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This document comprises a prospectus relating to Acorn Income Fund Limited (“**Acorn Income Fund**” or the “**Company**”) prepared in accordance with the Prospectus Rules of the Financial Services Authority made under section 73A of the Financial Services and Markets Act 2000 (as amended). A copy of this document has been filed with the Financial Services Authority and has been made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

Application has been made to the UK Listing Authority and to the London Stock Exchange respectively for admission of the ZDP Shares: (i) to the Official List (by way of a standard listing under Chapter 14 of the Listing Rules); and (ii) to the London Stock Exchange’s market for listed securities (together “**Admission**”). It is expected that Admission will become effective and that unconditional dealings in the ZDP Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 21 December 2011.

The Company is authorised as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission under Section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Authorised Closed-Ended Investment Scheme Rules 2008. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council took any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed with regard to it. Notification of the proposed Placing of ZDP Shares has been made to the Guernsey Financial Services Commission. The Guernsey Financial Services Commission has not reviewed this document and it together with the States of Guernsey Policy Council continue to take no responsibility for the financial soundness of the Company or for the correctness of any statements made or opinions expressed with regard to it.

**Prospective investors should read the entire document (together with the documents incorporated by reference herein) and, in particular, the risk factors on pages 7 to 12, when considering an investment in the ZDP Shares.**

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## **Acorn Income Fund Limited**

*(a company incorporated and registered in Guernsey with registered number 34778)*

**Placing of up to 12,000,000 ZDP Shares  
at a Placing Price of 100 pence per share**

**Fairfax I.S. PLC**

Financial Adviser and Stockbroker

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The distribution of this document and/or the offer of the ZDP Shares in certain jurisdictions may be restricted by law. No action has been or will be taken to permit a public offering of the ZDP Shares or to permit the possession or distribution of this document (or any other offering or publicity materials related to the ZDP Shares) in any jurisdiction where action for that purpose may be required. Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Placing and the distribution of this document are subject to the restrictions set out in paragraph 12 of Part 8 of this document: *Additional Information*.

This document does not constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, ZDP Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular the ZDP Shares offered by this document have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “**Securities Act**”) or registered or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia, the Republic of South Africa or Japan and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, US Persons (as such term is defined in Regulation S under the Securities Act) or to any national, resident or citizen of Canada, Australia, the Republic of South Africa or Japan. Neither this document nor any copy of it may be distributed directly or indirectly to any persons with addresses in Canada, Australia, the Republic of South Africa or Japan, or to any corporation, partnership or other entity created or organised under the laws thereof, or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement. The Company will not be registered as an investment company under the US Investment Company Act of 1940, as amended. This document and the ZDP Shares have not been recommended, approved or disapproved by any US federal or state securities commission or regulatory authority. Furthermore, none of such authorities has passed on the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.

**APPLICATION WILL BE MADE FOR THE STANDARD LISTING OF ZDP SHARES ON THE OFFICIAL LIST. A STANDARD LISTING OFFERS SHAREHOLDERS A LOWER LEVEL OF REGULATORY PROTECTION THAN A PREMIUM LISTING.**

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## SUMMARY INFORMATION

*The following Summary Information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any decision by a prospective investor to invest in ZDP Shares should be based on consideration of the document as a whole and not solely on this summarised information. Civil liability will attach to the Responsible Persons but only if this summary, including any translation thereof, is misleading, inaccurate or inconsistent when read together with the other parts of this document. Where a claim relating to the information contained in this document is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated.*

### 1. Information on Acorn Income Fund

Acorn Income Fund is incorporated in Guernsey and its Ordinary Shares have been admitted to listing by the UK Listing Authority and traded on the London Stock Exchange since February 1999. Its investment manager is Premier Asset Management (Guernsey) Limited.

Acorn Income Fund has two portfolios: the Smaller Companies Portfolio, the investment adviser to which is Unicorn Asset Management Limited; and the Income Portfolio, the investment adviser to which is Premier Fund Managers Limited. Between 70 per cent. and 80 per cent. of the Company's assets are invested in the Smaller Companies Portfolio with the balance being invested in the Income Portfolio.

#### *Smaller Companies Portfolio*

The Smaller Companies Portfolio is invested predominantly in equities of UK companies with a market capitalisation of under £1 billion. The focus is on companies with experienced and well motivated management, products or services supplying growth markets, sound operational and management controls, good cash generation and a progressive dividend. The target yield of this portfolio, which may be varied from time to time having regard to market conditions and the yield on the Income Portfolio, is around 3.75 per cent. per annum as at the date of this document.

#### *Income Portfolio*

The assets in the Income Portfolio comprise sterling denominated fixed interest securities, including corporate bonds, preference and permanent interest bearing shares, convertible securities, reverse convertible bonds, contingent convertible bonds, debentures and other similar securities and securities issued by open-ended bond funds. The Income Portfolio may also contain higher yielding shares of other investment companies, including property investment companies, not exceeding 15 per cent. of the overall portfolio at the time of investment. The target yield of this portfolio, which may be varied from time to time having regard to market conditions and the yield on the Smaller Companies Portfolio, is around 7.0 per cent. per annum as at the date of this document.

The Company has been established with an unlimited life (although under the Articles continuation votes are to be held every five years). In order to pay the holders of ZDP Shares the Final Capital Entitlement, the ZDP Shares will be redeemed on the ZDP Repayment Date. Acorn Income Fund's second continuation vote was passed in August 2011. The Company is required, pursuant to the Articles, to propose a similar continuation vote at the annual general meeting in 2016. If it is not passed, proposals will be formulated for the cessation or reconstruction of the Company having regard to the need to redeem the ZDP Shares.

### 2. Acorn Income Fund's Performance

Against the funds in the UK Smaller Company sub-sector (currently comprising 18 stocks), Acorn Income Fund's NAV total return has been in the top 5 ranked places of performance in 9 out of the 11 annual cumulative periods to 31 October 2011 (the current Smaller Companies Portfolio Investment Adviser's involvement began in July 2000).

A comparison of Acorn Income Fund's performance with those investment companies in the UK High Income and the UK Growth & Income sub-sectors (currently comprising 7 and 23 stocks respectively) shows that Acorn Income Fund is ranked first against the UK High Income funds in 9 out of the 11 cumulative periods to 31 October 2011, and third in the remaining 2, and against the UK Growth & Income sub-sector it is ranked first in 8 out of 11 periods to 31 October 2011 and second in the remaining 3.

### **3. Net Asset Value and Dividends**

The Company announces its Net Asset Value per Ordinary Share weekly.

The last four quarterly dividends per Ordinary Share were 1.75 pence in December 2010, and 1.75 pence in each of March, June and September 2011, being a total for the 12 months prior to the publication of this document of 7 pence per Ordinary Share.

The NAV per Ordinary Share as at the Latest Practicable Date was 181.11 pence.

### **4. The Investment Manager and the Investment Advisers**

#### *Premier Asset Management (Guernsey) Limited – Investment Manager*

Premier Asset Management (Guernsey) Limited is wholly-owned by Premier Asset Management Limited, a privately owned asset management group; the principal shareholders are the management team and Electra Private Equity PLC. Via its FSA regulated subsidiaries, Premier Asset Management Limited manages a range of authorised UK and offshore funds, including closed-ended investment companies, as well as providing discretionary portfolio management services for private and corporate clients. The group currently has approximately £2.2 billion of assets under management based on valuations as at 31 October 2011.

#### *Premier Fund Managers Limited – Investment Adviser to the Income Portfolio*

Premier Fund Managers Limited is a subsidiary of Premier Asset Management Limited. The senior investment manager responsible for the Income Portfolio is Paul Smith. Paul has managed fixed income portfolios at Premier since 2006. He manages Premier's Strategic High Income Bond Fund, Corporate Bond Monthly Income Fund and UK Money Market Fund. In 2011, he was awarded the Investment Week Fund Manager of the Year Award for the money market sector. He has a 1st class honours degree in Economics and an MA in Finance and Investment (with distinction) from Exeter University.

#### *Unicorn Asset Management Limited – Investment Adviser to the Smaller Companies Portfolio*

Unicorn Asset Management Limited ("Unicorn") is a privately owned company, with the directors and management owning 43 per cent. of the shares. The company manages a range of UK authorised funds, including a venture capital trust and an open-ended investment company (OEIC) with five sub-funds. At 31 October 2011, Unicorn had approximately £142 million of assets under management.

The director responsible for the Smaller Companies Portfolio is John McClure who has 22 years' experience of running smaller companies portfolios. John has been involved with the Smaller Companies Portfolio of Acorn Income Fund since inception and is solely responsible for managing the Unicorn UK Income Fund.

### **5. Reasons for the Placing and Use of Proceeds**

Bank of Scotland has informed Acorn Income Fund that it is not willing to renew the £6 million Bank Loan which is due to expire in February 2012. Having considered the alternatives with the Investment Manager, and the Company's other advisers, the Directors received Ordinary Shareholders' approval of the ZDP Share issue at an extraordinary general meeting on 15 December 2011. The proceeds of the Placing are to be used to both repay the Bank Loan and to enlarge the Portfolios.

The cessation of interest payments on the Bank Loan and the increase in the size of the Portfolios are intended to deliver additional dividend and interest income and increased revenue return per Ordinary Share, although this cannot be guaranteed. As at close of business on the Latest Practicable Date, the middle market price of an Ordinary Share was 158.25 pence, which represents a discount of 12.6 per cent. to the Net Asset Value per

Ordinary Share as at 14 December 2011 (being the most recently announced NAV as at the Latest Practicable Date). The Directors believe that the additional dividend and interest income intended to result from the above may result in the Ordinary Shares trading at a lower discount to NAV within a few months of the ZDP Shares being issued, although there can be no guarantee that the discount will be lowered within that timeframe or at all.

The Directors also believe that an investment in the ZDP Shares is potentially attractive because they offer investors a potential preferred Redemption Yield of 6.5 per cent. although there is no guarantee that Acorn Income Fund's assets on the ZDP Repayment Date will be sufficient to pay the Final Capital Entitlement in full.<sup>1</sup> The ZDP Shares also have an Initial Cover of 1.57 times and will provide investors with access to an investment in a company which has a diversified asset base and is managed by an Investment Manager and Investment Advisers with considerable experience.

The Placing will result in the Company receiving net proceeds (after estimated expenses) of up to £11,600,460. The effect of the Placing on the financial statements of Acorn Income Fund will be to show a long term liability in respect of the amounts due to ZDP Shareholders, which will increase over the life of the ZDP Shares at a compound annual rate of 6.5 per cent.

The Company will apply the net proceeds of the Placing to repay the Bank Loan with the balance being divided between the Portfolios to be managed in accordance with their existing investment policies. It is proposed that approximately 70-80 per cent. will be allocated to the Smaller Companies Portfolio and the balance to the Income Portfolio.

## **6. Description of the ZDP Shares and the Placing**

### ***ZDP Shares***

The ZDP Shares will have a life of just over five years and a Final Capital Entitlement of 138 pence per ZDP Share on the ZDP Repayment Date (31 January 2017), equivalent to a Redemption Yield of 6.5 per cent. based on the Placing Price<sup>1</sup>. The ZDP Shares have an Initial Cover of 1.57 times.

### ***The Placing***

The Company intends to raise gross proceeds of up to £12 million through the Placing of up to 12 million ZDP Shares at the Placing Price.

The Placing is conditional on: (i) Admission (which is expected to occur on 21 December 2011); and (ii) the Placing Agreement becoming unconditional (save as to Admission) and not having been terminated in accordance with its terms prior to Admission.

The Placing has not been underwritten.

### ***Standard listing***

Application has been made to the UK Listing Authority for the ZDP Shares to be admitted to standard listing, which results in a lower degree of regulation than for the Ordinary Shares which have been admitted to premium listing.

## **7. Risk Factors**

Investors should consider carefully the following risks which could have a material adverse effect on the Company and/or an investment in the ZDP Shares:

- normal market fluctuations and the current global credit crisis may impact the business, operating results or financial condition of Acorn Income Fund;

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<sup>1</sup> The Redemption Yield of a ZDP Share is not, and should not be taken as, a forecast of profits and there can be no assurance that the ZDP Shares will be repaid in full on the ZDP Repayment Date.

- certain of the Company's investments may be illiquid;
- the Company's future financial performance depends on the success of its strategy, the skill and judgement of the Investment Manager and the Investment Advisers and the ability of the Investment Manager and Investment Advisers to retain key personnel. Past performance is not a guide to future performance;
- the Investment Manager and Investment Advisers may provide services to other clients which could compete directly or indirectly with the activities of Acorn Income Fund and may be subject to conflicts of interest in respect of their activities on behalf of Acorn Income Fund;
- the Company's assets may be exposed to risks including credit risk and interest rate risk;
- market values of publicly traded securities that are held as investments may be volatile;
- changes in Acorn Income Fund's tax status or tax legislation or practice could adversely affect Acorn Income Fund and the ZDP Shareholders;
- the standard listing of the ZDP Shares affords ZDP Shareholders a lower level of regulatory protection than a premium listing;
- there may not be a liquid secondary market for the ZDP Shares, the price of which may fluctuate;
- holders of ZDP Shares may not receive the Final Capital Entitlement; and
- future share issues could dilute the interests of the ZDP Shareholders and lower the price of the ZDP Shares.

### ***Investment highlights***

It is expected that investors in the ZDP Shares will be institutional investors, investment funds, private client fund managers and private client brokers. The Directors believe an investment in the ZDP Shares is potentially attractive to such investors because:

- the ZDP Shares offer a Redemption Yield of 6.5 per cent.<sup>2</sup> and as preferred capital have Initial Cover of 1.57 times;
- asset cover is derived from two diversified portfolios with complementary, but not duplicative, asset classes; and
- Acorn Income Fund will not take on any bank borrowings (save for short term borrowings in the ordinary course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares) until the ZDP Repayment Date.

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<sup>2</sup> The Redemption Yield of a ZDP Share is not, and should not be taken as, a forecast of profits and there can be no assurance that the ZDP Shares will be repaid in full on the ZDP Repayment Date.



## RISK FACTORS

Acorn Income Fund's business, financial condition, performance, prospects, results and/or share prices could be materially and adversely affected by any of the risks described below. If any of the adverse events described below actually occur, investors may lose all or part of their investment.

In addition to the other information set out in this document, the risks described below should be carefully considered by investors and prospective investors prior to making any investment decision relating to the ZDP Shares. The risks set out below are those risks which the Directors consider to be material as at the date of this document, but are not the only risks relating to the ZDP Shares and the Company. There may be additional risks that the Company does not currently consider to be material, or of which the Company is not aware, which may affect the Company's financial condition, performance, prospects, results and/or the price of Ordinary Shares and ZDP Shares.

An investment in the ZDP Shares is suitable only for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear losses (which may equal the whole amount invested) that may result from such an investment. An investment in the ZDP Shares should constitute part of a diversified investment portfolio. Typical investors are expected to be institutional investors, investment funds, private client fund managers and private client brokers. If investors are in any doubt as to the consequences of their acquiring, holding or disposing of ZDP Shares, or whether an investment in ZDP Shares is suitable for them in the light of information in, or incorporated by reference into, this document or their personal circumstances, including the financial resources available to them, they should consult their stockbroker or other independent financial adviser authorised under the Financial Services and Markets Act 2000 or, in the case of investors outside the United Kingdom, another appropriately authorised independent financial adviser, before making their own decision to invest in the ZDP Shares.

### 1. Risks Relating to Acorn Income Fund

#### *The effects of both normal market fluctuations and the current global economic crisis may impact the business, operating results or financial condition of Acorn Income Fund*

These are factors which are outside Acorn Income Fund's control and which may affect the volatility of underlying asset values and the liquidity and the value of the Portfolios. Changes in economic conditions (including, for example, interest rates and rates of inflation), industry conditions, competition, political and diplomatic events and trends and tax laws, and other factors can substantially and either adversely or favourably affect Acorn Income Fund's prospects and the value of the Portfolios.

Market conditions have significantly deteriorated over recent years as compared to prior periods. Global financial markets have experienced considerable declines and volatility in valuations, an acute contraction in the availability of credit and the failure of a number of leading financial institutions. As a result, certain government bodies and central banks worldwide have undertaken intervention programmes, the effects of which remain uncertain. These macroeconomic developments could negatively affect the returns achievable by Acorn Income Fund and its Portfolios, which could prejudice Acorn Income Fund's ability to comply with its obligations to ZDP Shareholders.

#### *Liquidity risk*

Investing in smaller companies, including AIM companies, can carry greater risks than those usually associated with larger capitalised companies. Trading in interest-bearing securities may be impeded by the size of the issue and by market turbulence. Certain of the investments in the Portfolios may therefore be illiquid. The Company may not be able to immediately dispose of such investments if it determines that such a sale would be in its best interests.

### ***Reliance on the Investment Manager, Investment Advisers and their key personnel***

Acorn Income Fund's future performance depends on the success of its strategy, and on the skill and judgement of the Investment Manager and the Investment Advisers. There can be no guarantee that any individual employee of the Investment Manager or of an Investment Adviser referred to in this document will remain in their employment. The departure of a key employee may have an adverse effect on the performance of Acorn Income Fund. There can be no assurance that the Directors will find a replacement if an Investment Adviser resigns.

