ARCH Financial Products LLP
90 Long Acre, Covent Garden
London, WC2E 9RA
Telephone: +44 (0)20 7759 1500
Facsimile: +44 (0)20 7759 1501
Email: info@archfunds.com
Website: www.archfunds.com

Statement to Investor Committee

5 May 2009

Since the suspension of the CF ARCH cru Funds ("Funds"), ARCH Financial Products ("ARCH") has made the best interests of its investors its absolute priority. In this respect, the views of ARCH and the Investor Committee are aligned.

We understand that many of you have been frustrated by the lack of communication around the suspension of the Funds. Firstly, we would like to say that we have been listening, but in many instances legal and regulatory restrictions have prevented us from disclosing details. However, we appreciate that you, as representatives of the investors in the Funds, deserve answers to some of the questions you have been asking. We are committed to provide as much information as we can. To this end, we have provided the enclosed update.

Within it, ARCH has set out a summary of its core investment strategy, some of the reasons for the liquidity shortage that triggered the suspension, and its proposed plans for the future. There is also a section entitled "Frequently Asked Questions", in which we have attempted to address the questions that you have asked.

Both the Authorised Corporate Director (Capita Financial Managers) of the Funds and ARCH continue to evaluate all possible options to optimise the position of shareholders in the Funds. As we mentioned at the last meeting of the Investor Committee, the thoroughness with which this review is being undertaken makes it a lengthy process. It will take time, but will ensure that investors are provided with the most comprehensive information about the Funds that we are permitted to provide. We therefore ask for your patience while it is completed.

We would like to once again reinforce to all of you that finding a solution to the suspension of these Funds is our highest priority. Everyone at ARCH has worked, and will continue to work, tirelessly to find a solution that best serves our investors.

ARCH Financial Products

Registered as a limited liability partnership in England (number OC 310177). Registered Office: 90 Long Acre, Covent Garden, London, WC2E 9RA
Authorised and regulated by the UK Financial Services Authority (FSA number 417495). VAT registration number: 888 5271 67

Investor Committee Update

Section One: Investment Outlook

CONTENTS

Page No.	Section
1	**Section One:** Investment Outlook
5	**Section Two:** ARCH recognise the need for greater transparency
6	**Section Three:** Frequently Asked Questions

To recap on our investment allocation philosophy, we set out our stall back in 2006 as a diversified multi-asset investment manager, seeking to make 'absolute returns' greater than cash over the medium-term. Our investment mantra is to 'make money every year' which in 2006, 2007 and 2008 we accomplished. The principal reason for this is that we recognised that listed securities markets had become excessively risky, following years of 'structural leverage' in the form of low interest rates, capital markets growth, asset pricing bubbles, banking leverage and so on.

For many years great fortunes were being made on the back of a huge speculative boom in real estate, equities, commodities and capital markets in general. Our recent Annual Review (available for download on www.archfunds.com) brings many of these points into focus, comparing modern-day investment behaviour with 'investment navigation' and bubble periods of the past.

Consequently, we set out with a fresh approach focusing on 'real assets' and private market investment at the start of 2007. Our strategy had three main focuses, with private finance being the largest by exposure:

1. **Private Finance** – lending against hard assets, cash flow receivables and other forms of tangible value, as opposed to value based upon a market's assessment of value, which as we all know can be highly changeable.

2. **Private Equity** – diversified investment into mid-market European private equity, with much less inherent leverage than the high profile leveraged buyout deals followed by most.

3. **Real Assets** – investment into less market-correlated assets and often following alternative investment themes, such as climate change, demographics, sustainability, residential real estate and student accommodation, as well as smaller exposures to specialist assets such as forestry, energy and wine.

A strategic asset allocation overlay is employed to keep the portfolio aligned with economic and market cycles, and to avoid the static nature of many competing products. Liquidity permitting, investments would therefore increasingly be made in 'traditional' asset classes (e.g. equities, bonds, commodities, property) once we feel genuine value exists (without excessive risk).

Following this strategy, through 2007 and 2008 we emerged as one of the better performing fund managers. We are now however, affected by the availability of capital (new capital or through the sale of existing assets) needed to implement strategic changes at the present time. This brings us on to liquidity.

