation to this review is ongoing and we will provide a further update to investors in our next letter, which we aim to issue by the end of March 2010.

## **Hardship arrangements**

Our letter of 7 December 2009 also advised shareholders that we had established a hardship scheme to enable those shareholders who can demonstrate a pressing need to access their investments because of genuine financial hardship to have the value of some or all of their investment returned to them on an accelerated basis. Details of the eligibility criteria for making a claim under the scheme, the process for making a claim and how any claim will be handled were set out in the factsheet enclosed with that letter. This information is also available on our website.

Please note that the hardship scheme is not a compensation arrangement and any rights to seek compensation of shareholders who make a successful application to the scheme will not be affected by such application.

## **Contact details**

If you have any queries about the information in this letter, the hardship scheme or any other matter in relation to the Fund, please contact us by any of the following means:

Telephone: 0845 6080958 (CFML Technical Services)  
Email: cfarchcru@capitafinancial.com  
Post: Capita Financial Managers Limited, Technical Services, 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT

## **Conclusion**

Please be assured that the interests of investors remain of paramount importance to us and we will continue to provide investors with as much information as we can regarding the Fund in a regular and timely fashion.

We strongly recommend that you consult your IFA if you are unsure about the implications of this information for your investment in the Fund or your financial planning in general.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Chris Addenbrooke', written in a cursive style.

Chris Addenbrooke  
Chief Executive Officer  
Capita Financial Managers Limited

### SPEARPOINT FEES FOR CELLS

CELL NAME	ANNUAL MANAGEMENT CHARGE			PERFORMANCE FEE RATE		PERFORMANCE FEE HURDLE	
	Arch	Spearpoint	change	Arch	Spearpoint	Arch	Spearpoint
SPL Private Equity (PE1) IC Limited	1.25%	1.25%	-	n/a	n/a	n/a	n/a
SPL Parallel Private Equity (PE2) IC Limited	1.00%	1.00%	-	n/a	n/a	n/a	n/a
SPL Parallel Private Equity (PE2) IC Limited	1.00%	1.00%	-	n/a	n/a	n/a	n/a
SPL Integrated Finance (PE3) IC Limited	1.50%	1.50%	-	10%	10%	*	*
SPL Private Markets Focus (PE4) IC Limited	1.50%	1.50%	-	10%	10%	*	*
Arch Africa Private Markets Focus IC Limited	2.00%	1.50%	-0.50%	20%	20%	7%	7%
Africa Invest IC Limited	1.50%	1.50%	-	15%	15%	0%	0%
Africa Protect IC Limited	0.50%	0.50%	-	n/a	n/a	n/a	n/a
SPL Private Finance (PF1) IC Limited	1.25%	1.25%	-	10%	10%	*	*
Arch Private Finance IC Limited (PF2£)	1.00%	1.00%	-	10%	10%	*	*

CELL NAME	ANNUAL MANAGEMENT CHARGE			PERFORMANCE FEE RATE		PERFORMANCE FEE HURDLE	
	Arch	Spearpoint	change	Arch	Spearpoint	Arch	Spearpoint
Arch Private Finance IC Limited (PF2€)	1.00%	1.00%	-	10%	10%	#	#
SPL Finance Opportunities (PF3) IC Limited	1.00%	1.00%	-	10%	10%	*	*
SPL Structured Finance (PF4) IC Limited	1.50%	1.50%	-	10%	10%	*	*
SPL ARL Private Finance (PF5) IC Limited	1.50%	1.50%	-	10%	10%	0%	0%
SPL Secured Venture Finance (PF6) IC Limited	1.50%	1.50%	-	20%	20%	7%	7%
SPL Sustainable Opportunities (SO1) IC Limited	1.75%	1.50%	-0.25%	20%	20%	*	*
SPL Sustainable Opportunities (SO2) IC Limited	1.50%	1.50%	-	20%	20%	*	*
SPL Sustainable Finance (SO3) IC Limited	1.50%	1.50%	-	20%	20%	*	*
SPL China AME Energy (NR1) IC Limited	2.00%	0.50%	-1.50%	20%	20%	0%	0%
SPL Fine Wine (NR2) IC Limited	2.00%	1.50%	-0.50%	20%	20%	0%	0%

CELL NAME	ANNUAL MANAGEMENT CHARGE			PERFORMANCE FEE RATE		PERFORMANCE FEE HURDLE	
	Arch	Spearpoint	change	Arch	Spearpoint	Arch	Spearpoint
SPL Global Forestry (NR3) IC Limited	2.00%	1.50%	-0.50%	20%	20%	7%	7%
SPL Real Estate (RE1) IC Limited	2.00%	1.50%	-0.50%	30%	30%	7%	7%
SPL Real Estate (RE2) IC Limited	2.00%	1.50%	-0.50%	30%	30%	7%	7%
SPL Real Estate Finance (RE3) IC Limited	2.00%	1.50%	-0.50%	20%	20%	7%	7%
SPL BMS Private Equity (BM2) IC Limited	1.00%	1.00%	-	10%	10%	7%	7%

Note with respect to symbols in column titled "Performance Fee Hurdle":

\* means 3mth GBP Libor + 4%

# means 3mth EUR Libor + 4%