### ***Conflicts of interest***

The Investment Manager and Investment Advisers are not required to devote all their resources to the Company. To the extent that the Investment Manager and the Investment Advisers devote resources to other business interests, their ability to devote resources and attention to the Company's affairs will be limited. This could adversely affect the Company's ability to achieve its investment objective, which could have a material adverse effect on the Company's profitability, Net Asset Value and share price.

The Investment Manager and Investment Advisers may be involved in other financial, investment or professional activities which may on occasion give rise to conflicts of interest with the Company. In particular, the Investment Manager and Investment Advisers manage investment funds other than the Company and may provide investment management, investment advisory or other services in relation to these funds or future funds which may have similar investment policies to that of the Company.

The Investment Manager and Investment Advisers may carry on investment activities for their own accounts and for other accounts in which the Company has no or some interest. The Investment Manager and Investment Advisers also provide management services to other clients, including other collective investment vehicles. The Investment Manager and Investment Advisers may give advice and recommend securities to other managed accounts or investment funds which may differ from advice given to, or investments recommended or bought for, the Company, even though their investment policies may be the same or similar.

### ***Past performance***

The past performance of the Investment Manager and the Investment Advisers of the Company or of other assets or funds are not guides to the future performance of the Company. There can be no guarantee that the investment objective and policy of Acorn Income Fund will be met or that any stated current or future targets or returns will be achieved.

### ***Derivatives***

The Company may use derivatives to hedge exposure to currency risk and interest rate risk. No assurance can be given that any hedging strategies which may be used by the Company will be successful under all or any market conditions. While the Company may enter into hedging transactions to reduce its exposure to currency fluctuations or interest rate changes, unanticipated market changes may result in poorer investment performance overall than if such transactions had not been executed. The Company is also subject to the risk that counterparties to any hedging or other derivative transactions will be unable or unwilling to perform their obligations. Any default by any such counterparty could have an adverse effect on the Company's financial condition.

### ***Portfolio risk***

To the extent that the Company may invest in securities listed on recognised stock exchanges such investments will be subject to normal market fluctuations and the risks inherent in the purchase, holding or selling of securities, and there can be no assurance that appreciation in the value of those investments will occur. Investment in certain asset classes in which the Company may invest may involve a greater degree of risk than that usually associated with investment in equity securities markets.



Investment in higher yielding investment company shares may provide greater total return than investment in interest-bearing securities carrying a higher credit rating, but it also entails greater risk, including a higher risk of default. Any such default may have a material adverse effect on the returns to the Company from such investments. In addition, market prices of higher yielding securities generally fluctuate more than market prices of higher-rated, interest-bearing securities. As a result of the underlying gearing in some investment company shares, any increase or decrease in the value of such shares might magnify movements in their net asset values and consequently affect the value of the Income Portfolio accordingly. There is often limited market liquidity in higher yielding securities, which means that it may not be possible to realise such investments quickly and there is no guarantee that such investments can be realised at their stated bid prices. The Company may not be able to immediately dispose of such investments if it determines that such a sale would be in its best interests.

Certain of the securities held in the Portfolios may be denominated in a foreign currency and the returns to the Company may be affected by fluctuations in exchange rates. There can be no guarantee that any hedging strategies employed by the Investment Manager will be successful. While the Company may enter into hedging transactions to reduce its exposure to currency fluctuations or interest rate changes, unanticipated market changes may result in poorer investment performance overall than if such transactions had not been executed.

The Income Portfolio will primarily contain fixed interest securities. Bond prices and interest rates are inversely correlated. Thus, when interest rates increase, the price of a bond with a fixed coupon will decline. Alternatively, when interest rates decline, the price of a bond with a fixed coupon will increase. Any rise in interest rates may affect the returns on such investments to the Company.

The Company may invest in reverse convertible bonds ("RCBs") which will be redeemed in the form of an underlying equity security (or cash equivalent in the case of an index) in the event that the value of that equity security (or index) on the RCB's redemption date is lower than the RCB's strike price. This may result in such RCBs being redeemed at a capital loss. Also, the equity security that may be acquired in this manner might have a considerably lower dividend yield than that provided by the associated RCB. Any loss or reduction in dividend yield may have an adverse effect on the Company's investment performance and NAV per Ordinary Share.

## **2. Risks relating to the ZDP Shares**

### ***Interest rate changes may affect the market price of ZDP Shares***

The market values of ZDP Shares will be affected by changes in general interest rates, with upward movements in interest rates likely to lead to reductions in the market value of ZDP Shares.

### ***Entitlements of the ZDP Shares***

Although the holders of ZDP Shares have a prior entitlement to the other assets of Acorn Income Fund (after payment of its liabilities) on a winding up, if the gross assets of Acorn Income Fund fall at a rate which erodes the Cover to a ratio of less than 1 over the planned life of the ZDP Shares, this would result in a lower payment than the Fixed Capital Entitlement on the ZDP Repayment Date. ZDP Shares are not a protected or guaranteed investment.

Should the ZDP Shares be issued and Acorn Income Fund be wound up prior to the ZDP Repayment Date, ZDP Shareholders would only receive their accrued entitlement to the date of the winding up. This would be less than the Final Capital Entitlement and would be subject to Acorn Income Fund having sufficient net assets.

The Company transferred £1.2 million from its revenue reserves to its capital reserves on 15 December 2011. Following the Placing, the Directors intend to distribute the accounting revenue reserves of the Company to Ordinary Shareholders even where the Cover on the ZDP Shares is less than 1. ZDP Shareholders should have no expectation that amounts referable to the Company's accounting revenue reserves will be available to satisfy their capital entitlement.

***The proposed standard listing of the ZDP Shares will afford ZDP Shareholders a lower level of regulatory protection than a premium listing***

Application will be made for the ZDP Shares to be admitted to a standard listing on the Official List. A standard listing will afford ZDP Shareholders a lower level of regulatory protection than that afforded to holders of securities with premium listings on the Official List, which are subject to additional obligations under the Listing Rules. Further details regarding the differences in the protections afforded by a premium listing as against a standard listing are set out in the section entitled “Consequences of a Standard Listing of the ZDP Shares” on page 13.

***There may not be a liquid secondary market for the ZDP Shares, the price of which may fluctuate***

There may not be a liquid secondary market for the ZDP Shares, and an investment of this type should be regarded as long-term in nature and may not be suitable as a short-term investment. In addition, the value of the ZDP Shares can go down as well as up. The market price and the realisable value of the ZDP Shares, as well as being affected by the underlying value of Acorn Income Fund’s assets, will be affected by interest rates, supply and demand for the ZDP Shares, market conditions and general investor sentiment as to the ability of Acorn Income Fund to pay the Final Capital Entitlement. As such, the market value and the realisable value (prior to redemption) of the ZDP Shares will fluctuate and may vary considerably. In addition, the published market price of the ZDP Shares will be, typically, their middle market price. Due to the potential difference between the middle market price of the ZDP Shares and the price at which the ZDP Shares can be sold, there is no guarantee that the realisable value of the ZDP Shares will be the same as the published market price or the value of their accrued capital entitlement.

ZDP Shareholders have the right to receive the Final Capital Entitlement on the ZDP Repayment Date and not before. ZDP Shareholders wishing to realise their investment prior to the ZDP Repayment Date will be obliged to dispose of their ZDP Shares on the stock market.

Market liquidity in the shares of companies such as Acorn Income Fund is less than market liquidity in shares issued by larger companies traded on the London Stock Exchange. There can be no guarantee that a liquid market will exist for the ZDP Shares. Accordingly, ZDP Shareholders may be unable to realise ZDP Shares prior to the ZDP Repayment Date. Acorn Income Fund has applied for the ZDP Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. Securities exchanges, including the London Stock Exchange, typically have the right to suspend or limit trading in a company’s securities. Any suspension or limits on trading in the ZDP Shares may affect the ability of ZDP Shareholders to realise their investment.

Listing should not be taken as implying that there will be a liquid market for the ZDP Shares. There is no guarantee that an active market will develop or be sustained for the ZDP Shares after listing. If an active trading market is not developed or maintained, the liquidity and trading price of the ZDP Shares could be adversely affected. Even if an active trading market develops, the market price for the ZDP Shares may fall below the Placing Price and ZDP Shareholders may not realise their initial investment.

***Principal bases and assumptions***

The illustrative financial statistics and related figures given in this document are based on the Assumptions. These are assumptions only which may or may not be fulfilled in practice. The Assumptions and the illustrative financial statistics should not be regarded as forecasts of profit or growth in the value of the Company’s assets. In particular, the Initial Cover and Hurdle Rate indicated for the ZDP Shares are based on the Assumptions. If events differ from these Assumptions, the Initial Cover and Hurdle Rate may be less favourable. The Redemption Yield of a ZDP Share is not and should not be taken as a forecast of profits and there can be no assurance that the Final Capital Entitlement of the ZDP Shares will be repaid in full on the ZDP Repayment Date.

### ***Holders of ZDP Shares may not receive the Final Capital Entitlement.***

The ZDP Shares rank prior to the Ordinary Shares in respect of the Final Capital Entitlement. Although that is the case, on a return of assets, including the winding-up of Acorn Income Fund, ZDP Shareholders would only receive payment if there are sufficient assets of Acorn Income Fund having regard to all other unsecured liabilities of Acorn Income Fund. ZDP Shares are not a secured, protected or guaranteed investment.

A redemption is a distribution for the purposes of the Law and the Law provides that a distribution may not be made by a company unless the directors are satisfied (and certify) that the company will immediately after making such distribution satisfy the solvency test as defined under the Law. For the purposes of the Law, a company satisfies the solvency test if (i) the company is able to pay its debts as they become due; and (ii) the value of the company's assets is greater than the value of its liabilities. Accordingly, the redemption of the ZDP Shares on the ZDP Repayment Date is dependent on the Company meeting the solvency test.

### ***Future share issues could dilute the interests of the ZDP Shareholders and lower the price of the ZDP Shares***

The Company may issue additional shares in future public offerings or private placements which may dilute the existing investors' interests in the ZDP Shares. In addition, the issue of additional shares by the Company, or the possibility of such issue, may in certain circumstances cause the market price of the ZDP Shares to decline.

### **3. Structural conflicts of interest**

The different rights and expectations of the Ordinary Shareholders and the ZDP Shareholders may give rise to conflicts of interest between them. Holders of ZDP Shares can be expected to have little or no interest in the revenue produced by Acorn Income Fund's Portfolios, save to the extent that Acorn Income Fund's operating costs exceed that revenue. While ZDP Shareholders will expect the capital value of the Portfolios to be sufficient to repay the Final Capital Entitlement of the ZDP Shares on the ZDP Repayment Date, they can have no interest in or entitlement to any growth in capital in excess of that amount. Conversely, holders of Ordinary Shares can be expected to be interested in both the revenue that the Portfolios produce (and hence the level of dividends which will be capable of being paid on Ordinary Shares) and increases in the capital value of the Portfolios in the period to the ZDP Repayment Date, in excess of the Final Capital Entitlement of the ZDP Shares.

In certain circumstances, such as a major fall in the capital value of the Portfolios such that the Final Capital Entitlement of the ZDP Shares is significantly uncovered but Acorn Income Fund's Portfolios are still generating revenue, the interests of ZDP Shareholders and the Ordinary Shareholders may conflict. The ZDP Shareholders may wish the Portfolios to be re-balanced or more revenue to be retained in order to meet their Final Capital Entitlement whilst the holders of Ordinary Shares may recognise that they then have little prospect of a sizeable capital return and so may be more concerned with maximising dividends in the period to the ZDP Repayment Date. In such circumstances, the Directors may find it impossible to meet fully both sets of expectations and so will need to act in a manner which they consider to be fair and equitable to both Ordinary Shareholders and ZDP Shareholders but having regard to the entitlements of each class of Shares.

### **4. Risks relating to taxation**

Any change in Acorn Income Fund's tax status, or in taxation legislation or practice in the United Kingdom or elsewhere, could affect the value of the investments in the Portfolios and Acorn Income Fund's ability to achieve its investment objective and could also affect the tax treatment of the ZDP Shares and the Final Capital Entitlement.

Statements in this document concerning the taxation of Shareholders are based upon current UK and Guernsey tax law and published practice, which law and practice are in principle subject to change (potentially with retrospective effect) that could adversely affect the ability of the Company to meet its investment objective. Statements in this document in particular take into account legislation introduced by the Finance Act 2009 which provides for a new definition of an "offshore fund" for the purposes of the United Kingdom offshore

fund rules. Should the Company or any class of Shares be regarded as subject to the UK offshore fund rules, this may have adverse tax consequences for certain UK resident Shareholders on the disposal (including redemption) of Shares.

## **5. Regulatory risks**

Acorn Income Fund is subject to the laws and regulation of the Bailiwick of Guernsey and to certain other laws and regulations, including the Prospectus Rules, the Disclosure and Transparency Rules, the Listing Rules, the UK Corporate Governance Code and the Takeover Code. Any breach of such laws and regulations could result in Acorn Income Fund and/or the Directors being fined or the subject of criminal or other disciplinary proceedings.

The EU Alternative Investment Fund Managers Directive (the “**Directive**”) is due to be implemented by July 2013. Investment companies such as Acorn Income Fund will constitute alternative investment funds for the purposes of the Directive, which will regulate, *inter alia*, the management of Acorn Income Fund and the marketing of Acorn Income Fund’s securities. Requirements of the Directive include increased disclosure obligations, ensuring that the investment company has an appropriately authorised institution acting as its “depository”, the requirement to have independent portfolio valuations and ensuring that any delegate of the Investment Manager is agreed to by the FSA. Some of these changes may have significant consequences for Acorn Income Fund (and all similar investment companies) and might materially increase compliance and regulatory costs.

## **6. General**

Acorn Income Fund’s Portfolios are constructed without reference to any stock market index. It is therefore likely that there will be periods when its performance will diverge materially from all such indices and there can be no assurance that such divergence will be wholly or even primarily to Acorn Income Fund’s advantage. The ZDP Shares are an unsuitable investment for those who seek investments that are in some way correlated to a stock market index.

The past performance of Acorn Income Fund and of investments which are referred to in this document are for information or illustrative purposes only and should not be interpreted as an indication, or as a guarantee, of future performance.

## FORWARD LOOKING STATEMENTS

Some of the statements under Summary Information, Risk Factors, Part 1: *Information on the ZDP Share Issue* and elsewhere in this document include forward-looking statements which reflect Acorn Income Fund's or, as appropriate, the Directors' or the Investment Manager's or Investment Advisers' current views with respect to financial performance, business strategy, plans and objectives of management for future operations. These statements include forward-looking statements both with respect to Acorn Income Fund and the sectors and industries in which Acorn Income Fund operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause Acorn Income Fund's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this document entitled "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect Acorn Income Fund's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to Acorn Income Fund's operations, results of operations, growth strategy and liquidity.

These forward-looking statements speak only as of the date of this prospectus. Subject to any obligations under the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules, the Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

## CONSEQUENCES OF A STANDARD LISTING OF THE ZDP SHARES

Application has been made for the ZDP Shares to be admitted to the Official List with a standard listing pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for standard listings. However, because Acorn Income Fund has Ordinary Shares with a premium listing, it is subject to the Listing Principles (as set out in Chapter 7 of the Listing Rules) and is required to comply with them. As a consequence of the standard listing of the ZDP Shares, while additional on-going requirements and protections applicable to a premium listing under the Listing Rules apply to Acorn Income Fund and its Ordinary Shares, they will not apply to ZDP Shareholders who will therefore not receive the full protections of the Listing Rules associated with a premium listing on the Official List.

Listing Rule 14.3 sets out the continuing obligations applicable to ZDP Shares and requires that all Acorn Income Fund's listed securities must be admitted to trading on a regulated market at all times. Acorn Income Fund must have a minimum number of shares of any listed class (25 per cent.) in public hands at all times in the relevant jurisdictions and must notify the FSA as soon as possible if these holdings fall below the stated level. There are a number of other continuing obligations set out in Chapter 14 of the Listing Rules that will be applicable to ZDP Shares. These include requirements as to:

- (a) the forwarding of circulars and other documentation to the FSA for publication through the national storage mechanism, and related notification to a regulatory information service;
- (b) the form and content of temporary and definitive documents of title;
- (c) the appointment of a registrar;
- (d) the regulatory information service notification obligation in relation to a range of debt and equity capital issues; and
- (e) compliance with the Disclosure and Transparency Rules.

## PLACING STATISTICS

The following illustrative financial statistics are based on, and should be read in conjunction with, the Assumptions set out in Part 7 of this document. Prospective investors should note that actual outcomes can be expected to differ from these illustrations. The illustrations are not guarantees of future performance and involve certain risks and uncertainties that are hard to predict. Investors should therefore not rely on the illustrations. The attention of prospective investors is also drawn to the risk factors set out on pages 7 to 12 of this document.