ARCH Financial Products LLP

Liquidity Risks Everywhere

In late 2008 we witnessed a systemic collapse of the global banking system, something not seen for decades. Alongside this we have subsequently seen the unwinding of asset pricing bubbles and a collapse in international trade. These events have been of such large magnitude that it is almost impossible for any trading firm or investment manager not to be significantly affected. As a consequence, trading firms have been unable to refinance assets, something that would have been a routine exercise not so long ago. Thus their capital has become increasingly tied up in assets and they have become less able to maintain levels of turnover and profitability.

Trading firms have also been unable to raise letters of credit, necessary for the financing of significant value transactions in international trade. This has had knock-on effects throughout most global economies. The so-called 'smart money' in the form of hedge funds, private equity funds and similar types of investors, has been heavily affected. Whilst many have continued access to a stable supply of capital, some have become over-levered by default, whilst many others have had to suspend redemptions.

"We remain optimistic as to the long-term performance of our portfolios and have put forward restructure plans for those funds that will not require the unnecessary 'fire-sale' of assets..."

The 'institutional money' has also suffered greatly, with episodes of mass redemptions, portfolio losses (especially equity portfolios) and de-leveraging. A similar experience has occurred within the mutual funds industry, with some funds suffering from portfolio losses and the more pernicious negative equity on leverage, whilst others have been hit by large levels of redemptions and a need to sell assets 'at any price' to generate liquidity.

Liquidity in the Funds

For our part, we have not unexpectedly also suffered some redemptions and portfolio losses, although we have avoided de-leveraging having set up many of our investment funds as unlevered closed-end funds. As a result and despite our best efforts, the ARCH cru UK Funds ("the Funds") were suspended on 13 March 2009 as a protective measure in the best interests of investors, following a large number of redemptions from the CF ARCH cru Investment Portfolio.

The Funds were conceived as investing into precisely that combination of liquid and illiquid assets, designed to offer genuine diversification, choice and risk-adjusted return. They have become less liquid not by fundamental design, but as a result of the systemic collapse of the global banking system, and related events such as the dry-up in issuance of letters of credit (and subsequent collapse in international trade volumes).

We remain optimistic as to the long-term performance of our portfolios and have put forward restructure plans for these funds that will not require the unnecessary 'fire-sale' of assets at knock-down prices to satisfy departing investors at the expense of existing investors.

Restructure Plans

The development of restructure plans is ongoing and necessarily involves a number of third parties. Restructuring plans must address several important aspects:

- **Liquidity for departing investors** – investors that wish to exit need to receive an appropriate amount of cash upon redemption of shares.
- **Fair treatment of all investors** – the exit of departing investors needs to be accommodated, but must be accomplished in a way that does not disadvantage those investors that wish to remain invested. It needs to be borne in mind that equity amongst investors far outweighs liquidity generation as a priority at this time.
- **Robust structuring** – the restructure needs to be a viable solution for all the different types of investors in, and product types linked to, the Funds. It must also be approved through an orderly process in conjunction with the Authorised Corporate Director, the Fund Depositaries, external advisers retained to provide expert counsel on legal, accounting, regulatory and product structure issues, as well as the regulators.
- **Investor communications** - Any information as to options, timescales or other details must be substantive in content and established as fully viable prior to release. Otherwise investor expectations may be raised unnecessarily.

ARCH Financial Products LLP

Liquidity

The current economic backdrop offers a strong opportunity for those investors who have the capital base and the appetite to commit capital over the next period of risk. Distressed opportunities abound and the effective price being paid to obtain liquidity has risen dramatically in many circumstances (see Figure 1 on page 4).

Whilst the world struggles with the current problems, financial markets remain in a state of extremity. Markets are thin and mainstream investment capital is in very short supply. Many market and industry participants and small to mid-sized businesses need to generate liquidity which can make them indiscriminate, distressed or forced sellers. This puts them at the mercy of incoming investors and lenders, especially those businesses that are cashflow negative or leveraged.

"Investors today seem to have an over-concentration to investments that are too liquid and therefore prone to the ongoing risks of short-term market sentiment."

Matching fund liquidity terms to the realities of investment

This is a generic issue affecting the entire financial services industry. The financial sector has given investors, over the years, increasingly more flexibility and liquidity. As competition has intensified we have seen standardisation of daily or instant liquidity product offerings and a consequent dearth of innovation. It could be argued that, at long last, the modern 'easy to access' phenomenon has been discredited in terms of meeting investor performance expectations.

