Cultural Capital Fund

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Investor Letter

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Positive environment

The Cultural Capital Fund is a unique fund allowing individuals to invest in the fast growing and exciting media content markets. The fund benefits from two significant secular growth trends:

- The trend 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

In 2017 more than half of the world's population were connected to the internet.

Dear Investor

At the end of March 2017 the Net Asset Value (NAV) per share of the Cultural Capital Fund was £119.27 per share, an increase of 7.1% over the twelve months.

This letter looks at the drivers of this growth, the current portfolio and the environment for the current year.

The usual quarterly newsletter has been sent to you by e-mail and both can be accessed on the website under the performance tab. www.culturalcapital.co.uk

You will also shortly receive a copy of the report and accounts (by e-mail unless you request a hard copy).

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

In addition to long term capital growth investors can gain access to unique experiences which over the last year have ranged from test screenings and script readings to teach in's and first nights.

Co-investment opportunities made available to investors during the year have included high profile West End shows such as Robert Icke's *Hamlet* and hit play *The Wipers Times*.

The Cultural Capital Fund can be included in a SIPP.

Investor contact

For more information please contact Patrick Houston on 07917 123 341, Patrick@bobandco.co.uk

Fund Performance

Performance

The largest positive contributors to performance in the year were:
- *The Comedy About a Bank Robbery*
- *Dreamgirls*

The biggest negative contributors to performance in the year were:
- *Beautiful* West End
- MUBI

The net asset value per share rose by 7.1% in the third year of the fund's existence. This equates to a 19.3% increase since the fund was launched.

The commitment to cap expenses at 2% has been made for new investors until at least the end of the year to March 2019.

The fund size post revaluation at March 31st 2017 was £2.57m with 13% of the assets being cash

£	Launched March 2014	Year to March 2015	Year to March 2016	Year to March 2017
Net Asset Value per share (£)	100	103.74	111.34	119.27
Note: From March 2016 until at least March 2019, the fund advisor has capped the total expense ratio at 2%. For the first year, costs were uncapped. This was before external investors were accepted.				

The main positive contribution was from theatre (*A Comedy About A Bank Robbery* and *Dreamgirls*) and the main drag from television. More detail follows in the next section.

The projects that completed their accounts during the year are shown below. The two plays produced final results in excess of their valuations at end 2016 and the loan return was as expected.

Projects completed this year	Investment term	Return (%)
Photograph 51 (play)	12 months	197
Hetty Feather (play)	19 months	136
Animal Antics Loan (TV production loan)	9 months	111

Three assets have seen a reduction in value. The largest impact was *Beautiful* (West End) where it was felt a further extension to the booking period was becoming less likely. Subsequent to the year end the show has announced a closure date of August 4th 2017.

At the last valuation date *MUBI* was subject to a bid which was subsequently withdrawn.

PWC forecast 3.85Bn smartphones in use by 2019

Finally a small investment in the international touring version of *Wicked* has experienced tougher trading in Asia than expected with two significant changes to the original schedule proving costly.

Finally, Hoop Music was returned to Bob and Co at the original cost in line with an agreement signed at the time of the fund's launch. The Board concluded that the asset was taking too long to meet its targets.

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.
- In H1 2017, the UK saw 6.4% revenue growth for the music, video and games markets as digital growth more than offset physical decline. *Source: Entertainment Retailers Association (July 2017)*

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The broad media and entertainment sector has historically grown faster than GDP. PWC forecast total global entertainment and media revenue growth of 4.2% CAGR from 2016 -2021*. Within that overall figure there is considerable volatility as some sectors shrink (newspapers) and others grow rapidly (Video on Demand).

The investment advisor believes that the global trend towards increased disposable income, connectivity and ubiquitous devices provides opportunities for positive investment returns.

Examples of such opportunities include:

- An increased value of 'live' events and experiences (see margin)
- Increased opportunity for content such as documentaries to be discovered, viewed and purchased around the world
- 'New' revenue streams which may enhance existing returns such as 'live' theatre streamed to cinemas

The investment advisor has frequent meetings with individuals and companies across the wider media industry.

It is worth reiterating that the Cultural Capital Fund has the first call over investment opportunities that emerge within the Bob and Co family, as well as any approaches from other businesses. The investment advisor believes that having the opportunity to utilise the expertise within Bob and Co is a real advantage.

London continues to be at the epicentre of creativity and recent political challenges are unlikely to change this. Indeed, weak sterling may be a net benefit.

*PWC global entertainment and media report June 2017.