### ZDP Shares

Placing Price per ZDP Share	100 pence
Final Capital Entitlement per ZDP Share	138 pence
Redemption Yield at Placing Price <sup>3</sup>	6.5 per cent.
Initial Cover for the ZDP Shares at Admission	1.57 times
Minimum hurdle rate to return the Final Capital Entitlement per ZDP Share (per annum for each of the next 5 years)	-8.77 per cent.
Minimum hurdle rate to return the Placing Price (per annum for each of the next 5 years)	-14.34 per cent.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

**Each of the times and dates is subject to change. References to a time of day are to London time. Any changes to the timetable will be notified by publication of a notice through a RIS.**

Admission and dealings in the ZDP Shares to commence on the London Stock Exchange	8.00 a.m. on 21 December 2011
CREST accounts credited	21 December 2011
Latest date of despatch of certificates for ZDP Shares	4 January 2012

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<sup>3</sup> The Redemption Yield of a ZDP Share is not, and should not be taken as, a forecast of profits and there can be no assurance that the ZDP Shares will be repaid in full on the ZDP Repayment Date.



## DIRECTORS AND ADVISERS

<b>Board of Directors</b>	John Campbell Boothman – <i>Non-executive Chairman</i> Helen Foster Green – <i>Non-executive Director</i> John Nigel Ward – <i>Non-executive Director</i>
<b>Administrator, Secretary and Registered Office</b>	Anson Fund Managers Limited Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 1EJ  Tel: +44 (0) 1481 722 260
<b>Investment Manager</b>	Premier Asset Management (Guernsey) Limited PO Box 405, Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3GF
<b>Investment Adviser – Smaller Companies Portfolio</b>	Unicorn Asset Management Limited Preacher's Court The Charterhouse Charterhouse Square London EC1M 6AU
<b>Investment Adviser – Income Portfolio</b>	Premier Fund Managers Limited Eastgate Court High Street Guildford GU1 3DE
<b>Financial Adviser, Global Coordinator and Stockbroker</b>	Fairfax I.S. PLC 46 Berkeley Square London W1J 5AT
<b>English Legal Advisers</b>	Stephenson Harwood 1 Finsbury Circus London EC2M 7SH
<b>Guernsey Legal Advisers</b>	Mourant Ozannes PO Box 186, 1 Le Marchant Street St Peter Port Guernsey GY1 4HP
<b>Auditors</b>	KPMG Channel Islands Limited PO Box 20, 20 New Street St Peter Port Guernsey GY1 4AN
<b>CREST Service Provider (Ordinary Shares)</b>	Computershare Investor Services (Jersey) Limited Queensway House Hilgrove Street St Helier Jersey JE1 1ES
<b>Registrar (ZDP Shares) and Receiving Agent</b>	Anson Registrars Limited PO Box 426 Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3WX

## PART 1

### INFORMATION ON THE ZDP SHARE ISSUE

#### 1. Background and reasons for the Placing

Bank of Scotland has informed Acorn Income Fund that it is not willing to renew the £6 million Bank Loan which is due to expire in February 2012. Having considered the alternatives with the Investment Manager, and the Company's other advisers, the Directors received Ordinary Shareholders' approval of the ZDP Share issue at an extraordinary general meeting on 15 December 2011. The proceeds of the Placing are to be used to both repay the Bank Loan and to enlarge the Portfolios.

The principal differences between replacing the Bank Loan with similar borrowings from another lender and the ZDP Share issue are that (i) the initial costs of the ZDP Share issue exceed the arrangement fees for new debt; (ii) lenders charge interest and fees until the debt is repaid, whereas no cash is due to investors in ZDP Shares until the ZDP Repayment Date on 31 January 2017; and (iii) it is possible to issue ZDP Shares which are not redeemable until the expiry of five years or more, whereas bank debt is less readily available in current credit markets for such a long period such that the initial costs of the issue of ZDP Shares, while higher than fees for arranging new bank debt, are spread over a longer period.

The cessation of interest payments on the Bank Loan and the increase in the size of the Portfolios are intended to deliver additional dividend and interest income and increased revenue return per Ordinary Share although this cannot be guaranteed. As at close of business on the Latest Practicable Date, the middle market price of an Ordinary Share was 158.25 pence, which represents a discount of 12.6 per cent. to the Net Asset Value per Ordinary Share as at 14 December 2011 (being the most recently announced NAV as at the Latest Practicable Date). The Directors believe that the additional dividend and interest income intended to result from the above may result in the Ordinary Shares trading at a lower discount to NAV within a few months of the ZDP Shares being issued, although there can be no guarantee that the discount will be lowered within that timeframe or at all.

The Directors also believe that an investment in the ZDP Shares is potentially attractive because they offer investors a potential preferred Redemption Yield of 6.5 per cent., although there is no guarantee that Acorn Income Fund's assets on the ZDP Repayment Date will be sufficient to pay the Final Capital Entitlement in full.<sup>4</sup> The ZDP Shares also have an Initial Cover of 1.57 times and will provide investors with access to an investment in a company which has a diversified asset base and is managed by an Investment Manager and Investment Advisers with considerable experience.

The Placing will result in the Company receiving net proceeds (after estimated expenses) of up to £11,600,460. The effect of the Placing on the financial statements of Acorn Income Fund will be to show a long term liability in respect of the amounts due to ZDP Shareholders, which will increase over the life of the ZDP Shares at a compound annual rate of 6.5 per cent. The terms of the Placing, including the issue price, were determined following a book building exercise by Fairfax on behalf of the Company.

The Company will apply the net proceeds of the Placing to repay the Bank Loan with the balance being divided between the Portfolios to be managed in accordance with their existing investment policies. It is proposed that approximately 70-80 per cent. will be allocated to the Smaller Companies Portfolio and the balance to the Income Portfolio.

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<sup>4</sup> The Redemption Yield of a ZDP Share is not, and should not be taken as, a forecast of profits and there can be no assurance that the ZDP Shares will be repaid in full on the ZDP Repayment Date.

## 2. ZDP Shares Key Information

It is expected that investors in the ZDP Shares will be institutional investors, investment funds, private client fund managers and private client brokers. The Directors believe an investment in the ZDP Shares is potentially attractive to such investors because:

- the ZDP Shares offer a Redemption Yield of 6.5 per cent.<sup>5</sup>;
- asset cover is derived from a broad spread of investments across the Income Portfolio and the Smaller Companies Portfolio;
- save with the prior sanction of ZDP Shareholders, Acorn Income Fund will not take on any bank borrowings (save for short term borrowings in the ordinary course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares) until the ZDP Repayment Date;
- the ZDP Shares will have a life of just over five years and a Final Capital Entitlement of 138 pence per ZDP Share on the ZDP Repayment Date and an Initial Cover of 1.57 times;
- for accounting purposes, the Company distinguishes between revenue and capital returns. In connection with the proposed Placing, the Company has allocated £1.2 million of current revenue reserves to capital, which the Board would not intend to distribute as dividends. Going forward, the Board intends to distribute by way of dividends all the amounts allocated to revenue in its accounts (net of expenses charged to revenue). Under its existing accounting policies (which are not intended to be changed as a result of the Placing) all fees and expenses are charged to revenue except that 75 per cent. of the investment management fee and, if it should arise, 75 per cent. of any bank interest, is charged to capital. Any performance fee payable to the Investment Manager will be allocated to capital and revenue based on where the out-performance was achieved. The expenses incurred in respect of the Placing and the accruing returns to ZDP Shareholders will be charged 100 per cent. to capital.

## 3. The ZDP Shares

The ZDP Shares are only suitable for investors: (i) who understand the potential risk of capital loss and the fact that there may be limited liquidity in the underlying investments of Acorn Income Fund; (ii) for whom an investment in the ZDP Shares would be of a long-term nature constituting part of a diversified investment portfolio; and (iii) who fully understand and are willing to assume the risks involved in investing in the ZDP Shares or in Acorn Income Fund through the ZDP Shares.

The ZDP Shares will entitle the holders to a fixed capital return on the ZDP Repayment Date. In order to pay the holders of ZDP Shares the fixed capital return, the ZDP Shares will be redeemed on the ZDP Repayment Date.

The Final Capital Entitlement will rank in priority to the capital entitlements of the Ordinary Shares. The ZDP Shares carry no entitlement to income and the whole of their return, therefore, takes the form of capital. However, potential investors should note that a Final Capital Entitlement amount of 138 pence per ZDP Share is not a guaranteed or secured repayment amount.

The ZDP Shares do not generally carry the right to vote at general meetings of Acorn Income Fund, although they carry the right to vote as a class on certain proposals which would be likely to materially affect their position.

Further information on the rights attaching to the ZDP Shares is set out in Part 5 of this document.

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<sup>5</sup> The Redemption Yield of a ZDP Share is not, and should not be taken as, a forecast of profits and there can be no assurance that the ZDP Shares will be repaid in full on the ZDP Repayment Date.

## **4. The Placing**

### **4.1 Details of the Placing**

Under the Placing, up to 12 million ZDP Shares are intended to be issued to investors at the Placing Price of 100 pence per ZDP Share, raising gross proceeds of up to £12 million. The net proceeds of the Placing, after the payment of placing commission and other estimated fees and expenses of £399,540, are estimated at £11,600,460.

Fairfax has agreed under the Placing Agreement to use its reasonable endeavours to procure Placees for the ZDP Shares at the Placing Price. Details of the Placing Agreement are set out in paragraph 16.1 of Part 8 of this document.

As at the date of this document, Fairfax has received placing letters comprising commitments from certain institutional investors to subscribe for, in aggregate, 12 million ZDP Shares at the Placing Price. The final result of the Placing will be announced via a RIS.

The Placing is conditional, *inter alia*, on:

- (i) the Placing Agreement becoming wholly unconditional (save as to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (ii) Admission occurring by 8.00 a.m. on 21 December 2011 (or such later date, not being later than 31 January 2012, as the Company and Fairfax may agree).

In the event that there are any significant changes affecting any of the matters described in this document or where any significant new matters have arisen after the publication of this document and prior to Admission, the Company will publish a supplementary prospectus. The supplementary prospectus will give details of the significant change(s) or the significant new matter(s).

### **4.2 Placing Price and Commissions**

The ZDP Shares have been conditionally placed at a Placing Price of 100 pence per ZDP Share.

Whilst Fairfax will be entitled to a commission payable by the Company in connection with monies raised under the Placing, no commissions are payable by the Company to Placees under the Placing.

### **4.3 CREST**

The ZDP Shares will be issued in registered form and will be eligible for settlement through CREST with effect from Admission. The ZDP Shares allocated will be transferred to Placees through the CREST system unless otherwise stated. Member firms should have given their CREST settlement details to Fairfax in their Placing Letter.

The Company will arrange for CREST to be instructed to credit the appropriate CREST accounts of the Placees concerned or their nominees with their respective entitlements to the ZDP Shares. The names of Placees or their nominees that invest through their CREST accounts will be entered directly on to the share register of the Company.

### **4.4 Dealing Arrangements**

Application has been made to the FSA and to the London Stock Exchange respectively for admission of all of the ZDP Shares to the Official List and to the London Stock Exchange's market for listed securities. It is expected that dealings in the ZDP Shares will commence on 21 December 2011. Dealings in ZDP Shares in advance of the crediting of the relevant stock account shall be at the risk of the person concerned.

Fairfax and Winterflood Securities Limited intend to make a market in the ZDP Shares.

The ISIN and SEDOL Code for the ZDP Shares are GG00B4W1FT21 and B4W1FT2 respectively.

#### **4.5    *Settlement***

Payment for the ZDP Shares should be made in accordance with settlement instructions to be provided to Placees by Fairfax. Monies received by Fairfax will be held in segregated client accounts pending settlement.

#### **4.6    *Transfer of the ZDP Shares***

The transfer of the ZDP Shares outside the CREST system should be arranged directly through the Registrar by completing and lodging an appropriate stock transfer form. However, an investor's beneficial holding held through the CREST system may rematerialise, in whole or in part, only upon the specific request of a beneficial owner to CREST through submitting a stock withdrawal form for share certificates or an uncertificated holding in definitive registered form.

If a ZDP Shareholder or transferee requests ZDP Shares to be issued in certificated form and is holding such ZDP Shares outside CREST, a share certificate will be despatched either to them or their nominated agent (at their own risk) within 10 days of completion of the registration process or transfer, as the case may be, of the ZDP Shares. ZDP Shareholders holding a definitive certificate may elect at a later date to hold their ZDP Shares through CREST or in uncertificated form, provided they surrender their definitive certificates.

## PART 2

### INFORMATION ON ACORN INCOME FUND

#### 1. Introduction

Acorn Income Fund is incorporated in Guernsey and its Ordinary Shares have been admitted to listing by the UK Listing Authority and traded on the London Stock Exchange since February 1999. Its investment manager is Premier Asset Management (Guernsey) Limited.

Acorn Income Fund has adopted a dual portfolio approach to offer investors exposure to UK small companies and other income generating securities. At launch, around 75 per cent. of the Company's portfolio was invested in smaller capitalised UK companies with above average yield, and 25 per cent. in interest-bearing securities.

Unicorn Asset Management Limited took on responsibility for the Smaller Companies Portfolio in July 2000. In the period between 31 July 2000 and December 2006, the investment performance was good, with a total return of 155 per cent. against the UK Small Cap sector average of 53 per cent. and the FTSE Small Cap (excluding investment companies) 37 per cent., ranking it fourth best Small Cap performer. Nevertheless, Acorn Income Fund was put in a position whereby certain significant shareholders on the register pressed for a return of capital at the end of 2006 and a tender offer was carried out. Approximately 70 per cent. of the Ordinary Shareholders accepted the tender and their Ordinary Shares were cancelled in January 2007, leaving Acorn Income Fund substantially smaller.

Premier Asset Management (Guernsey) Limited became Investment Manager of Acorn Income Fund at the time of the tender offer, with Premier Fund Managers Limited assuming responsibility as Investment Adviser to the Income Portfolio, while Unicorn Asset Management Limited was retained as Investment Adviser to the Smaller Companies Portfolio.

Against the funds in the UK Smaller Company sub-sector (currently comprising 18 stocks), Acorn Income Fund's NAV total return has been in the top 5 ranked places of performance in 9 out of the 11 annual cumulative periods to 31 October 2011.

A comparison of Acorn Income Fund's performance with those investment companies in the UK High Income and the UK Growth & Income sub-sectors (currently comprising 7 and 23 stocks respectively) shows that, over the same time frame as above, Acorn Income Fund was ranked first against the UK High Income funds in 9 out of the 11 cumulative periods, and third in the remaining 2, and against the UK Growth & Income sub-sector it was ranked first in 8 out of 11 periods and second in the remaining 3.

Acorn Income Fund has achieved an annualised return of 10.4 per cent. between 31 July 2000 and 31 October 2011, the highest return of the 14 UK Smaller Company investment companies that have been in existence since that date. Furthermore, its dividend yield as at 31 October 2011 of 4.3 per cent. was far superior to the UK Smaller Company average of 2.0 per cent., and only one investment company in the Morningstar UK Smaller Company sub-sector has a higher yield.

#### 2. Investment Strategy and Policy

The objectives of Acorn Income Fund are to provide Shareholders with a high income and also the opportunity for capital growth.

Acorn Income Fund's investments are held in two Portfolios, as described in paragraph 1 above. Its assets comprise investments in equities and fixed interest securities in order to achieve its investment objectives. Approximately 70 to 80 per cent. of the portfolio is in smaller capitalised United Kingdom companies admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM at the time of investment. Acorn Income Fund also aims to enhance income for Shareholders by investing approximately 20 to 30 per cent. of its assets in high yielding instruments which are predominantly fixed interest securities but may include up to 15 per cent. of the Company's overall portfolio (measured at the time of investment) in high yielding investment company shares.



The proportion of the overall portfolio held in the Smaller Companies Portfolio and the Income Portfolio varies from day to day as the market prices of investments move. The Directors retain discretion to transfer funds from one portfolio to the other and generally expect between 70 to 80 per cent. of the investments to be held in the Smaller Companies Portfolio.

While the Company's investment policy is to spread risk by maintaining diversified Portfolios, there are no restrictions on the proportion of either of the Portfolios which may be invested in any one geographical area, asset class or industry sector. However, not more than 7.5 per cent. of the Company's gross assets may be invested in securities issued by any one company as at the time of investment, save that (i) in respect of the Income Portfolio only, investments may be made in other investment funds subject only to the restriction set out in part (c) of the paragraph headed *Investment Restrictions* below; and (ii) in respect of the Smaller Companies Portfolio only, provided that not more than 10 per cent. of the Company's gross assets are invested in securities issued by any one company at any time, the 7.5 per cent. limit may be exceeded on a short term basis, with Board approval, where a company whose securities form part of the Smaller Companies Portfolio issues new securities (for example by way of a rights issue).

The Company's gearing policy following the Placing will be not to employ any gearing through long-term bank borrowing. Save with the prior sanction of the ZDP Shareholders, the Company will incur no indebtedness other than short term borrowings in the normal course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares.

The investment policies of the two Portfolios are as follows:

#### *Smaller Companies Portfolio*

The Smaller Companies Portfolio is invested predominantly in equities of UK companies with a market capitalisation of under £1 billion. The focus is on companies with experienced and well motivated management, products or services supplying growth markets, sound operational and management controls, good cash generation and a progressive dividend. The target yield of this portfolio, which may be varied from time to time having regard to market conditions and the yield on the Income Portfolio, is around 3.75 per cent. per annum as at the date of this document.