Consider that in the last century, long-term investment was far more prevalent and the concept of market liquidity was also quite different to that of today. A medium-to-long term investment was typically required for the most fundamental of reasons – investments take time to mature and create value. At portfolio level investors should also have a range of investments and holding periods, so that liquidity is matched to their long-term requirements. Investors today seem to have an over-concentration to investments that are too liquid and therefore prone to the ongoing risks of short-term market sentiment. This over-concentration appears to us to be a direct result of the disconnect between the investment products on offer, and what investors (and investee companies) truly require. Thus towards the end of each business cycle, it appears, investors are prone to lose substantial amounts of capital as markets sell off and market liquidity evaporates.

It would appear that no open-ended fund in today's investment world can be immune to the triple risk combination of lower performance, lower liquidity and redemption risk:

- **Lower Performance** - No fund is immune to the current economic downturn, unless it is extremely fortunate.
- **Lower Liquidity** - A systemic global banking-induced phenomenon, liquidity has dried up at underlying asset level, as corporate, financial and household sector balance sheets have come under massive duress.
- **Redemption Risk** - Whilst the asset management world suffers liquidity stresses, investors who have the 'free' option to sell will generally do so in bear markets and especially so during extreme times like these.

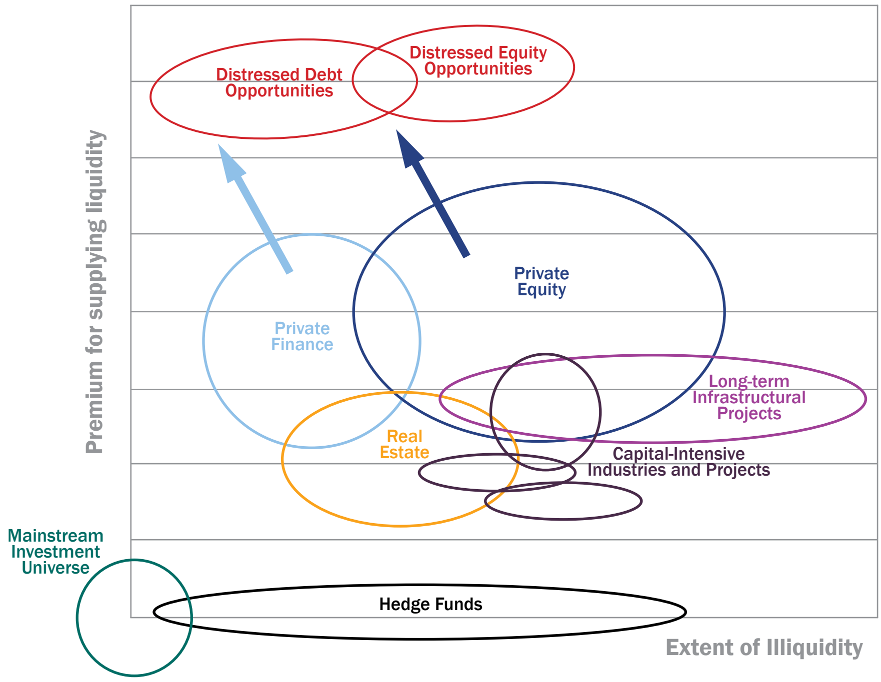
The Investor Product Menu

It is therefore a point of fundamental principle, in our view, that investors are given a product menu that includes liquid but also less liquid investment holdings, as part of a portfolio that is diversified with respect to not just securities / asset price risk, but also with respect to the holding period. In general less liquid assets are influenced less by market sentiment and so are less volatile.

- The liquid part of investor menus has led to massive wealth destruction and has been highly correlated (and therefore not diversified) in the process.
- The illiquid part of investor menus has some in-built safety net to it, and it could be argued superior performance over time, but is often off-the-menu of modern product providers.

Once a cycle, investors that are only invested in liquid assets miss out on the substantial premia for supplying capital to less liquid investment situations (and suffer from the contagion that is market sentiment).

Figure 1: Extracting a Premium for Liquidity
Investment Universe - Liquidity Dimension



Source: ARCH Financial Products, Bloomberg

Conclusion

'Short-termism' is prevalent not just in markets, but also in the actions of all market participants, from investment managers, to product providers, to traders, investors, regulators and industry commentators.

In the same vein, 'liquidity problems' may be indicative of management at the current time which is good for the health of the many, rather than for the benefit of the few who wish to exit. This is in the best interest of investors.

As highlighted above, if no open-ended fund can be immune to performance, liquidity and redemption risks, then this must surely be heard and acted upon by market participants and regulators. Perhaps it is the system that needs changing, so that there can be better take-up of funds that do not offer daily or instant liquidity, and that investor choice becomes much less polarised.