Fund Structure

Fund Structure

As of March 31st 2017

London Theatre: In 2016, an average of 275,000 people a week bought tickets to the 44 theatres open in London's West End. Gross revenues were up 1.7% year on year at £645m across fewer performances. Musicals accounted for 57% of the 14.3m tickets sold and plays 29%. *Source: SOLT*

UK Touring Theatre: There are over 450 non-West End theatres across the UK. Touring shows accounted for 60% of revenues in 2016, a total of £280m. 'Hit' shows from the West End tend to tour best, but 'second tier' shows that carefully target audiences can also be very profitable. Total gross revenues grew 3.7%. *Source: UK Theatre.*

International live opportunities exist but are not without risk.

In 2016 UK television exports rose by 10% to £1.326Bn. The US remains the largest market, China the fastest growing.

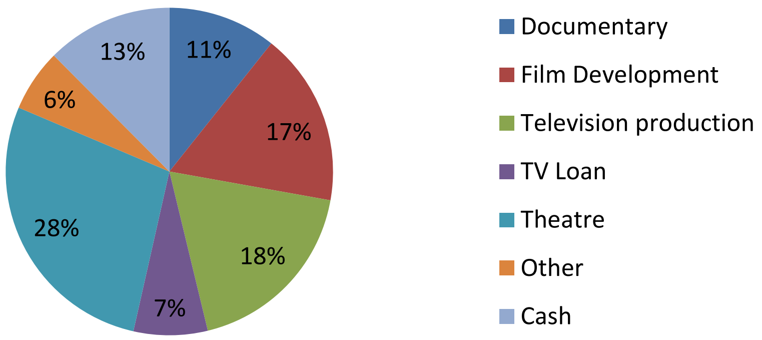
The fund had 34 investments on March 31st 2017.

Chart 1 shows the spread of holdings by market addressed at the end of the year. The level of cash at 13% was above the average for the year, as a result of some subscriptions being received just before the year end.

It should also be noted that the segments reflect the year end revaluation of the assets by Duff and Phelps. As such the theatre segment reflects the uplift in valuation for *Dreamgirls* and *Comedy About A Bank Robbery* resulting in a higher proportion of the valuation than if the assets were to be included at cost.

The investment advisor pays close attention to the diversification of the fund holdings. The chart understates the extent of diversification as within the sectors described the specific projects are addressing different genres, interest groups, demographics and age groups.

Chart 1 - Asset Allocation by End Market



There were nineteen investments in theatre projects (28% by value) at the valuation date ranging from children's touring (*In The Night Garden Live*), through Broadway (*Beautiful)* to high end West End productions (*Cat On A Hot Tin Roof*). The investment advisor believes that we have the opportunity to assess a high percentage of all productions destined for UK and Broadway theatres. Analysis includes careful comparison of projects costs and forecasts.

Over the last year we have on some occasions been able to use the fund's leverage to negotiate better terms than the industry norm. We have also noticed producers approaching us at an earlier stage in development which affords the potential for more revenue streams albeit with higher risk.

Television: Continued growth in subscription and advertising revenues is supporting content internationally. Technology is enabling access 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.

The Documentary segment (11%) includes three titles including *Peggy Guggenheim: Art Addict* where the fund owns the right to receive a percentage of the revenues ad infinitum. These are single program projects which we believe have a very long 'tail' of sales.

Television Loans (7%) are where the fund has lent to a program series (example: *Combat Ships*). Originally structured as a straight loan with an attractive coupon we have more recently for certain repeatable series negotiated a lower rate on interest in return for a share of the 'back end' profit. This is attractive where we have comparable projects with which to assess potential sales value and where we believe the series have the potential to sell for second and third 'windows' as well as on VOD (Video On Demand).

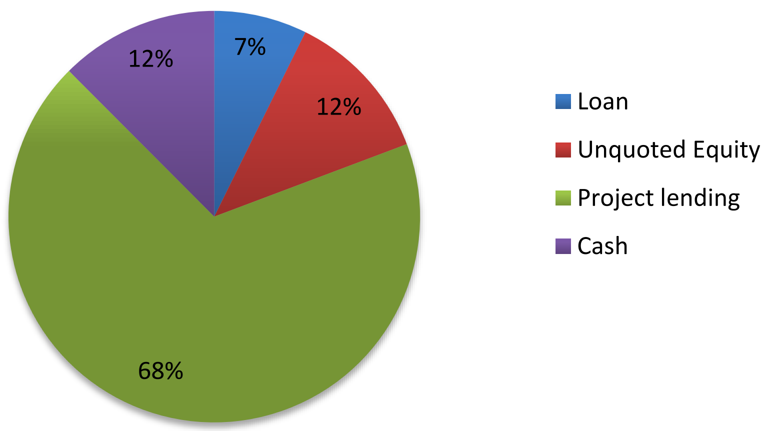
Television Production (18%) encompasses the children's animation *QPootle5* and television film project *That Day We Sang.* These are long term investments but even so revenues have progressed more slowly than expected and we continue to examine all options including exploiting the live rights.