The Smaller Companies Portfolio is predominantly invested in securities which are admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM at the time of investment. There is no fixed allocation to any industry sectors and the Smaller Companies Portfolio is invested in a diversified spread of industry sectors, but has limited exposure to certain sectors which do not generally satisfy the requirement for good cash generation and progressive dividends.

#### *Income Portfolio*

The assets in the Income Portfolio comprise sterling denominated fixed interest securities, including corporate bonds, preference and permanent interest bearing shares, convertible securities, reverse convertible bonds, contingent convertible bonds, debentures and other similar securities and securities issued by open-ended bond funds. The Income Portfolio may also contain higher yielding shares of other investment companies, including property investment companies, not exceeding 15 per cent. of the overall portfolio at the time of investment. It may also contain instruments denominated in other currencies in respect of which the currency exposure is generally hedged. The target yield of this portfolio, which may be varied from time to time having regard to market conditions and the yield on the Smaller Companies Portfolio, is around 7.0 per cent. per annum as at the date of this document.

There is no fixed allocation between unrated investments (being those which have not been given a credit rating), investment grade securities and non investment grade securities.

## *Derivatives*

The Company may invest in derivatives, money market instruments and currency instruments including contracts for differences, futures, forwards and options. These investments may be used for hedging positions against movements in, for example, equity markets, currencies and interest rates. In addition, these instruments will only be used for efficient portfolio management purposes. The Company will not use such instruments to engage in trading transactions. The Company will not maintain derivative positions should the total underlying exposure of these positions exceed one times adjusted total capital and reserves.

## *Investment Restrictions*

For so long as required by the Listing Rules in relation to closed-ended investment companies, Acorn Income Fund has adopted the following investment and other restrictions:

- (a) Acorn Income Fund will at all times invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy;
- (b) Acorn Income Fund will not conduct any significant trading activity; and
- (c) not more than 10 per cent. in aggregate of the value of the total assets of Acorn Income Fund at the time the investment is made will be invested in other listed closed-ended investment funds. The Listing Rules provide an exception to this restriction to the extent that those investment funds have stated investment policies to invest no more than 15 per cent. of their total assets in other listed closed-ended investment companies.

### **3. Investment Manager and Investment Advisers**

#### *Premier Asset Management (Guernsey) Limited – Investment Manager*

Premier Asset Management (Guernsey) Limited is wholly-owned by Premier Asset Management Limited, a privately owned asset management group; the principal beneficial shareholders are the management team and Electra Private Equity PLC. Via its FSA regulated subsidiaries, Premier Asset Management Limited manages a range of authorised UK and offshore funds, including closed-ended investment companies, as well as providing discretionary portfolio management services for private and corporate clients. The group currently has approximately £2.2 billion of assets under management based on valuations as at 31 October 2011.

Premier Asset Management (Guernsey) Limited (formerly known as BFS Investments (Guernsey) Limited) was incorporated in Guernsey with registered number 38201 on 3 April 2001 under The Companies (Guernsey) Laws, 1994 to 1996, as amended as a limited company with registered office at Anson Place, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 1EJ. The contact telephone number is 01481 722260. The Investment Manager is regulated by the Guernsey Financial Services Commission and is licensed under The Protection of Investors (Bailiwick of Guernsey) Law, 1987, to carry on Controlled Investment Business.

The Investment Manager's management agreement with Acorn Income Fund is summarised in paragraph 16.7 of Part 8. During 2010, the Investment Manager received fees of £133,698, from which payments were made to the Investment Advisers.

#### *Premier Fund Managers Limited – Investment Adviser to the Income Portfolio*

Premier Fund Managers Limited, which is authorised and regulated by the FSA, is a subsidiary of Premier Asset Management Limited. Premier Fund Managers Limited was incorporated in England and Wales with registered number 2274227 on 5 July 1988 and has its registered office address at Eastgate Court, High Street, Guildford, Surrey GU1 3DE (telephone number 01483 306090).

The senior investment manager responsible for the Income Portfolio is Paul Smith. Paul has managed fixed income portfolios at Premier since 2006. He manages Premier's Strategic High Income Bond Fund, Corporate Bond Monthly Income Fund and UK Money Market Fund. In 2011, he was awarded the Investment Week Fund Manager of the Year Award for the money market sector. He has a 1st class honours degree in Economics and an MA in Finance and Investment (with distinction) from Exeter University.

Unicorn Asset Management Limited, which is authorised and regulated by the FSA, was incorporated in England and Wales with registered number 3919499 on 4 February 2000 and has its registered office address at First Floor, Office Preachers Court, The Charterhouse, Charterhouse Square, London EC1M 6AU (telephone number 020 7253 0889).

Unicorn Asset Management Limited (“**Unicorn**”) is a privately owned company, with the directors and management owning 43 per cent. of the shares. The company manages a range of UK authorised funds, including a venture capital trust and an open-ended investment company (OEIC) with five sub-funds. As at 31 October 2011, Unicorn had approximately £142 million of assets under management.

The director responsible for the Smaller Companies Portfolio is John McClure who has 22 years’ experience of running smaller companies portfolios. John has been involved with the Smaller Companies Portfolio of Acorn Income Fund since inception and is solely responsible for managing the Unicorn UK Income Fund.

#### **4. Gearing Policy and Restrictions**

Acorn Income Fund has no restrictions on gearing or borrowings in its Articles. However, prior to the Placing the Board adopted a policy of limiting borrowings to 30 per cent. of gross assets as at the time the borrowings were entered into. This will change as a result of the Placing of ZDP Shares, which are treated as debt under applicable International Accounting Standards.

Acorn Income Fund’s present £6 million Bank Loan expires in February 2012 and the Directors have decided to refinance the facility out of part of the proceeds of the Placing.

As at the Latest Practicable Date, Acorn Income Fund had gross assets of £22.07 million and £6.0 million debt. The gearing ratio of debt to gross assets at that date was therefore 27 per cent. The effect of raising gross Placing proceeds of up to £12 million, (being £11,600,460, net of issue costs) is to increase the gearing ratio of debt to gross assets to about 43 per cent. after repayment of the Bank Loan. This gearing ratio will change as the entitlements of ZDP Shareholders accrue over time and as a result of other factors such as investment performance, distributions and the issue or redemption of Ordinary Shares and ZDP Shares.

In order to protect the interests of ZDP Shareholders, the Company may not, without the prior sanction of the ZDP Shareholders at a separate class meeting, incur any bank borrowings save for any short term bank borrowings in the ordinary course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares. However, this will not prevent gearing increasing as a result of investments falling in value. There are no set gearing limits.

#### **5. Dividends, Distributions and Dividend Policy**

The ZDP Shares do not carry a right to a dividend. Dividends may be paid whenever the financial position of Acorn Income Fund, in the opinion of the Directors, justifies such payment, subject to the Company being able to satisfy the solvency test, as defined under the Law, immediately after payment of such dividend. Acorn Income Fund may by ordinary resolution from time to time declare dividends.

The dividends paid on each Ordinary Share in respect of the last three financial years were as follows: 8.2 pence (2008); 6.0 pence (2009); and 6.25 pence (2010). Acorn Income Fund has in aggregate paid three interim dividends of 5.25 pence during the first nine months of 2011. A fourth dividend for 2011 of 1.75 pence per Ordinary Share is payable on 23 December 2011, making a total distribution for 2011 of 7.0 pence per Ordinary Share.

The dividend policy adopted by the Board is to pay dividends to holders of Ordinary Shares quarterly in March, June, September and December in each year.

The Company has revenue and capital reserves for accounting purposes. The Company transferred £1.2 million from its revenue reserves to its capital reserves on 15 December 2011. Following the Placing, the Directors intend to distribute the accounting revenue reserves of the Company to Ordinary

Shareholders even where the Cover on the ZDP Shares is less than 1. ZDP Shareholders should have no expectation that amounts referable to the Company's accounting reserves will be available to satisfy their capital entitlement.

No dividends will, without the prior consent of ZDP Shareholders at a separate class meeting, be paid out of the Company's capital reserves. This shall not prevent the Company from, or require it to obtain prior ZDP Shareholder approval for, using amounts standing to the credit of the Company's capital reserves for the purchase of Shares.

## **6. Treasury share dealing policy, discount management and share issues**

Acorn Income Fund has adopted a treasury share dealing policy which may involve the purchase of Ordinary Shares into treasury. Shares may be quoted at a discount to NAV and the purpose of the treasury share dealing policy is to seek to mitigate the impact of any such discount without increasing gearing.

Acorn Income Fund has the power to buy back up to 14.99 per cent. of the ZDP Shares in issue following completion of the Placing. Any ZDP Shares purchased by the Company will be cancelled.

Under the treasury share dealing policy, Ordinary Shares may be sold from treasury (i) at a price equivalent to or greater than NAV per Ordinary Share; or (ii) at a discount to NAV per Ordinary Share if additional ZDP Shares are issued at the same time at a premium such that the combined effect of the sale of Ordinary Shares at a discount to NAV and the issue of ZDP Shares at a premium is that NAV per Ordinary Share is increased and where there is no increase in gearing as a result. The Directors do not expect to issue any new Ordinary Shares while there are any remaining Ordinary Shares held in treasury. The terms on which any new Ordinary Shares may be issued are the same as stated above in respect of sales from treasury.

## **7. Effect of the Placing on Acorn Income Fund**

The ZDP Shares will be treated as a liability due in more than one year in the financial statements of Acorn Income Fund. That liability will initially be equal to the Initial Gross Proceeds. The proceeds of the Placing will be applied to redeem the Bank Loan and to pay the costs of the Placing, which are estimated at approximately £399,540. The balance will be added to the Portfolios and invested in accordance with their existing investment policies. The effect of the foregoing on the net assets of Acorn Income Fund will be to reduce the net assets by £399,540, which amounts to approximately 4.58 pence per Ordinary Share.

The effect of the Placing on the Company's gearing is described in paragraph 4 above. The increase in gearing will magnify the exposure of NAV per Ordinary Share to fluctuations in the value of the Portfolios.

If the gross assets as at the Latest Practicable Date increased or decreased in value by 10 per cent., the effect on NAV per Ordinary Share would be an increase of 14 per cent. or a decrease of 14 per cent. respectively. If the gross assets and liabilities as at that date were increased as a result of the Placing and the gross assets increased or decreased in value by 10 per cent., the effect on NAV per Ordinary Share would be an increase of 18 per cent. or a decrease of 18 per cent. respectively.

The repayment of the Bank Loan will result in there being no bank charges or interest payable. The repayment of the Bank Loan out of the Placing proceeds will eliminate Acorn Income Fund's exposure to increases in interest payable in the event of LIBOR increasing.

Under Acorn Income Fund's accounting policies, (which are not intended to be changed as a result of the Placing) 25 per cent. of interest costs are charged to the income account and the balance to the capital account. During the year ended 31 December 2010, interest payable and similar charges of £19,521 and £58,563 were charged to income and capital respectively. All the return to ZDP Shareholders comprises a capital entitlement which accrues at a compound rate of 6.5 per cent. per annum and is all charged to capital.

## **8. Custody**

The Custodian of Acorn Income Fund is BNP Paribas Trust Company (Guernsey) Limited, a company which was incorporated with limited liability in Guernsey on 27 October 2000 with registered number 37522 and whose principal activity is the provision of trustee and custodian services to collective investment schemes. The Custodian is licensed to carry out controlled investment business in the Bailiwick of Guernsey. As at the date of this document, the Custodian's issued and paid up share capital is £2 million divided into 2 million shares of £1 each.

BNP Paribas Trust Company (Guernsey) Limited is a wholly owned subsidiary of BNP Paribas Securities Services (Holdings) Limited, a company incorporated in the island of Jersey which in turn is ultimately owned by BNP Paribas SA, a company incorporated in France.

The registered office of the Custodian is at BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey.

The Custodian holds all the investments (including any interests in other funds) and receives all investment income on behalf of Acorn Income Fund. The agreement between the Custodian and Acorn Income Fund is summarised in paragraph 16.4 of Part 8. Custody arrangements have been delegated to BNP Paribas Securities Services SCA, Guernsey Branch ("BP2S") which uses a global network of sub-custodians. Securities held in CREST are registered in the name of BNP Paribas Securities Services Nominees Limited and Securities held in Euroclear are held in the name of BP2S. BP2S is a limited liability company incorporated in France (registered no. 552 108 011 R.C.S. Paris) and is regulated by the Guernsey Financial Services Commission to undertake investment and fiduciary related business in Guernsey. The registered office is 3 Rue D'Antin, 75002, Paris, France.

## **9. Report and Accounts**

The annual report and financial statements of the Company are made up to 31 December in each year and are published and sent to Shareholders within four months of the year end. The Company publishes unaudited half-yearly results covering the six months to 30 June in each year. The half-yearly results are published and sent to Shareholders within two months of 30 June in each year.

The Company also publishes interim management statements.

## **10. Life of the Company**

The Company has been established with an unlimited life. The Articles require a continuation vote to be proposed at every fifth annual general meeting of the Company. In order to pay the holders of ZDP Shares the Final Capital Entitlement, the ZDP Shares will be redeemed on the ZDP Repayment Date. Acorn Income Fund's second continuation vote was passed at the annual general meeting in August 2011. The Company is required, pursuant to the Articles, to propose a similar continuation vote at the annual general meeting in 2016. If it is not passed, proposals will be formulated for the cessation or reconstruction of the Company having regard to the need to redeem the ZDP Shares.



## PART 3

### DIRECTORS AND CORPORATE GOVERNANCE

#### 1. Directors

The Directors are John Boothman, Helen Green and Nigel Ward.

##### *John Boothman (Non-executive Chairman)*

John is a resident of Jersey. He is currently non-executive chairman of Aztec Group Limited and non-executive chairman of JT Group Limited. He was managing director of Deutsche Bank International Limited from 1994 to 2002. He is a director of a number of other investment funds and on the board of the Jersey International Business School. John has been a director of Acorn Income Fund since October 2003.

##### *Helen Green (Non-executive Director)*

Helen is a chartered accountant. She has been employed by Saffery Champness, a top 20 firm of chartered accountants, since 1984. She qualified as a chartered accountant in 1987 and became a partner in the London office in 1997. Since 2000 she has been based in the Guernsey office where she is client liaison director responsible for trust and company administration. She serves on the boards of a number of companies in various jurisdictions. Helen has been a director of Acorn Income Fund since January 2007.

##### *Nigel Ward (Non-executive Director)*

Nigel is an independent non-executive director on the board of several offshore funds and companies, including AIM and CISX listed, with investment mandates ranging across property, agricultural land, ground rents, UK and North American equities, credit and mining and exploration. He has over 38 years' experience of international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry. A founding Commissioner of the Guernsey Police Complaints Commission, an Associate of the Institute of Financial Services, a member of the Institute of Directors and holder of the Institute of Directors Diploma in Company Direction, he is a resident of Guernsey. Nigel was appointed to the Board on 1 December 2011.

The business address of each of the Directors is Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey GY1 1EJ.

#### 2. Corporate Governance

##### **Statement of Compliance with the UK Code on Corporate Governance**

Acorn Income Fund complies with both (i) the UK Corporate Governance Code (the “**Code**”), which requires compliance with its provisions or an explanation for any non compliance, and (ii) the Guidance on Corporate Governance in the Finance Sector in Guernsey issued by the Guernsey Financial Services Commission (the “**Commission**”) in December 2004.

The Commission has issued The Finance Sector Code of Corporate Governance which will come into effect on 1 January 2012 (the “**Guernsey Code**”). As the Company complies with the Code, it will be deemed to have met the requirements of the Guernsey Code.

Acorn Income Fund, with its premium listing and in accordance with the Listing Rules, must comply with the Code. The Company complies with the provisions of the Code save as explained below.

The Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the preamble to the Code, the Board considers these provisions are not relevant to Acorn Income Fund. Acorn Income Fund has therefore not reported further in respect of these provisions.



Other areas of non-compliance with the Code by Acorn Income Fund, and the reasons therefor, are as follows:

- The Chairman is the senior independent Director. This is not in accordance with provision A.4.1 of the Code but is felt to be appropriate for the size and nature of Acorn Income Fund.
- There is no separate nomination committee, which is not in accordance with provision B.2.1 of the Code. Given the small size of the Board, and the fact that all Directors are independent and non-executive, it is felt that this function can be performed by the full Board.
- The terms and conditions of appointment of the Directors are not available for inspection as required by provision B.3.2 of the Code as the Directors did not deem it necessary to formalise the terms and conditions of appointment or to sign letters of appointment. The Directors therefore do not have fixed time commitments but are expected to commit sufficient time to meet the needs of Acorn Income Fund on an ongoing basis.
- The Directors do not undertake a formal performance evaluation of the Board, its committees or the individual Directors as required by provision B.6 of the Code. The Directors decided that this was not appropriate given the nature of Acorn Income Fund but keep this requirement under review. The Directors are not subject to re-election by the Ordinary Shareholders at intervals of no more than three years as required by provision B.7.1 of the Code, nor are they appointed for specific terms as required by provision B.2.3, as this is not felt to be appropriate for the size and nature of Acorn Income Fund.
- The Directors have not established a remuneration committee as required by provision D.2.1 of the Code as the Board does not have any executive directors and does not consider it to be appropriate for the size and composition of the Board.