In this way investors and market participants may begin to benefit from a more stable financial system that does not excessively focus on short-term sentiment, needs or investment behaviour, or restrict access to alternative products that may better meet long-term investor expectations.

The financial system must be supportive of longer holding periods as a matter of course, as 'liquidity contagion' is a major contributor to financial crises. We refer the reader to our *Annual Review* (see page 6 for document download details) which contains an extensive section on Economic Cycles and Bubbles, financial crises and some of the root causes of them.

Section Two: ARCH recognise the need for greater transparency

USEFUL LINKS

ARCH Financial Products
www.archfunds.com

Bordeaux Services (Guernsey)
www.bordeauxservices.com

Capita Financial Managers
www.capitafinancial.co.uk

Channel Islands Stock Exhange
www.cisx.com

cru Investment Management
www.cruim.com

Winterflood Securities
www.wins.co.uk

One of the pieces of feedback that investors reflect back to us is a desire for greater transparency, at a time when all investment managers are also being pressed for far greater visibility than ever before.

No doubt this pressing need is a response to some of the high-profile alleged frauds perpetuated elsewhere in the finance industry. On many levels, this response by investors is fully acknowledged and understood and we have embarked on a programme to consistently improve the information available to all investors.

Investors in all of the ARCH funds are already privy to a healthy range of information. We produce a regular monthly report which is often 40 pages in length and provides investors with a good deal of insight into our funds; how the different funds and strategies are performing, what the main drivers of performance have been, what are some of the main investment themes, etc. All of our funds have individual factsheets providing much of the critical information needed to keep updated on an investment.

Both the monthly report and the factsheets are available on the ARCH website. Cru Investment Management, the distributors for the UK Funds, also publish monthly fund factsheets which are distributed to all supporting IFAs. Capita Financial Managers, the Authorised Corporate Director for the Funds, produce semi-annual and annual reports on each of the UK onshore Funds detailing performance, holdings and a detailed set of accounts. Again, these documents are available for download on the ARCH website.

For the Guernsey cell companies which these UK Funds invest in, the Channel Islands Stock Exchange (CISX) website publishes information on the monthly net asset value (NAV) and the daily mid-market price of each of these companies. The monthly NAVs of the Guernsey companies are calculated independently by Bordeaux Services (Guernsey) who acts as the Administrator for the companies. The daily mid-market price is supplied to the CISX by the independent market-maker for the funds, Winterflood Securities. Moore Stephens audit each of the Guernsey cell companies on an annual basis.

From this month, each of our monthly reports will disclose the significant holdings for each of the Guernsey cells. This information is also accessible on the CISX website. The March monthly report also includes investment focus pieces for selected investment areas, namely shipping, private equity and real estate. Each of the Guernsey companies is also in the process of setting up a dedicated website to aid the dissemination of information about the company. The website will feature strategy allocations, significant holdings, distribution of returns, geographical exposures, scheme particulars and factsheets for each investment company.

Section Three: Frequently Asked Questions

Since the suspension of the funds on 13 March 2009, investors have rightly sought answers to a number of different questions. In this section, we have attempted to provide answers to these questions. As you can see below, the questions have been divided into various sections to cover each of the themes around the suspension.

Fund Suspension

1. Why have you had to suspend redemptions?

Suspension of a fund occurs when redemptions cannot be met in a timely manner. The CF ARCH cru Investment Portfolio fell into this category. In close consultation with Capita Financial Managers, the Authorised Corporate Director (ACD) for the Funds, and the depositaries for the Funds, the decision was taken to suspend all of the CF ARCH cru Funds on 13 March 2009.

In early April 2009, the ACD informed investors that the suspension would be extended to "at least the end of May 2009." At the same time, the ACD assured investors that they were in the process of conducting a detailed review of the assets of the Funds, conducting a detailed assessment of the liquidity of the underlying assets of the Funds and considering options for optimising the position of investors in the Funds.

2. Why have all the UK Funds been suspended?

Once it was decided to suspend the CF ARCH cru Investment Portfolio, it was felt that it would be best to suspend all of the other Funds as well, in order to best serve investors interests. This decision was taken by the ACD of the Funds, and the depositaries for the Funds.

3. What percentage of investors wish to redeem?

cru Investment Management has informed us that over 200 IFAs have provided them with information on how they would prefer the situation to be resolved. According to this information, of the assets under advice by respondents, 90% support a mid to long term "lock in" which would enable fair values of underlying assets to be realised with the balance being needed for those clients wanting to redeem or requiring income.