Film: The film industry as a whole continues to grow amidst considerable change. Emerging markets and internet delivery offer growth opportunities. Overall fewer movies are taking a larger share of the profit. Independent films in particular are under pressure from digital disruption, a reduction in the value of international rights and competition for resources from television.* The CCF approaches the film market with great caution preferring feature documentaries and script development to equity or debt involvement. **PACT April 2017*

Finally, Film Development (17%) reflects our script development activity as well as a senior (underwritten) loan with a coupon of 20% in the film *Finding Your Feet*. This investment includes ownership of stage rights as well as some back end should the film prove to be a commercial success.

Chart 2 shows that the largest proportion of the fund is in what we call 'project lending' (68% of the fund at the yearend by value). This describes where a financial commitment is contracted which enables the physical completion of a project while the fund retains a share of future revenue stream as an equity participant.

Chart 2 - Asset Allocation by Structure



Gross film revenues from physical DVD & retail fell by £1.255Bn from 2007 – 2015. Digital revenues growth of £411m was only a small offset.

Project lending is the standard for theatre investments. The term may be from 12 weeks (*Photograph 51*) to open ended (*Beautiful*). As mentioned before the Theatre assets have typically performed better than was originally modelled.

Music: Despite ongoing challenges, the industry has entered a period of renewed growth driven by streaming. The UK music industry generated revenues of £925m in 2016, 5% higher than in 2015. **Source - BPI*

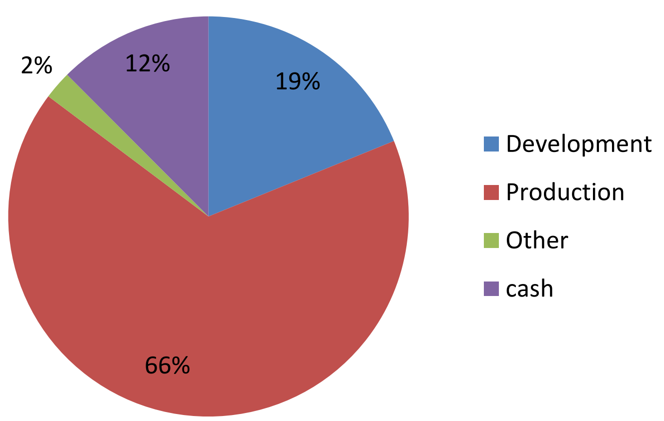
Project lending is also the phrase we use to describe the development projects (19% of the fund by value. See Chart 3). An example would be where the development of a script is arranged and paid for with the aim of selling it on to a third party who will take the production risk. In general such assets have progressed more slowly than was originally modelled however *Paper Dolls* was recently picked up by a US producer for a theatre in Washington proving that projects become relevant at unexpected times.

Loans 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.

UK Publishing: 2016 was a record breaking publishing year, with sales of books reaching £4.8Bn, an increase of 7% from 2015. **Source – Publishers Org*

In general it is the preference of the investment advisor not to invest in equity, in particular film equity. Investing directly into projects confers a greater degree of control over how capital is being allocated. That said where an asset we have monitored is appropriately valued and provides a vehicle for accessing an attractive market it can be considered. The £100,000 investment in children's live entertainment business Minor Entertainment made in November 2016 was one such company which is included in 'unquoted equity' in the Chart 2 alongside MUBI.

Chart 3 - Asset Allocation by Project Type



Summary and Outlook

The growth opportunities that the Cultural Capital Fund seeks to invest in are firmly established and the investment advisor is confident of being able to access a sufficient number of attractive projects.

British creativity and expertise is sought around the world and the weakness of sterling is further increasing demand for UK based skills and programs.

Finance remains hard to access for smaller productions seeking more flexible terms and this provides an opportunity for your fund.

Currency weakness is significantly boosting tourist numbers to the UK.

Visitors to the UK rose by 19% in April 2017 compared to 2016. Source: ONS

Notwithstanding that benefit, London based theatre was impacted in June by the recent terrorist activity. Mindful of this possibility, your fund has kept West End exposure to below 10% of the fund's assets. Investment in UK touring titles has been increased to capture 'staycationing' cash.

We look forward to updating you in due course

The Investment Advisor

Clockwise from top left: *A Cat on a Hot Tin Roof, The Comedy About A Bank Robbery, Finding Your Feet, The Ferryman*

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