The role of the Directors is to ensure good corporate governance. It is the responsibility of the Directors to ensure that there is effective stewardship of Acorn Income Fund's affairs. The Directors have agreed a schedule of matters reserved for their specific approval, which includes monitoring the performance of Acorn Income Fund. The Directors monitor Acorn Income Fund's total capital position and levels of gearing. The Directors also consider, as appropriate, such matters as overall strategy and share price performance.

The Directors consider relations with Shareholders to be important. Regular presentations are given to institutional Shareholders and the Directors consider the annual general meeting an opportunity to communicate with all Shareholders.

The Directors meet regularly to discuss issues relating to investment strategy, review the performance of the Portfolios, declare dividends and approve interim and preliminary announcements. The Chairman is also required to report at each meeting on corporate governance issues. There are four regular meetings per annum.

No individual or group of individuals dominates the Directors' decision-making.

#### ***Audit Committee***

The Audit Committee comprises the whole Board and is chaired by Helen Green. The Audit Committee, which operates within defined terms of reference, meets at least twice a year and is responsible for reviewing the annual and interim reports, the nature and scope of the external audit and the findings therefrom, and the terms of appointment of the Auditors, including their remuneration and the provision of any non-audit services by them. The Audit Committee considers the independence of the Auditors and the objectivity of the audit process and, if satisfied, confirms that the Auditors are independent and have fulfilled their obligations to Shareholders. The Audit Committee meets representatives of the Investment Advisers and their compliance officers, who report as to the proper conduct of business in accordance with the regulatory environment in which Acorn Income Fund and the Investment Advisers operate, and reviews the Investment Advisers' internal controls. The Auditors also attend meetings of the Audit Committee at its request and report on their findings in relation to Acorn Income Fund's statutory audit.

### **3. Conflicts of Interest**

There are no conflicts of interest between (i) any duties to Acorn Income Fund of any of the Directors or of the Investment Manager or of the Investment Advisers and (ii) their private interests and/or other duties.

## PART 4

### ACORN INCOME FUND PORTFOLIO INFORMATION

**The information set out in this Part 4 represents the portfolio of Acorn Income Fund as at 14 December 2011. The information in this Part 4, which has not been audited, has been sourced from information supplied by Premier Asset Management (Guernsey) Limited in its capacity as investment manager of Acorn Income Fund.**

1. As at the Latest Practicable Date, the Portfolios comprised 65 investments with an aggregate value, on that date, of £21.86 million, valued as at their closing bid prices in respect of listed and AIM quoted investments and based on the market prices of other investments in accordance with Acorn Income Fund's accounting policies. At that date it had other assets (debtors etc) of £0.21 million such that gross assets amounted to £22.07 million.
2. The top fifteen holdings in each Portfolio and the percentage each represents of the Company's gross assets (in both Portfolios) at the Latest Practicable Date were:

<b>Smaller Companies Portfolio</b>	<b>Valuation (£)</b>	<b>Percentage of gross assets</b>
RPC Group PLC	1,354,931	6.20%
James Halstead PLC	1,092,475	5.00%
Castings Plc	998,691	4.57%
VP PLC	904,941	4.14%
Fenner PLC	861,659	3.94%
Diploma PLC	832,814	3.81%
Devro PLC	827,125	3.78%
Consort Medical PLC	807,211	3.69%
Stobart Group Ltd	806,468	3.69%
Lupus Capital	787,350	3.60%
Primary Health Properties PLC	603,244	2.76%
Rotork PLC	593,126	2.71%
Renishaw PLC	567,179	2.59%
Harvey Nash Group Plc	542,500	2.48%
Mucklow (A&J) Group PLC	541,840	2.48%
	<b>12,121,554</b>	<b>55.46%</b>

<b>Income Portfolio</b>	<b>Valuation (£)</b>	<b>Percentage of gross assets</b>
Lloyds 7.8673% Contingent Convertible 2019	271,687	1.24%
Standard Life UK Smaller Companies 3.5% CULS	251,250	1.15%
Invesco Leveraged High Yield	248,750	1.14%
Greenwich Loan Income Fund Limited	237,500	1.09%
ICAP Group Holdings PLC 7.5% 2014	220,507	1.01%
Electra Private Equity 5% CULS 2020	213,000	0.97%
EcoFin Wtr & Pwr Opportunities 6% CULS 2016	208,000	0.95%
ING Bank NV 6.875% 2023	190,571	0.87%
Credit Suisse 7.875% 2041	184,628	0.84%
HSBC Holdings PLC 6.25% 2018	179,009	0.82%
Aviva 5.9021% Perp - 2020	166,895	0.76%
Italy (Govt) 5% 2034	164,164	0.75%
Henderson Group 6.5% 2012	158,374	0.72%
Gas Natural 4.5% 2020	155,094	0.71%
EDF Energy (SE Pwr) 3.053% 2023	143,731	0.66%
	<b>2,993,160</b>	<b>13.69%</b>

### 3. Total portfolio geographical analysis

Great Britain	87.11%
Channel Islands	7.31%
Netherlands	1.40%
USA	1.39%
Spain	1.15%
Italy	0.77%
France	0.61%
Switzerland	0.22%
Norway	0.04%

### 4. Analysis of Smaller Companies Portfolio

<b>Index category</b>	<b>Market Value</b>	<b>% of Portfolio</b>
FTSE SmallCap	9,378,850	55.9%
FTSE 250	3,495,665	20.8%
FTSE AIM	2,172,324	13.0%
FTSE Fledgling	1,211,127	7.2%
Cash/Net Current Assets	515,591	3.1%
<b>Total</b>	<b>16,773,557</b>	<b>100.0%</b>

<b>Sector analysis</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Industrial Engineering	2,824,575	16.8%
Support Services	3,964,603	23.6%
General Industrials	1,641,275	9.8%
Real Estate	1,145,084	6.8%
Food Producers	827,125	4.9%
General Retailers	505,019	3.0%
Electronic & Electrical Equipment	567,179	3.4%
Travel & Leisure	482,500	2.9%
Industrial Transportation	806,468	4.8%
Construction & Materials	1,879,825	11.2%
General Financial	807,102	4.8%
Health Care Equipment & Services	807,211	4.8%
Cash/Net Current Assets	515,591	3.1%
<b>Smaller Companies Portfolio Total</b>	<b>16,773,557</b>	<b>100.0%</b>

## 5. Analysis of Income Portfolio

	<b>Market Value</b>	<b>% of Portfolio</b>
Government Securities	291,248	5.7%
Bond Funds	300,427	5.9%
Futures & Options	27,872	0.5%
Convertibles	672,250	13.2%
Contingent Convertible	644,866	12.7%
Other Closed End Funds	237,500	4.7%
Other Fixed Interest	2,465,177	48.5%
Cash/Net Current Assets	444,918	8.8%
<b>Total Income Portfolio</b>	<b>5,084,258</b>	<b>100.0%</b>

<b>Sector analysis</b>	<b>Market Value</b>	<b>% of Portfolio</b>
Private Equity	111,241	2.2%
Electric	143,731	2.8%
Oil & Gas Services	163,500	3.2%
Insurance	166,895	3.3%
Government Securities	291,248	5.7%
Water	114,486	2.3%
Diversified Financial Services	825,900	16.2%
Closed-end Funds	1,210,177	23.8%
Banks	1,584,290	31.2%
Futures & Options	27,872	0.5%
Cash/Net Current Assets	444,918	8.8%
<b>Income Portfolio Total</b>	<b>5,084,258</b>	<b>100.0%</b>

## 6. Net Asset Value

As at the Latest Practicable Date, Acorn Income Fund had portfolio assets of £21.86 million of which 76.7 per cent. was represented by the Smaller Companies Portfolio and 23.3 per cent. by the Income Portfolio. Net Assets at that date were £15.80 million.

Unless otherwise indicated, the information set out in this Part 4 is unaudited, has been extracted from internal management accounting records maintained by Acorn Income Fund and is consistent with Acorn Income Fund's accounting policies.

## PART 5

### THE ZDP SHARES

#### Terms of the ZDP Shares

The terms of the ZDP Shares in this Part 5 should be read in conjunction with the summary of the Articles in paragraph 5 of Part 8.

(A) ***Rights as to dividends:***

The ZDP Shares carry no rights to receive dividends out of the revenue or any other profits of the Company.

(B) ***Rights as to capital:***

The assets of the Company available for distribution to Shareholders after payment of all of the Company's liabilities in full will be applied as follows (and in each case distributed among the holders of Shares of each class rateably according to amounts paid up on such Shares held by them):

- (1) first, any undistributed income of the Company standing to the credit of the Company's accounting revenue reserves (including any current year and accumulated revenue reserve) shall be paid to the holders of Ordinary Shares in proportion to their holdings to the extent that such undistributed income standing to the credit of the Company is attributable to the Shares held by them;
- (2) second, there shall be paid to the holders of the ZDP Shares an amount equal to 100 pence per ZDP Share as increased each day from 21 December 2011 up to and including 31 January 2017 at the daily compound rate which results in a final entitlement of 138 pence on 31 January 2017; and
- (3) third, subject to the terms of the Articles, there shall be paid to the holders of Ordinary Shares in proportion to their holdings the surplus assets of the Company available for distribution.

(C) ***Rights as to voting:***

- (1) (a) the holders of the ZDP Shares shall have the right to receive notice of general meetings of the Company but shall not have the right to attend or vote at any general meeting of the Company unless the business of the meeting includes any resolution to vary, modify or abrogate any of the special rights attached to the ZDP Shares and at any meeting where any such business is to be considered such holders shall be entitled to vote in relation to such business alone; and
- (b) where by virtue of the provisions of paragraph (a) above the holders of the ZDP Shares are entitled to vote, every such holder present in person or by a duly authorised representative (if a corporation) at a meeting shall, in relation to such business, have one vote in respect of every ZDP Share held by him;
- (2) (a) subject to paragraphs (2)(b) and (2)(c) below, the Company shall not without the previous sanction of a resolution of the holders of the ZDP Shares passed at a separate class meeting of such holders convened and held in accordance with the provisions of the Articles:
  - (i) issue further shares or securities, or rights to subscribe for or to convert or exchange any securities into shares or securities or reclassify issued share capital into shares of a particular class where such shares would on issue, conversion, exchange or reclassification rank as to capital in priority to or *pari passu* with the ZDP Shares;

- (ii) without prejudice to the provisions of paragraph (2)(a)(i) above, issue further shares or securities, or rights to subscribe for or to convert or exchange any securities into shares or securities or reclassify issued share capital into shares of a particular class save that there may be issued at any time shares, securities or rights to subscribe for or to convert or exchange into shares or securities, and shares may be reclassified as such other shares, provided that, in either case, (a) the Cover Test is satisfied; or (b) Cover is otherwise increased as a result of and upon such issue or reclassification;
- (iii) pass a resolution releasing the Directors from their obligation to redeem the ZDP Shares on the ZDP Repayment Date in accordance with paragraph (D) below;
- (iv) other than the redemption of the ZDP Shares provided for in paragraph (D) below, pass a resolution to reduce the capital of the Company in any manner, including any resolution authorising the Directors to purchase Shares save that the Company may without such sanction take authority to make, and effect purchases of its own Shares provided that, in any event, (i) the Cover Test would be met immediately following any such purchase; or (ii) Cover is otherwise increased as a result of and upon such purchase;
- (v) incur any bank borrowings (excluding monies borrowed for temporary purposes only and in the ordinary course of business including, without limitation, for the purpose of settling transactions and any monies borrowed for the purpose of paying the Final Capital Entitlement or then accrued entitlement of the ZDP Shares);
- (vi) other than the redemption of the ZDP Shares provided for in paragraph (D) below, pass any resolution which authorises the Directors to pay a dividend or other distribution out of the capital reserves of the Company as recorded in the Company's accounts provided that the Company may, without such sanction, make a purchase of Shares permitted under paragraph (iv) above;
- (vii) make any material change to the Company's investment policy which, at the time of making such change, appears likely in the reasonable opinion of the Directors to be materially prejudicial to the holders of the ZDP Shares;
- (viii) make any material change to the basis on which the Company charges expenses to its revenue and capital accounts; or
- (ix) pass any resolution to vary, modify or abrogate any of the special rights attached to the ZDP Shares.

For the purpose of this paragraph (2)(a), the “**Cover Test**” is that the Directors shall have calculated that, in their opinion, were the actions detailed in paragraphs (ii) or (iv) above (each an “**Action**”) to take place on the date specified by the Directors for such calculation (the “**Calculation Date**”) those ZDP Shares in issue immediately thereafter would have Cover of not less than 1.85 times. For the purpose of this paragraph (2)(a), the Cover on the ZDP Shares shall represent a fraction where the numerator is equal to the gross assets of Acorn Income Fund less current liabilities and accrued charges (other than debt and liabilities to ZDP Shareholders) as at the Calculation Date, less the amount standing to the credit of the Company's revenue reserves as at the date of the Company's most recently published balance sheet, as determined by the Directors in their absolute discretion and reviewed by such persons as the Directors may (but shall not be obliged to) nominate and the denominator is equal to the aggregate amount which would be paid to the holders of the ZDP Shares in issue on the Calculation Date as a class (and on all shares ranking as to capital in priority thereto or *pari passu* therewith) on the ZDP Repayment Date, plus the Company's borrowings (if any), plus the cumulative management fees to be charged to capital over the period from the Calculation Date



to the ZDP Repayment Date (such fees to be calculated on the basis that there is no change in the value of the Company's assets between the Calculation Date and the ZDP Repayment Date). In calculating such Cover, the Directors shall:

- (i) use the portfolio valuations underlying the net assets value figure published by the Company at the end of the immediately preceding month (or on such other date as the Board in its absolute discretion may determine);
  - (ii) assume that the Action had been undertaken at the end of the month prior to the Calculation Date (or on such other date as the Board in its absolute discretion may determine);
  - (iii) adjust the aggregate assets at the end of the said month (or on such other date as the Board in its absolute discretion may determine) by adding the minimum net consideration (if any) which would be received upon such Action and by deducting any consideration payable on such Action;
  - (iv) aggregate the capital entitlements of the existing ZDP Shares and the capital entitlements of any new ZDP Shares to be issued or reclassified as aforesaid, in each case as at the Calculation Date; and
  - (v) make such other adjustments as they in their absolute discretion consider appropriate.
- (b) notwithstanding paragraphs (C) (1) and (2)(a) above, if any offer is made (whether by the Company or any other person, including proposals for a reduction or cancellation of capital, capitalisation issue, share purchase or repurchase and/or redemption of shares of the relevant class or any shares issued in substitution therefor) to all the holders of ZDP Shares, (other than the offeror and/or persons acting in concert with the offeror) which becomes or is declared unconditional in all respects (or would so become or be declared subject only to the passing of any Recommended Resolution (as defined below)) prior to 31 January 2017, and which enables the holders of the ZDP Shares to receive, no later than 31 January 2017, an amount in cash not less than that to which the Directors estimate (so far as practicable at the time and on the basis of such assumptions as they may reasonably deem appropriate) that the ZDP Shareholders would otherwise have been entitled on a redemption of their ZDP Shares or on a winding-up of the Company in each case on 31 January 2017 (whether or not such offer is accepted in any particular case and ignoring any option to receive alternative consideration) and such offer is recommended by the Directors and stated to be, in the opinion of a financial adviser appointed by the Directors, fair and reasonable the provisions of paragraph (d) below shall apply to the holders of ZDP Shares in relation to any resolution or resolutions (a "**Recommended Resolution**") proposed at any general meeting of the Company or at any separate meeting of the holders of ZDP Shares save that the provisions of paragraph (d) below shall cease as regards such shareholders if either the Directors consider that the aforementioned offer is unlikely to be honoured or the offeror breaches a material term of the offer or otherwise manifests an intention not to implement the offer;
- (c) notwithstanding paragraphs (C) (1) and (2)(a) above, if at any time on or before 31 January 2017 a resolution (a "**Reconstruction Resolution**") is proposed at any general meeting of the Company or at any separate meeting of any class(es) of shareholders to sanction any form of arrangement for the transfer of all or part of the Company's assets to another entity or any proposals for the reduction or cancellation of capital, capitalisation issue, share purchase or repurchase and/or redemption of any shares (including, without limitation, any further resolutions which the Directors consider to be necessary or desirable for the purposes of effecting such proposals) and which enables the holders of the ZDP Shares to receive, no later than 31 January 2017, an amount in cash not less than that to which the Directors estimate (so far as practicable at the time and on the basis of

such assumptions as they may reasonably deem appropriate) that the ZDP Shareholders would otherwise have been entitled on a redemption of their ZDP Shares or on a winding-up of the Company in each case on 31 January 2017 then (ignoring any option to receive their entitlements otherwise than in cash) provided such proposals are recommended by the Directors and stated to be, in the opinion of a financial adviser appointed by the Directors, fair and reasonable, the provisions of paragraph (d) below shall apply to the holders of ZDP Shares in relation to such resolution(s) save that such provisions shall cease as regards such shareholders if the arrangement is not implemented in accordance with its terms; and

- (d) where this paragraph (d) applies in respect of any resolution the ZDP Shareholders shall not be entitled to vote at any general meeting of the Company and the previous sanction of a special resolution of the ZDP Shareholders shall not be required in any case provided that where, notwithstanding the foregoing, such sanction is required in any case by Law, all ZDP Shareholders present in person, by representative (if a corporation) or by proxy and entitled to vote at such meeting shall (in respect of the votes attached to all such shares) vote in favour of the resolution or resolutions recommended by the Directors and where any vote is not cast or is cast against any such resolution or resolutions recommended by the Directors it shall be deemed to have been cast in favour. The vote on any Recommended Resolution or Reconstruction Resolution shall be taken on a poll.

