Cultural Capital Fund

Investor Letter

September 2016

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Dear Investor,

I am pleased to share this update for the Cultural Capital Fund for the 6 month period to September 2016.

A newsletter updating investors on each of the 25 projects in which the fund was invested at the end of September 2016 has been attached separately. Both can be accessed on the website under the performance tab.

Bolstered by the fund's performance and development through its second year the decision was taken to invest in upgrading the marketing materials and we hope that you like the result.

While long term capital growth is the focus of the investment manager shareholder benefits are also, to some investors at least, an attraction of investing in The Cultural Capital Fund. During 2016 there have been over 20 events ranging from rehearsals and read throughs to dinners and premieres.

Regular co-investment opportunities have also been made available, largely in the 'live' space, ranging from development theatre SEIS projects to West End productions.

Finally I am pleased to confirm that the Cultural Capital Fund has approval to be included in SIPPs.

Positive environment

The Cultural Capital Fund is well positioned to take advantage of two significant secular growth trends:

- A growing preference for individuals to spend their disposable income on experiences rather than products
- Developments in technology enabling individuals to manage their lives in a more 'efficient' way (both time and capital) and so spend a larger proportion of their time engaging in experiences, enjoying content and creating memories
- Indulging their children

Fund Performance

Performance

The 12 month fund valuation to March 31st 2016 demonstrated:

- A 12.2% increase in the value of the underlying assets
- A 10.8% increase for investors for whom expenses are capped at 2% per annum

- Cash flows from the theatre projects (*Beautiful, Barnum, Photograph 51)*
- *Girl at the Lion D'Or* (film script development)
- MUBI (online film distributor)
- *Peggy Guggenheim – Art Addict* (documentary film)

Two projects were completed during the year to March 2016:

- *Photograph 51* with Nicole Kidman returned a 97% profit
- *Barnum* (tour) returned a 21% profit

The Cultural Capital Fund seeks a diversified and balanced portfolio of investments across the media content sector with the aim of achieving consistent risk adjusted returns. It is likely that such returns are significantly uncorrelated to financial assets.

New investors have their total expense ratio capped at 2%.

In year 2 (to March 2016) the net asset value per share rose by 7.3%. A 10.8% return for investors for whom the Total Expense Ratio is capped at 2%.

This demonstrates a 21% increase over the first two years.

In the six months to September the fund has enjoyed strong cash flows, in particular from the theatre investments.

	Launched March 2014	Year to March 2015	Year to March 2016	6m to September 2016
Gross Asset Value per share	100	111.26	124.81	
Asset value per share at 2% TER*	100	109.35	121.13	
Net asset value per share (£)	100	103.74	111.34	111.47
FTSE 100 index performance		2.6%	-8.8%	
FTSE All Share index performance		3.00%	-7.3%	
*Total Expense Ratio				

Investor contact

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Media Sector Background

Cultural Capital Fund

- The fund acquires rights and funds the development and production of projects in television, theatre, publishing, live entertainment, film and music.
- The fund seeks long -term capital growth through investment in the debt and equity of media projects.

London Theatre: In 2015 an average of 284,000 people a week bought tickets to the 47 theatres in London's West End *. Gross revenues were up 2% year on year (after a 6.5% rise in 2014) . Musicals account for 56% of the 14.74m tickets sold but the strongest area of growth was opera, dance and entertainment.

Touring Theatre: There are over 450 non West End theatres across the United Kingdom. 'Hit' shows from the West End tend to tour best but 'second tier' shows that carefully target audiences can also do very well. International opportunities are growing. Historically 'Western' brand names have tended to visit the same international hubs however with the growth in middle classes new destinations are emerging.

The broad media and entertainment sector has historically grown faster than GDP. PWC forecast total global entertainment and media revenue growth of 4.4% CAGR from 2016-2020.

2015 was a standout year for the content industry in that for the first time for several years all of the main content revenue streams in the UK from cinema box office, through music, theatre, television advertising, subscription media and publishing enjoyed revenue growth. Global trends are not dissimilar.

The opportunities for IP owners to monetise content are proliferating. The average American now spends around 10 hours and 39 minutes a day consuming media (watching TV, surfing the web on a computer, using an app, listening to the radio)*. PWC forecast that around two thirds of the world's population will be 'connected' to the internet by 2020 and so these trends will be repeated around the world.

In order to prepare for the opportunities that result from these changes the investment adviser has frequent meetings with individuals and companies right across the wider media industry. These are in addition to the introductions to projects we receive from our now extensive list of contacts.

The distribution of content is one area where change is having a significant impact and some companies are adapting better than others. An example of a new and developing revenue stream from which the fund has benefited is that of 'live' theatre streamed into cinemas.