4. When do you foresee having sufficient cash to pay redemptions or re-open the Funds? What are the next steps you will take during the suspension period?

Re-opening the Funds or any kind of fund restructure to allow redemptions to occur can only be done by the ACD with the approval of the Depositaries. Active discussions to decide the appropriate course of action are taking place between ARCH, the ACD and the Depositaries. The ACD will update shareholders on any proposal once there is news on the outcome of these discussions.

Platforms

5. What caused Fidelity and Cofunds to withdraw / suspend the ARCH cru Fund range?

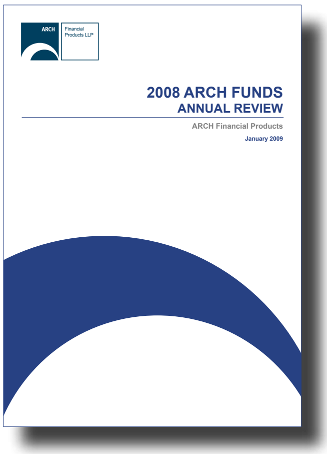
Fidelity said that the Funds were withdrawn for commercial reasons. Since making the Funds available on Fidelity Funds Network in December 2008, a little over £700,000 has been invested into the Funds, which is insufficient to cover the costs involved.

Cofunds closed the Funds to further investment on 9 March 2009. Cofunds stated that they had concerns about the late filing of the March 2008 accounts for the underlying cells on the CISX in September 2008.

6. Why were the March 2008 reports filed late, and is this an ongoing issue?

Moore Stephens audit the underlying cell companies on an annual basis. This was the first time that annual accounts for the cells had been produced and audited and we understand that these were the first incorporated cell companies to be listed on the Channel Islands Stock Exchange. As such there was a lot of work involved in setting up suitable accounting templates and audit processes as well as the need to clarify the legislation with regard to the production of accounts and

ARCH ANNUAL REVIEW 2008



The 2008 ARCH Funds Annual Review includes Market Commentary and Outlook, Investment Strategies for 2009 and a special feature on Economic Cycles and Bubbles. The Review is available for download at www.archfunds.com.

appropriate accounting treatment for the cells. Unfortunately this led to a delay in the publication of the audited accounts and a request by the directors for a one-month extension to the deadline which was duly granted by the CISX.

The audited accounts were lodged with the Channel Islands Stock Exchange between October and November 2008. It is important to recognise that the preparation and audit of the accounts is the responsibility of the directors of the cells, the administrators and auditors and not with, the investment manager. All of the cells received an unqualified sign off from the auditors.

7. Did the actions of FundsNetwork and Cofunds have any impact on your decision to suspend the Funds?

No. The Funds were suspended for the reasons set out in Questions 1 and 2.

8. Did the announcement of the funds withdrawal / suspension from the platforms cause a rush of redemptions?

We cannot ascertain the impact of the actions of the platforms on the Funds as investors do not provide their reasons when redeeming.

9. Was the flow into the Funds from the platforms so great that their removal caused liquidity difficulties?

Investments from Fidelity Funds Network stood at approximately £700,000 and Cofunds around £3,700,000 at the time they took the decision to close access. This represents around 1% of total assets in the ARCH cru Fund range.

Transparency and Reporting

10. You have been accused of not having enough transparency around the valuation and reporting of the Funds? How would you respond to this?

The Funds comply with all legal and regulatory requirements for Non-UCITS retail schemes, including the daily publication of net asset value and the availability of semi-annual accounts and annual audited accounts to investors. The underlying assets of the Funds are available from a number of online sources. In addition ARCH provides a monthly update on the funds.

With regard to the Guernsey cell companies in which the Funds invest, again the cells must comply with all the legal and regulatory requirements of Guernsey law and the Channel Islands Stock Exchange rules. Scheme particulars, annual audited accounts and semi-annual statements are made available to investors. We understand that valuations are carried out in accordance with the terms of the Scheme Particulars and best practice for each particular asset class and verified through the audit process.

We recognise the need for as much transparency as possible at times like these and we have been steadily improving the suite of information available – see Section Two on page 5. It should be noted by investors however, that too much disclosure may be detrimental to the investment objectives – for example if we are lending at a high interest rate to borrowers who could get a better rate around the corner, it would hurt the Fund if such borrowers were approached by other lenders.