(D) ***Rights as to redemption:***

Unless the Directors have previously been released from their obligations to do so by a special resolution of the Company (such special resolution having been duly passed not earlier than 31 December 2016 and having been sanctioned by necessary class approval), the Company shall on the ZDP Repayment Date, compulsorily redeem all ZDP Shares in issue at an amount equal to the Final Capital Entitlement per ZDP Share or, if lower, the surplus assets of the Company available for the purpose pro-rata to each ZDP Shareholder's holding of ZDP Shares, and for the avoidance of doubt "surplus assets available for the purpose" shall exclude the revenue profits (including accumulated revenue reserves) of the Company.

## PART 6

### FINANCIAL AND OTHER INFORMATION ON ACORN INCOME FUND

*The following is a discussion of Acorn Income Fund's results of operations and financial condition for the 2008 financial year, the 2009 financial year, the 2010 financial year and the half financial year to 30 June 2011. Prospective investors should read the following discussion, together with the whole of this document, including Risk Factors, and Acorn Income Fund's historical financial statements and should not just rely on the key or summarised information contained in this Part 6. The financial information in this Part 6 has been extracted without material adjustment from Acorn Income Fund's accounting records.*

*This Part 6 contains “forward-looking statements”. Those statements are subject to risks, uncertainties and other factors that could cause Acorn Income Fund's future results of operations or cashflows to differ materially from the results of operations or cashflows expressed or implied in such forward-looking statements.*

#### 1. Introduction

- 1.1. Acorn Income Fund's auditors are KPMG Channel Islands Limited of 20 New Street, St Peter Port, Guernsey GY1 4AN, which is registered to carry on audit work by the Institute of Chartered Accountants in England and Wales (“ICAEW”) – firm number L001075068.
- 1.2. Save for the historical information for the three financial years ended 31 December 2010 set out, or incorporated by reference, in paragraph 3 of this Part 6, none of the information in this document has been audited. Unless otherwise indicated, all unaudited financial information relating to Acorn Income Fund contained in this document has been sourced, without material adjustment, from the internal accounting records of Acorn Income Fund, which are maintained by the Administrator on Acorn Income Fund's behalf, on a basis consistent with Acorn Income Fund's accounting policies.

#### 2. Accounts for the Three Financial Years Ended 31 December 2010

The accounts for Acorn Income Fund for the three financial years ended 31 December 2010 (prepared in accordance with International Financial Reporting Standards and the AIC SORP), in respect of which KPMG Channel Islands Limited issued unqualified reports under section 262 of the Law, did not contain any statements under section 263 as applicable.

#### 3. Published Annual Reports and Accounts for Three Financial Years Ended 31 December 2010

##### 3.1. Historical Information incorporated by reference

The annual reports and accounts of Acorn Income Fund for each of the three financial years ended 31 December 2010 are incorporated into this document by reference in their entirety. The following list is intended to enable investors to easily identify specific items of information which are relevant to the Placing. The page numbers below refer to the relevant pages of the respective Annual Report and Accounts.

<i>Nature of Information</i>	<i>Annual Report and Accounts for Year Ended 31 December</i>		
	<i>2008 Page No(s)</i>	<i>2009 Page No(s)</i>	<i>2010 Page No(s)</i>
Chairman's Statement	3 – 4	3 – 4	4 – 7
Investment Manager's Report	5 – 7	5 – 7	8 – 10
Investment Portfolio	8	8	11
Directors' Report	16–22	14 – 21	17 – 27
Statement of Directors' Responsibilities	21 – 22	20	26 – 27
Independent Auditors' Report	23 – 24	24 – 25	31 – 32
Income Statement	25	26	33
Balance sheet / Statement of financial position	26	27	34
Cash Flow Statement	27	28	35
Statement of changes in equity	28	29	36
Notes to the Financial Statements	30 – 43	31 – 46	37 – 56

### 3.2. *Selected Financial Information*

The key audited figures that summarise the financial condition of Acorn Income Fund in respect of the year ended 31 December 2010 (and the corresponding figures for the years ended 31 December 2009 and 2008) which have been extracted directly on a straightforward basis from the historical information referred to in paragraph 3.1 of this Part 6 (unless otherwise indicated in the note below the following table) are set out in the following table:

	<i>Year Ended 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
<b>Capital</b>			
Total non-current assets (investments) (£'000)	11,277	16,348	20,713
Total assets (£'000)	12,744	17,803	21,572
Total liabilities (£'000)	4,708	6,072	4,463
Net assets (£'000)	8,036	11,731	17,110
Net asset value per Ordinary Share (p)	89.89	131.22	194.98
	<i>Year Ended 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
<b>Earnings and Dividends</b>			
Return per Ordinary Share (p)	(73.79)	47.33	69.36
Dividends per Ordinary Share (p)	8.20	6.00	6.25
Dividend Cover <sup>(1)</sup>	1.4 times	1.1 times	1.0 times
Revenue reserves (£'000)	1,283	1,348	1,363

**Note:**

- (1) Dividend cover has been calculated on the financial information extracted from the audited accounts based on revenue return per Ordinary Share and dividends per Ordinary Share.

### 3.3. *Operating and Financial Review*

The published annual report and accounts for Acorn Income Fund for the three financial years ended 31 December 2010 included, on the pages specified below, descriptions of Acorn Income Fund's financial condition (in both capital and revenue terms), changes in its financial condition and details of Acorn Income Fund's portfolio of investments for each of those years.

	<i>Annual Report and Accounts for Year Ended 31 December</i>		
	<i>2008</i>	<i>2009</i>	<i>2010</i>
<i>Section</i>	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>
Chairman's Statement	3 – 4	3 – 4	4 – 7
Investment Advisers' Report	5 – 7	5 – 7	8 – 10
Investment Portfolio	8	8	11

### 3.4. *Availability of Annual Report and Accounts for Inspection*

Copies of the published annual report and audited accounts of Acorn Income Fund for the three financial years ended 31 December 2010 (as filed with the UK Listing Authority) are available for inspection at the address set out in paragraph 20 of Part 8 of this document and at <http://www.premierassetmanagement.co.uk>. This website does not form part of the Prospectus.

## 4. Unaudited Interim Report for Six Months Ended 30 June 2011

### 4.1. Historical Financial Information

The published unaudited interim reports of Acorn Income Fund for the six months ended 30 June 2010 and 30 June 2011 included, on the pages specified in the table below, descriptions of Acorn Income Fund's financial condition (in both capital and revenue terms), changes in its financial condition and details of Acorn Income Fund's portfolio of investments for each of those periods and are incorporated by reference into this document in their entirety.

<i>Section</i>	<i>Interim Report for Six Months Ended 30 June</i>	
	<i>2011 Page No(s)</i>	<i>2010 Page No(s)</i>
Chairman's Statement	5 – 6	3 – 4
Investment Advisers' Report	8 – 11	6 – 7
Investment Portfolio	12	8
Statement of comprehensive income	14	10
Balance Sheet/Statement of Financial Position	15	11
Cashflow Statement	16	12
Statement of changes in equity	17	13
Notes to the Financial Statements	18 – 37	15 – 31

### 4.2. Selected Financial Information

The key unaudited figures that summarise the financial condition of Acorn Income Fund in respect of the six months ended 30 June 2011 (and the corresponding figures in respect of the six months ended 30 June 2010, which have been included for comparative purposes), which have been extracted directly on a straightforward basis from the historical financial information referred to in paragraph 4.1 of this Part 6 (unless otherwise indicated in the note below the following table), are set out in the following table:

	<i>As at 30 June</i>	
	<i>2011</i>	<i>2010</i>
<b>Capital</b>		
Total non-current assets (investments) (£'000)	23,513	16,000
Total assets (£'000)	25,044	17,512
Total liabilities (£'000)	5,421	4,414
Net assets (£'000)	19,622	13,098
Net asset value per Ordinary Share (p)	224.90	148.67
<b>Earnings and Dividends</b>		
Return per Ordinary Share (p)	32.27	20.13
Dividends per Ordinary Share (p)	3.50	3.02
Dividend Cover <sup>(1)</sup>	1.1 times	1.0 times

**Note:**

- (1) Dividend cover has been calculated on the financial information extracted from the unaudited interim accounts based on revenue return per Ordinary Share and dividends per Ordinary Share.

### 4.3. Availability of Interim Report and Accounts for Inspection

Copies of Acorn Income Fund's unaudited interim reports for the six months ended 30 June 2010 and 30 June 2011 (as filed with the UK Listing Authority) are available for inspection at the address set out in paragraph 20 of Part 8 of this document and at <http://www.premierassetmanagement.co.uk>. This website does not form part of the Prospectus.

## **5. Interim Management Statements**

- 5.1 The interim management statement for the period 1 January 2011 to 19 May 2011 was published by Acorn Income Fund on 19 May 2011 and has been notified to the UK Listing Authority by way of an announcement on a RIS and is available at <http://www.premierassetmanagement.co.uk>. This website does not form part of the Prospectus.
- 5.2 The following interim management statement for the period 1 July 2011 to 16 November 2011 was published by Acorn Income Fund on 16 November 2011. This statement includes a summary of the Company's investment policy. The investment policy is described in more detail in paragraph 2 of Part 2.

### **Investment Objectives and Policy**

The objectives of the Company are to provide the Company's shareholders with a high income and also the opportunity for capital growth.

The Company's portfolio is invested in equities and high income and fixed interest securities in order to achieve its investment objectives. It is the aim of the Company to provide both income and capital growth predominantly through investment of approximately 70% of the portfolio in smaller capitalised United Kingdom companies, admitted to the Official List of the United Kingdom Listing Authority and traded on the London Stock Exchange or traded on AIM; and by investing approximately 30% of its assets in high yielding securities which will be predominantly fixed interest securities (including corporate bonds, preference and permanent interest bearing shares, convertible and reverse convertible bonds and debentures) but may include up to 15% of the portfolio (measured at the time of acquisition) in high yielding investment company shares.

### **Financial Highlights**

	<b>30 June 2011</b>	<b>31 October 2011</b>	<b>% change or return</b>
Ordinary share NAV	<b>224.90p</b>	<b>192.13p</b>	<b>-14.57%</b>
Ordinary share mid price	<b>200.50p</b>	<b>161.00p</b>	<b>-19.70%</b>
Total return on Gross Assets (adjusted for debt repayment)			<b>-10.59%</b>
Hoare Govett Smaller Companies Index (ex Investment Companies) - total return	<b>10,342</b>	<b>9,217.90</b>	<b>-10.87%</b>

### **Material Events and Transactions**

During the period the Smaller Companies Portfolio holdings in Berensden, Acal and Phoenix IT were increased while the holdings in RPC and Spirax Sarco were partially reduced. The entire holding in Laird Group was sold following failed bid talks. Renishaw and Acal underperformed during the period as investors focused on Europe's economic problems. British Polythene was the largest riser as raw material prices fell with profits likely to grow. The company also benefited from the closure of an EU competition investigation.

During the period from 1 July 2011 concerns escalated over sovereign debt levels in Europe and the implications for the future of the euro. Risk aversion increased and credit spreads widened. Both senior and subordinated financials led in this widening. The income portfolio is overweight in financials as our managers believe that current yields on financial bonds offer a very attractive investment opportunity over the medium to long term.

On the 27 October 2011 the Directors of the Company announced that they are contemplating a potential issue of non-equity securities such as Zero Dividend Preference Shares to replace the borrowing facilities which are due to expire in February 2012 and to increase the gross assets.

### **Issued share capital of the Company**

With effect from 31 October 2011, the issued share capital of the Company was 8,939,790 Ordinary Shares (including 215,000 Ordinary Shares held in Treasury).



## Dividends

The Company announced an interim dividend on 16 November 2011 of 1.75 pence per share, which is to be paid on 23 December 2011.

## Largest holdings (% of Gross Assets) as at 31 October 2011

<b>Smaller Companies Portfolio</b>	
RPC Group PLC	6.06%
James Halstead PLC	4.95%
Castings PLC	4.65%
VP PLC	3.94%
Diploma PLC	3.53%
Devro PLC	3.46%
Stobart Group LTD	3.45%
Lupus Capital PLC	3.44%
Consort Megical PLC	3.41%
Fenner PLC	3.37%
<b>Income Portfolio</b>	
Lloyds Banking Group 7.8673% Contingent Convertible 2019	1.37%
Standard Life UK Smaller Companies 3.5% CULS	1.17%
Invesco Leveraged High Yield	1.16%
Greenwich Loan Income Fund Limited	1.06%
ICAP Group Holdings PLC 7.5% 2014	0.98%
Electra Private Equity 5% CULS 2020	0.92%
Ecofin WTR & PWR Opportunities 6% CULS 2016	0.90%
ING Bank NV 6.875% 2023	0.85%
Credit Suisse 7.875% 2041	0.82%
HSBC Holdings PLC 6.25% 2018	0.41%
<b>Cash</b>	4.17%

## 6. Capitalisation and Indebtedness

The following table shows the unaudited capitalisation and indebtedness of Acorn Income Fund (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 30 June 2011, derived from the Company's interim report for the six months ended 30 June 2011.

**30 June 2011**  
£'000

### Total Current Debt

Guaranteed	nil
Secured	5,000
Unguaranteed/unsecured	nil

### Total Non-current Debt

Guaranteed	nil
Secured	nil
Unguaranteed/unsecured	nil

### Shareholders' Equity

Share capital	89
Treasury shares	(303)
Share premium and special reserve and capital reserve	18,451
Revenue reserves	1,385

Save for the transfer of £1.2 million from revenue reserves to capital reserves on 15 December 2011, there has been no material change to the Company's capitalisation between 30 June 2011 and the Latest Practicable Date.

The following table shows Acorn Income Fund's unaudited net indebtedness as at the Latest Practicable Date:

	<i>£'000</i>
A. Cash	960
B. Cash equivalent	nil
C. Trading securities	<u>20,799</u>
D. Liquidity (A + B + C)	<u>21,759</u>
E. Current financial receivable	<u>314</u>
F. Current bank debt	6,000
G. Current portion of non-current debt	0
H. Other current financial debt	<u>271</u>
I. Current financial debt (F + G + H)	<u>6,271</u>
J. Net current financial assets (I – E – D)	<u>15,802</u>
K. Non-current bank loans	nil
L. Bonds issued	nil
M. Other non-current loans	nil
O. Net financial assets (J + N)	<u><u>15,802</u></u>

Acorn Income Fund has no indirect or contingent indebtedness.

## **7. Accounting Policy Regarding Investment Management Fees and Finance Costs**

Acorn Income Fund will continue to allocate, following the Placing, 75 per cent. of the basic management fee payable to the Investment Manager to capital, and will allocate any performance fee payable to capital and revenue based on where the out-performance was achieved. All of the expenses incurred in respect of the Placing of the ZDP Shares will be allocated to capital. Accruing capital entitlements on ZDP Shares will be charged to capital.

## **8. NAV Calculations**

The Administrator is responsible for calculating the unaudited NAV per Ordinary Share which is calculated weekly at the close of business on each Friday and at the end of each month and announced through a RIS.

UK listed investments are valued according to the prices issued by the London Stock Exchange, being the closing bid price. Other listed securities are valued at bid prices or last traded price, if appropriate. Unlisted investments are included in Acorn Income Fund's financial statements at valuations determined by the Board. Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to the capital reserve. Where trading in the securities of an investee company is suspended, the investment is valued at the Board's estimate of its net realisable value.

The calculation of the NAV per Ordinary Share will only be suspended in circumstances where the underlying data necessary to value the Company's investments cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a RIS.

The last published unaudited NAV per Ordinary Share prior to the publication of this Prospectus was 181.11 pence per Ordinary Share as at close of business on the Latest Practicable Date.

## 9. Capital Resources

Acorn Income Fund's capital resources comprise its share capital and reserves and its £6 million Bank Loan which is due to expire in February 2012 and is to be repaid out of the proceeds of the Placing.

During 2010, being the period covered by the most recent audited accounts, cash received as income from investments amounted to £873,262 and net interest paid on the Bank Loan amounted to £78,084. Expenses for the year (£110,192 of which were charged to capital), amounted to £349,366. The most significant expense items were investment management and advisory fees of £133,698. These vary with the size of the Portfolios. The remainder include fixed costs for administration, including Directors' fees and fees payable to the Custodian, Registrar and Auditor. Dividends totalling £553,374 were paid during the year. Proceeds of £4,580,632 were received from the sale of portfolio investments and £3,081,851 was spent on acquiring other investments. Borrowings were reduced by £1,650,000 and £207,018 was paid for the purchase of Acorn Income Fund's own Ordinary Shares. During the six months to 30 June 2011, income received from investments was £416,039, interest paid was £51,521 and expenses for the period were £197,097. Dividends totalling £306,243 were paid during the six months to 30 June 2011 and were covered out of net income on the revenue account (£328,196). Purchases of investments were of a similar amount to realised sale proceeds from investments and £96,193 was spent on buying Ordinary Shares into treasury.

