



KHG DIVERSIFIED INCOME FUND

Investment Objectives

The objective of the KHG Diversified Income Fund is to provide investors with a return in excess of long-term money market deposits, whilst aiming to preserve underlying investment capital. The initial distributive yield target is between 4% and 5% per annum.

The Income Funds investment philosophy is based heavily on the active allocation of assets; this will involve combining different complementing assets in a bid to reduce the overall fund volatility and therefore maximise the funds yield and return profile.

Whilst the fund will be primarily invested into cash and high quality short and medium term debt instruments including Index Linked bonds, it retains the flexibility to take a limited exposure to equity markets (Capped at 40%). This flexibility will allow the fund to protect itself in periods of interest rate cycle change.

Investment Commentary 31st January 2012

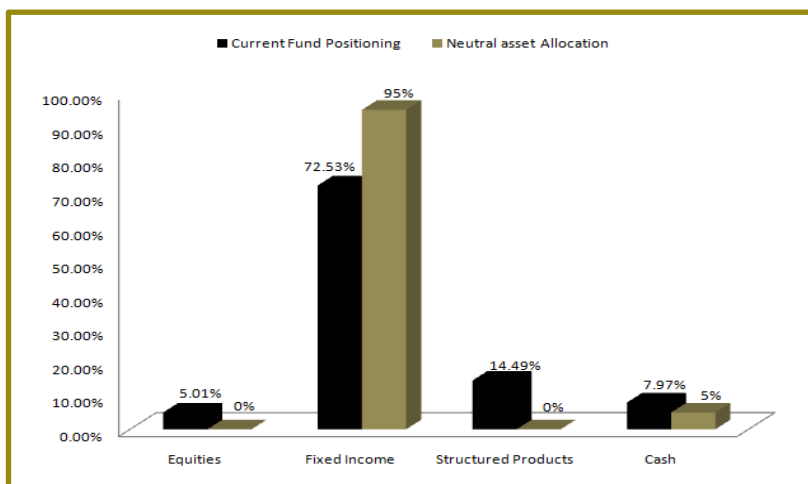
January delivered a reminder that there are two parts to each investment decisions - fundamentals and timing. It is fair to say that although the exposure to financial names within the Fund was fundamentally sound the market sentiment that prevailed for the 2nd half of 2011 ensured that such exposures was detrimental to the performance when compared to government securities. However, such fear masked the embedded value that was available in such securities and as such the Investment Managers held firm to their fundamental view.

In January the element of fear was partially removed and as such this value has become apparent with significant price movement in selective assets. This move has had a beneficial impact of the capital value of the Fund but there remains significant scope for further price appreciation.

The challenges to the market remain and as such further volatility cannot be ruled out but the path for long term returns is much clearer and the Fund is well placed to participate. In the meantime the dividend strategy is well underpinned providing a high level of income while the longer term growth is delivered.

It is pleasing to note the growth of the Fund as new investors are introduced following the completion of the first 12 months performance and it is a timely point to thank all investors for their support and look forward to delivering strong returns in 2012.

Fund Asset Allocation



Investment Manager

Creechurch Capital Limited

Fund Structure

IOM Regulated Fund

ISIN

IM00B40SV641

Dealing Dates

Weekly

(3 clear business days notice)

Dividends

All income will be distributed quarterly

Price*

£0.954507

Total Dividends Distributed

2011 - 3.75p

2010 - 0

Fund Size**

£8.94m

Minimum Investment

£10k, additional subscriptions £1k

Initial Charge

Maximum 5%

Annual Investment Management Charge

1%

Contact Details

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Top 5 Holdings***

	Allocation
Friends Life Group PLC	7%
Santander UK PLC	6%
Muzinich Short Duration High Yield Fund	5%
Old Mutual PLC	5%
Prestige Alternative Finance Fund Ltd	5%

Portfolio Management

Creechurch Capital is the Investment Manager of the KHG Diversified Income Fund. Creechurch Capital is an independent, privately owned investment house, managing both institutional and private client investment mandates.

At Creechurch Capital, portfolio decisions are made collectively by the experienced Investment strategy team. With this robust and proven process they avoid cultivating a “star manager” culture. Utilising this cross-coverage of asset classes also increases objectivity and reduces reliance on any one individual.



Investment Manager

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Isle of Man

Promoter

Creechurch Capital Limited
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Douglas
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Manager

SMP Fund Services Limited
Clinch's House, Lord Street
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Isle of Man

Custodian & Fiduciary Trustee

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*Price shown is based on the latest available published NAV. ** The Fund Size is based on the latest NAV and incorporates the most recent subscriptions/redemptions. *** The Top 5 Holdings other than deposits shown are calculated by the Investment Manager on positions held on the final day of the month.

The Manager of the KHG Diversified Income Fund is SMP Fund Services Limited, incorporated in the Isle of Man No. 120288C, PO Box 227, Clinch's House, Lord Street, Douglas, Isle of Man, IM99 1RZ. Offering documents, the latest Financial Statements and documents constituting the fund can all be obtained or inspected from SMP Fund Services. The Manager is the holder of a Financial Services Licence issued under section 7 of the Financial Services Act 2008 of the Isle of Man and is licensed by the Financial Supervision Commission of the Isle of Man. The investments are managed by Creechurch Capital; holder of a Financial Services Licence issued under section 7 of the Financial Services Act 2008 and licensed by the Financial Supervision Commission of the Isle of Man. KHG Diversified Income Fund is a regulated fund for the purposes of the Collective Investment Schemes Act 2010. This document may only be issued and the Fund may only be promoted in the Isle of Man in accordance with the Financial Services Act 2008 of the Isle of Man, or regulations made thereunder. The Fund is not subject to the benefit of any compensation arrangements. The historic performance of the Fund does not include the effect of subscription and redemption fees (if such fees are applied). This information is intended for regulated financial advisers and intermediaries only. If you are not a regulated financial adviser please consult a professional adviser.