Against this background the fund pays careful attention to not only the modelling assumptions underlying the fund structure, but also to the way in which an investment is structured and the position of the investment in the value chain. There is more detail on this in the next section.

We are confident that being based in London, a world centre of creativity and skills, confers benefits which range from knowledge and networking to the supportive infrastructure, legislation and government. .

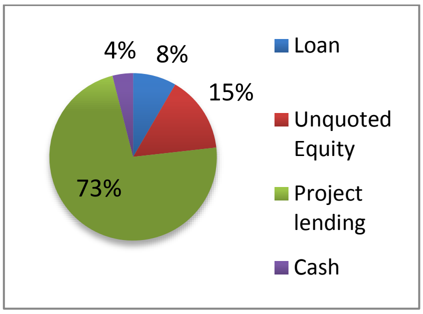
*Neilsen July 2016

Fund Structure

Fund Structure

As of Sept 30th 2016

Chart 1: *Fund asset allocation split by structure, Sept* 30th 2016



Television: Continued growth in subscription and advertising revenues is supporting content internationally. Technology is enabling access to content at all times and driving increased consumption. We believe that the overall market opportunity for quality scripted drama, documentary and children's television is expanding however competition is intense. Boston Consulting Group recently published a report concluding that within the television value chain content creators are taking an increasing share (36%) and this is where we focus.

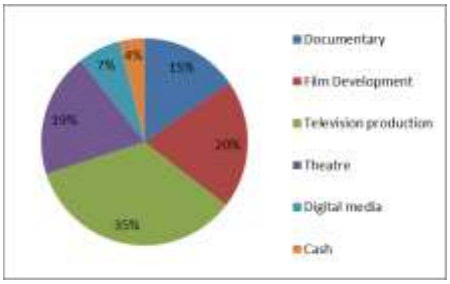
The fund had 25 investments on Sept 30th 2016. The investment adviser pays careful attention to appropriate diversification and one such way is in terms of financial structure. The largest proportion of the fund is in what we call project lending (73% of the fund at the period end by value. See Chart 1). Typically a financial commitment which enables the physical completion of a project is recouped while the fund retains a participation in future revenue streams as an equity participant.

We anticipate that for some of the projects such as children's animation (*QPootle5*) *That Day We Sang* and *Peggy Guggenheim – Art Addict* these revenue streams could be significant for many years.

Loans (8% by value) are repaid with priority but without any subsequent equity participation. The fund is currently able to be cost competitive against the banks while still achieving attractive returns that are secured, for example against tax credits or distribution sales.

The fund also seeks diversification through the way it is involved in the project. Bob & Co Ltd have the skills to be involved in a project throughout the value chain, however the clear preference is to be attached from a very early stage. For example, in the film industry development projects can be curated and sold with payment on the first day of filming at a fixed premium. It is these types of film projects that we choose to invest in rather than taking the risk of production or distribution.

***Chart 2**: Fund asset allocation split by end market, Sept 30th 2016*



Finally diversification is achieved through the demographic that a project addresses. This is demonstrated to some degree in chart 2 but in reality the diversity of assets is even greater than it would appear. Take for example the projects which address the children's markets (a attractive demographic which replenishes itself frequently and comprises some 21% of fund investments):

- *QPootle5* is an animation series targeting 3 to 5 year olds which is screened in over 70 countries and is seeking to build merchandising revenues over the long term
- *In The Night Garden* Live is touring show in the UK with its own large inflatable theatre. The show is built on the back of the long running television series on the BBC whose audience is 1-4 years old
- *Hetty Feather* is a theatre based touring and West End show with girls aged 7+ the natural audience

Summary and Outlook

Film: The film industry as a whole continues to grow amidst considerable change. Strong growth in emerging markets and electronic home video means that as individual markets they are now larger in revenues than US box office, which itself continues to grow. Cinemas are adapting into digital content hubs able to target different audiences more effectively through the day. The fund pays considerable attention as to how best to position itself within the repayment schedule with a preference for script development.

We believe that the Cultural Capital Fund is well placed to achieve attractive returns that are likely to be non-correlated, notwithstanding tepid economic growth overall.

The net effect of leaving the European Union is likely to be a positive for the fund as a result of exchange rate movements driving an increase in potential theatre footfall. In addition there are benefits resulting from translation of overseas revenues resulting from content sales and more competitive pricing of UK product against product in other currencies.

We are confident that on behalf of investors we are positioned to see the best ideas that are available for investment whether they emanate from within Bob & Co or from external relationships. Over the year under review we have noted a significant increase in the number of projects introduced to us as the profile of the Cultural Capital Fund increases.

We look forward to updating you on progress in due course.

The Investment Advisor

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