Following the Placing, Acorn Income Fund's capital resources will comprise its share capital and reserves and the net proceeds of the Placing.

The ZDP Shares are accounted for as debt and the Company's gearing policy is set out in paragraph 4 of Part 2. The amounts due to ZDP Shareholders are payable to them on 31 January 2017.

The Company's gearing ratio of debt to gross assets is expected to be approximately 45 per cent. following the Placing. Save with the prior sanction of ZDP Shareholders, Acorn Income Fund will not take on any bank borrowings (save for short term borrowings in the ordinary course of business such as to settle share trades or borrowings to finance the redemption of the ZDP Shares) until the ZDP Repayment Date. However, this will not prevent gearing increasing as a result of investments falling in value. There are no set gearing limits.

For accounting purposes, the Company distinguishes between revenue and capital returns. In connection with the proposed Placing, the Company has allocated £1.2 million of current revenue reserves to capital, which the Board would not intend to distribute as dividends. Going forward, the Board intends to distribute by way of dividends all the amounts allocated to revenue in its accounts (net of expenses charged to revenue). Under its existing accounting policies (which are not intended to be changed as a result of the Placing) all fees and expenses are charged to revenue except that 75 per cent. of the investment management fee and, if it should arise, 75 per cent. of any bank interest, is charged to capital. Any performance fee payable to the Investment Manager will be allocated to capital and revenue based on where the out-performance was achieved. All of the expenses of the Placing and the accruing returns to ZDP Shareholders will be charged 100 per cent. to capital. Save with the prior sanction of ZDP Shareholders, the Company will not pay any dividends out of the Company's capital reserves.

Due to the nature of the Company's assets, substantially all of which may be traded on liquid markets, the liquidity position of Acorn Income Fund is strong.

Following the Placing, Acorn Income Fund's cash flows will continue to comprise income from dividends and interest generated from its investments and the sale proceeds on realisation of investments. Its payments comprise its costs and administrative overheads, dividends and payments for investments acquired.

There are no specific restrictions on the use of cash in any loan agreements, but the investments will be managed in accordance with the investment policy described in paragraph 2 of Part 2 of this document, any future material variation to which is subject to the approval of Ordinary Shareholders in general meeting under the Listing Rules.

## PART 7

### PRINCIPAL BASES AND ASSUMPTIONS

Set out below are the principal bases and assumptions used in calculating the illustrative financial statistics contained in the sections: *Summary* and *Placing Statistics* and Part 1 of this document in relation to the ZDP Shares. For the avoidance of doubt, the Assumptions have not been used in preparing the working capital statement set out in paragraph 13 of Part 8 of this document.

There can be no guarantee that the Assumptions set out below will be realised. In particular, the amounts raised by the Placing may differ from the assumed amounts; market gains or losses between 14 December 2011 and the date of Admission will affect the amount of Acorn Income Fund's assets at Admission; costs will be incurred in investing the net proceeds of the Placing; and annual running expenses of Acorn Income Fund may exceed the assumed level. Accordingly, no reliance should be placed on the illustrative financial statistics derived from the Assumptions set out below. The attention of prospective investors is also drawn to the risk factors set out in this document. The Assumptions used are:

- 1 On the Latest Practicable Date, Acorn Income Fund had 8,724,790 Ordinary Shares in issue (excluding treasury Shares) and net assets of £15.802 million and the NAV per Ordinary Share was 181.11 pence.
- 2 Gross proceeds of £12 million are raised pursuant to the Placing by the issue of up to 12 million ZDP Shares at 100 pence per ZDP Share.
- 3 The total estimated costs of implementing the Placing are £399,540 (including any non recoverable value added tax).
- 4 No allowance is made for the costs of investing the net proceeds of the Placing.
- 5 The capital accrual of a ZDP Share is 6.5 per cent. per annum, compounded daily from 21 December 2011 (the anticipated date of Admission) up to (but excluding) the ZDP Repayment Date. The Final Capital Entitlement of 138 pence per ZDP Share is payable on 31 January 2017.
- 6 The Initial Cover is calculated as the ratio of (i) the gross assets of Acorn Income Fund as at the Latest Practicable Date, plus the net proceeds of the Placing, less the Company's borrowings as at the Latest Practicable Date, less the current liabilities and accrued charges (other than debt), less £185,032 (being the amount standing to the credit of the Company's revenue reserves as at 30 June 2011, less £1.2 million which was transferred from revenue reserves to capital reserves on 15 December 2011) to (ii) the sum of the amount required to pay the Final Capital Entitlement plus the cumulative management fees to be charged to capital over the period from the Latest Practicable Date to the ZDP Repayment Date (see assumption 8 below).
- 7 Cover is calculated as the ratio of (i) the gross assets of Acorn Income Fund less current liabilities and accrued charges (other than debt and liabilities to ZDP Shareholders), less the amount standing to the credit of the Company's revenue reserves as at the date of the Company's most recently published balance sheet to (ii) the sum of the amount required to pay the Final Capital Entitlement plus the Company's borrowings (if any) plus the cumulative management fees to be charged to capital over the period from the date of the calculation of the Cover to the ZDP Repayment Date (see assumption 8 below).
- 8 The fees to be charged to capital for the period to the ZDP Repayment Date for the purposes of calculating the Initial Cover and Cover are based on the value of the Company's assets as at the date of the calculation. The calculation of such fees is based on the assumption that there is no change in the value of the Company's assets over the relevant future period.

- 9 There are no material changes to the basis on which the Company charges expenses to its revenue and capital accounts prior to the ZDP Repayment Date.
- 10 In connection with the proposed Placing, the Company has allocated £1.2 million of current revenue reserves to capital, which the Board would not intend to distribute as dividends. Going forward, the Board intends to distribute by way of dividends all the amounts allocated to revenue in its accounts (net of expenses charged to revenue).
- 11 The Hurdle Rate is calculated as the maximum annual compound percentage reduction in the value of the gross assets of Acorn Income Fund which returns the Final Capital Entitlement per ZDP Share. As present asset values exceed the amount of the Final Capital Entitlement, this is expressed as a negative rate to indicate the annual decrease in asset values which results in the value of the assets being equal to the Final Capital Entitlement.
- 12 There are no changes to the number of ZDP Shares prior to the ZDP Repayment Date.
- 13 No corporation tax or capital gains tax is payable by Acorn Income Fund; no other changes occur in any relevant taxation law and practice; and the allocation of certain expenses to the capital reserve results in a notional transfer of tax relief from the revenue account to the capital reserve in accordance with the Association of Investment Companies' Statement of Recommended Practice.
- 14 There are no changes to generally accepted accounting practices relevant to Acorn Income Fund and no changes to its accounting policies.
- 15 Exchange rate movements may result in assets denominated in currencies other than sterling having different values at Admission.
- 16 Acorn Income Fund has an indefinite life.

## PART 8

### ADDITIONAL INFORMATION

#### 1. Responsibility

Acorn Income Fund, and the Directors (whose names appear on page 15 of this document) accept responsibility for the information contained in this document. To the best of the knowledge of Acorn Income Fund, and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

#### 2. Information on Acorn Income Fund

- 2.1. Acorn Income Fund was incorporated in Guernsey on 5 January 1999 with registered number 34778 under the Companies (Guernsey) Laws 1994 to 1996 (as amended) as an authorised closed-ended investment company.
- 2.2. The registered office of Acorn Income Fund is at Anson Place, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 1EJ (Tel. No. 01481 722 260).
- 2.3. The ZDP Shares are in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where ZDP Shares are held in certificated form, share certificates will be sent to the registered members or their nominated agent (at their own risk) within 10 days of completion of the registration process or transfer, as the case may be, of the ZDP Shares. Where ZDP Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

#### 3. Share Capital of Acorn Income Fund

- 3.1. The Company was incorporated with an authorised share capital of £10,000,000 divided into 40,000,000 Ordinary Shares of 25 pence each. At an extraordinary general meeting held on 5 January 2007, it was resolved that the then issued share capital of the Company be reduced from £7,400,000.50 to £296,000.02, effected by the cancellation of 24 pence per issued Ordinary Share, thus reducing the nominal amount of such shares from 25 pence to 1 pence per Ordinary Share. As a result of a tender offer in January 2007, the Company repurchased 20,660,212 Ordinary Shares, leaving 8,939,790 Ordinary Shares in issue. The authorised and issued share capital of Acorn Income Fund as at the date of this document is as follows:

	<i>Authorised Number of Shares</i>	<i>Nominal Value per Share (£)</i>	<i>Issued Number</i>	<i>Nominal (£)</i>
Ordinary Shares	1,000,000,000	0.01	8,939,790	89,397.90
ZDP Shares	50,000,000	0.01	0	0

- 3.2. The authorised and issued share capital of Acorn Income Fund as at the date of Admission is expected to be as follows\*:

	<i>Authorised Number of Shares</i>	<i>Nominal Value per Share (£)</i>	<i>Issued Number</i>	<i>Nominal (£)</i>
Ordinary Shares	1,000,000,000	0.01	8,939,790	89,397.90
ZDP Shares	50,000,000	0.01	12,000,000	120,000

\*Assuming the Placing is fully subscribed



- 3.3. As at the date of this document, Acorn Income Fund had no capital which was under option or agreed conditionally or unconditionally to be put under option.
- 3.4. There are no provisions of Guernsey law which confer rights of pre-emption in respect of the Shares. However, Acorn Income Fund remains subject to the continuing obligations of the Listing Rules published by the FSA, including those obligations with regard to the issue of securities for cash, and the provisions which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash.
- 3.5. The creation of the ZDP Shares was approved at an extraordinary general meeting of the Company held on 15 December 2011.

#### **4. Mandatory Offers and Squeeze-out rules**

##### **4.1. *Mandatory offers***

The Takeover Code applies to Acorn Income Fund. Under the Takeover Code, if an acquisition of ordinary shares were to increase the aggregate holding of the acquirer and any parties acting in concert with it to ordinary shares carrying 30 per cent. or more of the voting rights in Acorn Income Fund, the acquirer and, depending on the circumstances, its concert parties (if any) would be required (except with the consent of the Panel on Takeovers and Mergers) (the “**Panel**”) to make a cash offer for shares not already owned by the acquirer or its concert parties (if any) at a price not less than the highest price paid for shares by the acquirer or its concert parties (if any) during the previous 12 months or (where there has been no acquisition of shares of the relevant class) at a comparable price agreed by the Panel. A similar obligation to make such a mandatory cash offer would also arise on the acquisition of shares by a person holding (together with its concert parties, if any) shares carrying at least 30 per cent, but not more than 50 per cent, of the voting rights in Acorn Income Fund if the effect of such acquisition were to increase the percentage of the aggregate voting rights held by the acquirer and its concert parties (if any).

##### **4.2. *Squeeze-out rules***

The Law provides that if an offer is made for the shares or any class of shares in the capital of a company and if, within 4 months after the date of such offer, the offer is approved by shareholders comprising 90 per cent. in value of the shares affected (excluding any shares held as treasury shares) then the offeror may, within 2 months after the expiration of those 4 months, send an acquisition notice to any dissenting shareholders informing them that it wishes to acquire their shares (an “**Acquisition Notice**”). Where an Acquisition Notice is served, the offeror is then entitled and bound to acquire those shares on the terms on which the original offer, approved by the shareholders comprising 90 per cent. in value of the shares affected, was made.

#### **5. Memorandum and Articles of Association**

The Memorandum of Association of the Company provides that the object of the Company is to carry on the business of an investment company. The objects of the Company are set out in full in clause 3 of the Memorandum of Association, a copy of which is available for inspection at the address specified in paragraph 20 below.

The Articles are available for inspection at the address specified in paragraph 20 below. The following section is a summary of certain provisions of the Articles. This summary of the Articles should be read in conjunction with the summary of the terms of the ZDP Shares in Part 5 of this document.

##### **5.1. *Dividends***

- (i) The Company in general meeting may declare a dividend but no dividend shall exceed the amount recommended by the Directors.

- (ii) The Directors may if they think fit from time to time pay the members such interim dividends as appear to be justified by the position of the Company.
- (iii) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee thereof. No dividend shall bear interest against the Company. Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.
- (iv) The Directors are also empowered to create reserves before recommending or declaring any dividend. The Directors may also carry forward any profits which they think prudent not to divide.

## 5.2. *Issue of Shares*

- (i) Subject to the provisions of the Articles and to the Law and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred or other special rights or restrictions whether in regard to dividend, return of capital, voting or otherwise as the Company may from time to time by ordinary resolution determine and subject to and in default of such determination as the Board may determine.
- (ii) Subject to the Articles, the unissued shares shall be at the disposal of the Directors, and they may allot, grant options over or otherwise dispose of them to such persons on such terms and conditions as they determine.
- (iii) The Company may on any issue of shares pay such commission or brokerage as may be lawful.

## 5.3. *Notice requiring disclosure of interests in Shares*

The Directors may serve notice on any member requiring that member to disclose to the Company the identity of any person (other than the member) who has any interest in the shares held by the member and the nature of such interest. Any such notice shall require any information in response to such notice to be given in writing within such reasonable time as the Directors shall determine. If any member is in default in supplying to the Company the information required by the Company within the prescribed period (which is 28 days after service of the notice or 14 days if the shares concerned represent 0.25 per cent. or more in nominal value of the issued shares of the relevant class), the Directors in their absolute discretion may serve a direction notice on the member. The direction notice may direct that in respect of the shares in relation to which the default has occurred (the "default shares") and any other shares held by the member, the member shall not be entitled to vote in general meetings or class meetings or to exercise any other right conferred by membership in relation to meetings or of the holders of any class of shares. Where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of the class of shares concerned, the direction notice may additionally direct that dividends on such shares shall be retained by the Company (without interest), and that no transfer of the shares (other than a transfer approved under the Articles) shall be registered until the default is rectified.

## 5.4. *Duration*

- (i) The Directors will propose a special resolution at the annual general meeting of the Company to be held in 2016 and, if the Company has not then been liquidated, unitised, reorganised or reconstructed, at each fifth annual general meeting of the Company thereafter, that the Company should cease to continue as presently constituted.
- (ii) If any such special resolution is passed, the Board shall draw up proposals for the unitisation, reorganisation, reconstruction or voluntary liquidation of the Company for submission to the members of the Company at an extraordinary general meeting to be convened for a date not more than three months after the date of the meeting at which the special resolution was passed.

### 5.5. *Winding-up*

- (i) If the Company shall be wound up, the surplus assets remaining after payment of all creditors shall be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively, subject to the rights of any shares which may be issued with special rights or privileges.
- (ii) If the Company shall be wound up, the liquidator may, with the authority of a special resolution, divide among the members in specie the whole or any part of the assets of the Company, and may set such value as he deems fair upon any assets, and may determine the method of division of assets between members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as he shall think fit but no member shall be compelled to accept any assets in respect of which there is a liability.
- (iii) Where the Company is proposed to be or is in the course of being wound up and the whole or part of its business or property is proposed to be transferred to or sold to another company the liquidator may, with the sanction of an ordinary resolution, receive in compensation or part compensation shares, policies or other like interests in the transferee for distribution among the members of the Company or may enter into any other arrangement whereby the members may, in lieu of receiving cash, shares, policies or other like interests, participate in the profits of or receive any other benefit from the transferee.

### 5.6. *Variation of rights*

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class of shares (unless otherwise provided by the terms of issue) may be varied with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of a special resolution of the holders of such shares. The necessary quorum for a variation of class rights meeting is, for a meeting other than an adjourned meeting, two persons present holding at least one-third of the voting rights of the class in question, for an adjourned meeting, one person present holding shares of the class in question or, where the class has only one member, that member.

### 5.7. *Transfer of shares*

- (i) Any member may transfer all or any of his certificated shares by instrument of transfer in any form which the Directors may approve. The instrument of transfer of a share shall be signed by or on behalf of the transferor, and in the case of a partly-paid share the transferee. The Directors may refuse to register any transfer of shares unless the instrument of transfer is lodged at the registered office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The Directors may refuse to register a transfer of any share which is not fully paid up or on which the Company has a lien provided that this would not prevent dealings from taking place on an open and proper basis.
- (ii) If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.
- (iii) The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine provided that such suspension shall not be for more than 30 days in any year.
- (iv) The Directors may implement such arrangements as they may think fit in order for any class of shares to be admitted to settlement by means of the CREST UK System. If the Directors implement any such arrangements, no provision of the Articles shall apply or have effect to the extent it is inconsistent with (i) the holding of shares of that class in uncertificated form, (ii) the transfer of title to shares of that class by means of the CREST UK System or (iii) the CREST Guernsey Requirements.

#### 5.8. *Alteration of capital and purchase of shares*

The Company may at any time by ordinary resolution alter its share capital and purchase its own shares, in any manner authorised by the Law.

#### 5.9. *General Meetings*

- (i) The Company shall in each calendar year hold a general meeting as its annual general meeting in addition to any other meeting in that year. Annual general meetings shall be held in Guernsey.
- (ii) All general meetings (other than annual general meetings) shall be called extraordinary general meetings.
- (iii) The Directors may call an extraordinary general meeting whenever they think fit. Extraordinary general meetings shall also be convened on a members' requisition in such manner as provided by the Law.
- (iv) Any general meeting shall be called by at least 14 days' notice.