11. Have you done all that you can to protect investor's interests, both during and before the suspensions period?

Our highest priority is to work in the best interests of investors and we continue to do so.

12. Do you value your own funds or is there an independent valuer?

The Funds are independently valued by Capita Financial Managers, the ACD for the funds. The cell companies are independently valued by Bordeaux Services (Guernsey).

13. You missed a number of NAV filing deadlines. What caused this? What steps have been taken to rectify it? Has it happened since?

See Question 6. All reporting deadlines have been met since. Further to this, there is usually a significant delay experienced in the process of assessing the value of underling investments in private equity and other investments into private markets. Any valuation exercise needs to recognise this constraint. The Guernsey cell companies get exposure to private equity through a number of different routes, including investing in private equity and other specialist funds, limited partnerships and in some instances, directly into private equity backed companies.

The valuation process requires underlying companies to give their accounts to the investee fund or private equity partnership, which has to compile them, create a valuation and then give it to the Guernsey cell company for incorporation into the final Net Asset Value (NAV) calculation. Furthermore, each investee company and fund has its own year-end, audit cycle and valuation points, which further delays production of a final NAV for the Guernsey cell companies.

14. What level of detail do you give to your investors when reporting?

See Question 10. Full audited accounts and half yearly statements are available which meet all the legal and regulatory reporting requirements.

Offshore funds

15. What caused the value of your offshore Funds to fall in the period leading up to the suspension of your retail Funds in March?

This refers to the share price and not the underlying net asset value of the Funds. The share price is determined by market supply and demand for those shares.

Fund Information and Performance

16. What is the AUM of the Funds that have been suspended?

£352m as of 13 March 2009.

17. Have you seen valuations in suspended Funds fall?

With all traditional and non-traditional asset classes under assault over recent months, valuations have been under some downward pressure, especially bearing in mind the inevitable valuation delay discussed in Question 13.

18. Can you please address speculation in the media about the safety of our assets? How can you give us comfort that the assets are real?

All assets are fully accounted for. Investors can derive comfort from the many respected firms involved in the operation of the Funds. Each of the parties is independent and plays a specific role to protect investor's interests. Supplementing ARCH's efforts as investment manager, the Funds and Guernsey cell companies each have independent administrators, custodians, auditors, and legal counsel. The details for each of these counterparties are listed in the Supplemental Scheme Particulars for each Guernsey cell, available on the CISX website.

The specific assets at Guernsey cell level are, where possible, lodged with a security trustee. Where Guernsey cell companies invest into other funds, precaution has been taken to ensure those funds also have a full panel of independent and expert firms ensuring due process and valuation of assets.

19. Where do you see opportunity going forward?

While our main priority must be ensuring the future of the Funds and generating liquidity for investors, we see the current environment as a tremendous opportunity to invest in areas such as private equity, private finance and distressed assets.

20. Who audits the Funds?

Ernst & Young.

21. Who are the Funds' Custodians?

BNY Mellon Trust & Depository (UK) Limited are the Custodian's for the CF ARCH cru Investment Portfolio and CF ARCH cru Specialist Portfolio, and HSBC Bank plc for the CF ARCH cru Income Fund, CF ARCH cru Balanced Fund CF ARCH cru Finance Fund and CF ARCH cru Global Growth Fund.

Disclaimer

Distributed by ARCH Financial Products LLP, 90 Long Acre, Covent Garden, London WC2E 9RA.
Authorised and regulated by the UK Financial Services Authority (reference number 417495).
This update is for professional advisers only and may not be relied upon by retail investors.

This document does not constitute an offer, or a solicitation of an offer, of securities, and no securities are to be offered or sold, in the United Kingdom other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses, or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services and Markets Act 2000 (as amended).

Unless otherwise stated, the source of all figures contained herein is ARCH Financial Products. Past performance of investments is not a guide to future performance. This report does not constitute advice or a recommendation to enter into any transaction. Whilst all reasonable care has been taken in preparing this report, the information contained herein has been obtained from several sources that we consider reliable but we do not represent that it is complete or accurate and it should not be relied upon as such. Neither ARCH, nor any partner or employee shall be in any way responsible for its content. Partners and employees of ARCH may have a position or holding in any of the above investments or in a related investment. Any decision to purchase or sell securities should be made based solely on the information contained in the fund's offering memorandum. ARCH does not provide investment advice to clients or potential investors. Errors and omissions excepted. This report is valid as of May 2009. Doc ID 0905051401.