The Connaught Income Fund, Series 3

Asset Manager's Quarterly Report – 31 March 2012

Welcome to The Connaught Income Fund, Series 3, 7th Quarterly Asset Manager's report. Quarterly reports will be distributed by the Operator directly to IFAs as well as being available on our website for downloading. We would welcome any further comment you may have on how we may improve communications.

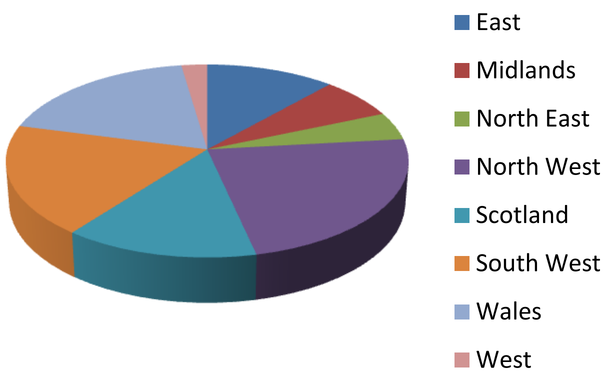
Investment Strategy	To invest in short term loans through our Specialist Partner, UK Acorn Farm Finance Limited, secured by a subordinated legal charge, registered at the Land Registries in England, Wales and Scotland, on a restricted range of real estate as set out in the Information Memorandum; with a target maximum average loan to value of 65%.
Investment Objective	A fixed rate of return of between 8.5% and 9.0% per annum (dependent upon an individual investors unit holding) paid quarterly in arrears. For investors in the LP the income will be paid gross and for investors in the EUT the income will be paid net of 20% withholding tax (tax certificates will be provided to facilitate reclaiming the tax).
Launch Date/Life	Launched on the 7th July 2010, the Fund is an open ended vehicle and may be closed by the Investment Manager to new investment at any time and terminated by the Investment Manager giving not less than six months' notice to Holders.
Distributions to Date	The income distribution was paid, or reinvested where this option has been selected by the investor, within 21 days of 3rd April 2012 (the first business day in January 2012)
Date of next distribution	Within 21 days of 2nd July 2012 (the first business day in July 2012).
General Market Commentary	Despite the UK and global economic recession, English farmland's recent performance as an investment is still robust according to Knight Frank, the leading land agents (Knight Frank Rural Bulletin Spring 2012 – knightfrank.co.uk/rural). According to the Knight Frank Farmland Index there was an average annual growth rate of 4% in land values, with average prices at £6,050 an acre, or treble the prices being achieved 10 years ago. Clive Hopkins, Head of Knight Frank's Farms & Estates Sales team suggests in the same bulletin that values will rise by 7% to 10% in the first half of 2012. Scottish farmland, of which we do have some exposure in the Fund, is reported by Knight Frank as showing an average growth rate of 7% in 2011. One factor in this continuing strong growth is the growing interest from investors, as distinct from farmers seeking new land or expansion, and farms and farmland is becoming a more well-known and popular asset class for investment purposes; again, according to Knight Frank. The value of the securities offered for the Acorn loans we finance and the ability of the borrowers to exit at the end of the term is dependent upon the market sentiments expressed above and I have every confidence in the quality and performance of the assets in the Series 3 Fund. .

Investment Inflow for the Quarter to 31 March 2012	£ 3,124,132.68 (includes reinvested income and commission from 31/12/2011, but excludes reinvested amounts from 31/03/2012)
Redemptions of investment holdings in the Quarter to 31 March 2012	£3,128,649.64
Gross fund value at 31 March 2012	£30,327,797.58
Loans financed in the quarter to 31 March 2012	Number: 1 Value: £934,183.03
Loans redeemed in the quarter to 31 March 2012	Number:1 Value: £845,000.00
Loan book at 31 March 2012	Number:43 Value £28,171,306.98
Liquidity at 31 March 2012	£2,156,490.60
Loans in default as at March 2012	LPA Receivers are working with the specialist partner and the borrowers in respect of five loans. Properties will be marketed for sale and any failing to sell in a reasonable period will be set for auction so the default period for a loan is minimised. All loans are expected to be repaid in full. In addition to two redeemed loans this quarter, two additional loans with a value of £2.6m have either already been sold at auction or exchanged for completion and there are a further 5 more redeeming loans agreed to complete before the end of May. The Specialist Partner has also been successful in attracting new funding lines to their business with a further three expected to be confirmed during the next quarter.
Loan book average LTV	56.18%

Geographical Spread By Number

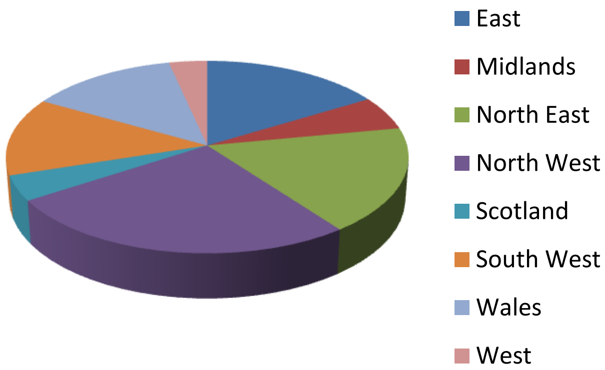
Area	Number	Percentage
East	5	11.63%
Midlands	3	6.98%
North East	2	4.65%
North West	10	23.26%
Scotland	6	13.95%
South West	8	18.60%
Wales	8	18.60%
West	1	2.33%

Geographical spread by number



Geographical Spread By Value	Area	Total Loan Value Millions	Percentage
	East	£4.60	16.34%
	Midlands	£1.60	5.68%
	North East	£5.00	17.76%
	North West	£7.34	26.07%
	Scotland	£1.19	4.22%
	South West	£3.70	13.13%
	Wales	£3.76	13.36%
	West	£0.98	3.44%
	Total	**£28.17**	**100%**

Geographical spread by Value



Loan book commentary	UK Acorn Farm Finance Limited continued to utilise all the funds available in the quarter, except for the liquidity we retain for prudential fund management purposes. Indeed, it is clear that there is a growing demand for their farm finance products and a greater appetite from them for further funds.
Accounts	The first year end for the Fund is the 31 October 2011 and the audited accounts are attached.

Likelihood of Equity Loss	Low, subject to the maintenance of the target loans to value and loan terms set out in the Information Memorandum. The potential for loss will also remain low where there is a regular redemption of loans and re-lending based on up to date independent valuations of the new security properties.
Likelihood of achieving Investment Objective	The investment returns in this fund are fixed and pre-funded by the Specialist Partner.
Key Risks	The principal risk arises from borrowers defaulting on loans and the security having to be realised at a loss against the debt outstanding. However, the Guarantee provided by the Specialist Partner covers the Fund against such losses and the Fund itself mitigates this risk by maintaining the target maximum LTV. The risks described in the Information Memorandum should not be considered to be an exhaustive list of the risks which potential investors should consider before investing in the Fund. From the above risk arises the secondary risk, the inability of the Specialist Partner to meet the terms of the Guarantee, in particular should it go into some form of administration. In this case the Fund would exercise its subordinated loan charges and would use its Consumer Credit Licenced subsidiary, Connaught Administration Services Limited, to take over the loan assets and manage them for the benefit of the Fund.

Mike Davies
Chairman
Connaught Asset Management Limited
March 2012