#### 5.10. *Directors*

- (i) Save as mentioned below, a Director may not vote on any resolution of the Board (or a committee of the Directors) in respect of any matter in which he has (together with any interest of any person connected with him) a material interest (other than by virtue of his interest, directly or indirectly, in shares or debentures or other securities of or otherwise in or through the Company).
- (ii) A Director shall be entitled to vote in respect of any resolution concerning any of the following matters:
  - (1) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
  - (2) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
  - (3) the offer of securities of the Company or its subsidiary undertakings in which offer he is or may be entitled to participate or in the underwriting or sub-underwriting of which he is to or may participate;
  - (4) any proposal concerning any other company in which he is interested, directly or indirectly, as an officer or shareholder or otherwise, provided that he, together with persons connected with him, is not to his knowledge the holder of or beneficially interested in 1 per cent. or more of any class of the equity share capital of any such company or of the voting rights of such company;
  - (5) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which accords to the Director only such privileges and advantages as are generally accorded to the employees to whom the arrangement relates; or
  - (6) any proposal for the purchase or maintenance of insurance for the benefit of the Director or persons including the Directors.
- (iii) Any Director may act by himself or by his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional service as if he were not a Director.

- (iv) Any Director may continue to be or become a director, managing director, manager or other officer or member of a company in which the Company is interested, and any such Director shall not be accountable to the Company for any remuneration or other benefits received by him.

#### 5.11. ***Remuneration of Directors***

The Directors shall be remunerated for their services at such rate as the Directors shall determine provided that the aggregate amount of such fees shall not exceed £100,000 per annum (or such sum as the Company in general meeting shall from time to time determine). The Directors shall also be entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties.

#### 5.12. ***Appointment and Retirement of Directors***

- (i) Unless otherwise determined by the Board, the number of Directors shall be not less than three.
- (ii) A majority of the Directors shall not be resident in the United Kingdom.
- (iii) The Board shall have the power at any time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, but so that the total number of Directors may not at any time exceed the number fixed pursuant to the Articles. Any Director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election.
- (iv) A Director shall not be required to hold any qualification shares.
- (v) There is no obligation on the Directors under the Articles to retire by rotation.

#### 5.13. ***Borrowing Powers***

The Directors may exercise all the powers of the Company to borrow money and to give guarantees, mortgage, hypothecate, pledge or charge all or part of its undertaking, property or assets and uncalled capital.

#### 5.14. ***Voting***

- (i) Subject to the restriction referred to below and subject to any special rights or restrictions for the time being attached to any class of shares, every member (being an individual) present in person or by proxy or (being a corporation) present by a duly authorised representative at a general meeting has, on a show of hands, one vote and, on a poll, one vote for every share held by him.
- (ii) A member shall not be entitled in respect of any share held by him to attend or vote at any general meeting or separate class meeting of the Company unless all amounts payable by him in respect of that share have been paid.

## 6. Directors

- 6.1. In addition to their directorship of Acorn Income Fund, the Directors hold or have held the following directorships and are or were members of the following partnerships, within the past five years:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
John Boothman	Acanthus Limited Alternative Leveraged Index Fund Limited Altor 2003 GP Limited Altor Fund II GP Limited Altor Limited Al-Yumna PCC Aquarine Limited Armelle Limited AUB Al Hilal Islamic PC Aztec (Jersey) Limited Aztec Group Limited Brilliance Adaptive Trading Fund PC Broxa Limited Comarca Limited Dellon Limited Diversified Seed PC Equity Plus PC Estrato Limited Felspar Limited Galletta Limited Guernsey Net Limited Hincha Limited Ingram Limited IVC Ascent Fund PCC Jersey International Business School Limited Jersey Old Motor Club Limited Jersey Telecom Limited JT Group Limited JTG (External) Limited JTG (Mast) Limited JTG (Parishes) Limited JTG (St Helier) Limited JTG (St Saviour) Limited Jumon Limited Kuno Limited Laterite Limited Legacy Seed PC LIA Strategic Equity Acquisition Fund Limited Londinium Opportunity Fund Limited Lyxor AIML Fund Limited Lyxor Convertible Bonds Arbitrage Tracker PC Lyxor Credit Strategies Tracker PC Lyxor CrossRoads PCC Lyxor CTA Long Term Tracker PC Lyxor CTA Short Term Tracker PC Lyxor Distressed Securities Tracker PC Lyxor Elite Fund 2008 Limited Lyxor Elite Instit. Fund 2008 Limited Lyxor Emerging Markets Tracker PC Lyxor Fixed Income Arbitrage Tracker PC Lyxor Focus Fund (GBP) Limited Lyxor Global Index Tracker Fund Limited Lyxor Global Macro Tracker PC Lyxor Hedge Funds Tracker PC Lyxor Hedge Index Tracker PCC Lyxor Insurance Only Fund PCC Lyxor Insurance Only Macro Fund PC Lyxor L/S Credit Arbitrage Tracker PC Lyxor L/S Equity Long Bias Tracker PC	Aztec Nominees Limited Cetza Nominees Limited Ferd Private Equity (GP-I) Limited Ferd Private Equity (GP II) Limited



***Current directorships/partnerships***

Lyxor L/S Equity Market Neutral Tracker PC  
Lyxor L/S Equity Short Bias Tracker PC  
Lyxor L/S Equity Statistical Arbitrage Tracker PC  
Lyxor L/S Equity Variable Bias Tracker PC  
Lyxor Merger Arbitrage Tracker PC  
Lyxor Paulson Event Driven Fund 1 Limited  
Lyxor PCC  
Lyxor Permal Low Volatility Fund Limited  
Lyxor Permal Macro Fund Limited  
Lyxor Planet Alternative Fund Limited  
Lyxor Seed Fund PCC  
Lyxor Short Term Sterling Fund Limited  
Lyxor Special Situations Tracker PC  
Lyxor StarHedge Master Fund Limited  
Lyxor Struct Tracker Fund Limited  
Lyxor Top 10 Tracker PC  
Lyxor TSC PCC  
Lyxor US Liquidity Fund Limited  
Lyxor/AB Pyramider Equity Growth Fund Limited  
Lyxor/Acorn Ultra ARS Fund Limited  
Lyxor/Advent Global Opportunity Fund Limited  
Lyxor/Altis Fund Limited  
Lyxor/AM Investment Fund Limited  
Lyxor/Apollo Distressed Fund Limited  
Lyxor/Armajaro Commodities Fund Limited  
Lyxor/Avesta Fund Limited  
Lyxor/Black Diamond Arbitrage Fund Limited  
Lyxor/BlackRock EOS Equity Market Neutral Fund Limited  
Lyxor/Bridgewater Fund Limited  
Lyxor/Camargue Equity Fund Limited  
Lyxor/Caxton Hawk Fund Limited  
Lyxor/Centaurus Event Driven Fund Limited  
Lyxor/Centaurus International Risk Arbitrage Fund Limited  
Lyxor/CFM Discus Fund Limited  
Lyxor/Chesapeake Fund Limited  
Lyxor/Coast Diversified Master Fund Limited  
Lyxor/Credaris Credit Fund Limited  
Lyxor/CRM Windridge Fund Limited  
Lyxor/Eagle Yield Fund Limited  
Lyxor/Ecofin Global Utilities Hedge Fund Limited  
Lyxor/Ellington Fund Limited  
Lyxor/Ellington Quantitative Equity Fund Limited  
Lyxor/Fall River Fund Limited  
Lyxor/Frontpoint Brookville Credit Opportunities Fund Limited  
Lyxor/Fursa Rediscovered Opportunities Fund Limited  
Lyxor/FX Concepts GCP Fund Limited  
Lyxor/GAM Global Rates Hedge Fund Limited  
Lyxor/Gartmore European Long/Short Fund Limited  
Lyxor/Gartmore Global Long/Short Fund Limited  
Lyxor/Gartmore Japan Long/Short Fund Limited  
Lyxor/Gartmore Pacific and Global Emerging Fund Limited  
Lyxor/Gartmore Quantitative Long-Short Fund Limited  
Lyxor/Gartmore UK Long/Short Fund Limited  
Lyxor/GLC Gestalt Fund Limited  
Lyxor/GLG Emerging Equity Fund Limited  
Lyxor/GLG European Opportunity Fund Limited  
Lyxor/GLG Pan European Equity Fund Limited  
Lyxor/Global Advisors Fund Limited  
Lyxor/Globalis Fund Limited  
Lyxor/Halcyon Fund Limited

***Current directorships/partnerships***

Lyxor/Hilltop Park Fund Limited  
Lyxor/IKOS Financial Fund Limited  
Lyxor/Inflective Convertible Fund Limited  
Lyxor/Island Drive Offshore Fund Limited  
Lyxor/Jana Partners Fund Limited  
Lyxor/Julius Baer Diversified Fixed Income Fund Limited  
Lyxor/Jupiter Europa Hedge Fund Limited  
Lyxor/Kaiser 2X Fund Limited  
Lyxor/Lazard Rathmore Fund Limited  
Lyxor/Longacre Special Equities Offshore Fund Limited  
Lyxor/Lynx Fund Limited  
Lyxor/Marathon Distressed Opportunities Fund Limited  
Lyxor/Mariner Silvermine Fund Limited  
Lyxor/Marshall Wace TOPS European Fund Limited  
Lyxor/Martin Currie Asia AR Fund Limited  
Lyxor/Martin Currie China Dragon Fund Limited  
Lyxor/Martin Currie Europe Fund Limited  
Lyxor/Millburn Multi-Markets Fund Limited  
Lyxor/Newsmith UK Hedge Fund Limited  
Lyxor/Northwood European Fund Limited  
Lyxor/Observatory Credit Markets Fund Limited  
Lyxor/Odyssey Value Fund Limited  
Lyxor/Ortus Fund Limited  
Lyxor/Paulson Advantage Fund Limited  
Lyxor/Pioneer Long/Short European Equity Fund Limited  
Lyxor/PJM Fund Limited  
Lyxor/Pramerica Relative Value Fund Limited  
Lyxor/PSAM Europe Fund Limited  
Lyxor/QIC Global Fixed Interest Alpha Fund Limited  
Lyxor/Quest Fund Limited  
Lyxor/River Fund Limited  
Lyxor/River Fund Limited - Dynamic Dispersion Class  
Lyxor/River Fund Limited - Foundation Class  
Lyxor/River Fund Limited - Next Level 2004 Class  
Lyxor/River Fund Limited - Next Level 2004-2 Class  
Lyxor/River Fund Limited - Next Level 2004-3 Class  
Lyxor/Sabre Style Arbitrage Fund Limited  
Lyxor/Scott's Cove Special Credits Fund Limited  
Lyxor/Selectium Europe Fund Limited  
Lyxor/Sofaer Capital Asian Hedge Fund Limited  
Lyxor/SWMC European Fund Limited  
Lyxor/Trafalgar Catalyst Fund Limited  
Lyxor/Traxis Emerging Markets Opportunities Fund Limited  
Lyxor/Tremblant Long Short Equity Fund Limited  
Lyxor/Trigon Macro Fund Limited  
Lyxor/TrT Enhanced Fund Limited  
Lyxor/Tudor Momentum Fund Limited  
Lyxor/US Intrinsic Value Fund Limited  
Lyxor/Visium Institutional Partners Fund Limited  
Lyxor/Zebra Global Liquidity Arbitrage Fund Limited  
Lyxor/Zola Fund Limited  
MENASA Equity Opportunities Fund Limited  
Multi Asset Plus PC  
Multimanager Opportunity Fund Limited  
Mystar Limited  
National Grid Jersey Holdings Five Limited  
New Platine PC  
Newtel (Guernsey) Ltd  
Newtel Data Services Ltd  
NG Jersey Limited  
Nimular Limited

*Current directorships/partnerships**Previous directorships/partnerships*

	<p>Perenco Finvest Fund Limited  Performa Fund Limited  Perseu Global Fund Ltd  Phanar Alternative Selection Fund Limited  Pop Event Arbitrage Fund PC  Pristine Multi-Manager Fund Limited  Quantic Advanced Fund PC  Quantic Low Vol Fund PC  Quantic Progressive Fund PC  Quantitative Research Weekly CTA Fund Limited  Red Label Investments Limited (formerly Midvale Consulting Rooms Limited)  Sunrise Focus Fund Limited  SVA Condor Fund Limited  SVA Multihedge Fund Limited  SwissGuard Multi-Strategy Fund Limited  The IVC Ascent II Master Fund PC  The IVC Ascent Master Fund PC  Titan Fund Limited  Wave Telecom Limited  Wellington Partners Management Limited  Wellington Partners Ventures Special (GP) Limited  White Symphony Dynamics (SG PB Suisse) Fund Limited</p>	
Helen Green	<p>Advance Frontier Markets Fund Limited  Anna Corporation  Arrow Administration (Guernsey) Limited  Astraeus Property Limited  Balaga Limited  Barba Family Company Limited  Barba Property Limited  Champness Limited  Clairwood Limited  Clarinda UK Limited  Corbiere Trust Company Limited  Davos Trust Company Limited  Edgmond Holdings Limited  Eythrope Trustee Co. Limited  GAMX Investment Corporation Limited  GB Partnership Investment Associates Inc  Goshawk Trust Company Limited  Halebourne Limited  Hector Limited  Henderson Diversified Income (Luxembourg) Sarl  Henderson Diversified Income Limited  HPFM (Guernsey) Limited  Icarsan Limited  Indian Star Limited  Inniskerry Limited  J Rothschild Group (Guernsey) Limited  J. Rothschild Nominees (Guernsey) Limited  Jameson Services (Jersey) Limited  Juromant Investments Limited  Kasomitra Holdings Limited  Kerasia Property Limited  Landore Resources Limited  Les Prairies Investment Trust Limited  Lewdown Holdings Limited  Lions Hill Limited  Mica Enterprises Limited SA  Oceantide Limited  Octavian Nominees Limited</p>	<p>Advance AIM Value Realisation Company Limited  Albany International Corporation  Alicante Services Limited  Astraeus Limited S.A.  Auriga Nominees Limited  Barba Family Foundation Company Ltd. S.A  Bayit Residential Investments Limited  Bovingdon Properties Unlimited  Brandenburg Archie 15 Acquico 1 Sarl  Brandenburg Archie 15 Acquico 2 Sarl  Brandenburg Archie 15 Acquico 3 Sarl  Brandenburg Archie 15 Acquico 4 Sarl  Brandenburg Archie 24 Acquico 1 Sarl  Brandenburg Archie 24 Acquico 2 Sarl  Brandenburg Archie 24 Acquico 3 Sarl  Brandenburg Archie 24 Acquico 4 Sarl  Brandenburg Archie GP Sarl  Brandenburg Barrel Cologne BuyCo B.V.  Brandenburg Barrel Dutch HoldCo B.V.  Brandenburg Barrel Muelheim BuyCo B.V.  Brandenburg Barrel Nuremberg BuyCo B.V.  Brandenburg Barrel Zweibruecken BuyCo B.V.  Brandenburg Properties 1 Sarl  Brandenburg Properties 2 Sarl  Brandenburg Properties 3 Sarl  Brandenburg Properties 4 Sarl  Brandenburg Properties 5 Sarl  Brandenburg Properties 6 BV  Brandenburg Properties 7 BV  Brandenburg Properties 8 BV  Brandenburg Properties 9 BV  Brandenburg Properties 10 BV  Brandenburg Properties 11 BV  Brandenburg Properties 12 BV  Brandenburg Properties 13 BV</p>

***Current directorships/partnerships***

Palmus Trust Company Limited  
Puma Sphera  
Puma Sphera Master Fund  
Redcliffe Property Limited  
Redvale Properties Limited  
RHK Nominees Limited  
Rysaffe International Services Limited  
Rysaffe Limited  
Rysaffe Nominees (C.I.) Limited  
Rysaffe Trustee Company (C.I.) Limited  
Saffery Champness Fund Services Limited  
Saffery Champness Guernsey Audit and Tax Partnership  
Saffery Champness Holdings Limited  
Saffery Champness Management International Limited  
Saffery Champness Société Avec Responsabilité Limitée  
Saffery Champness Trust Corporation  
Saffery Limited  
Saffery Trustee Company (C.I.) Limited  
Saffron Maritime Limited  
Sansiri Guernsey (2009) Limited  
Shore SFK Limited  
Stanco International Inc  
Tamar European Industrial Fund Limited  
The Family of N & J Rothschild S.A.  
The St John Ambulance & Rescue Service LBG  
Thea Investments Inc  
Tidegrove Holdings Limited  
Tidegrove Management Limited  
Uttrup Investment Management Fund PCC Limited  
Uttrup Investment Management Limited  
Westerwald Holdings Inc.  
Yellowstrand Limited  
Yillman Limited

***Previous directorships/partnerships***

Brandenburg Properties Sarl  
Buckfield Property Ltd.  
Carina Nominees Limited  
Corbiere Private Office Limited  
Corbiere Property Investments (Hanover Square) Limited  
Corbiere Property Investments Limited  
DAM Trustees Limited  
Datchworth Properties Unlimited  
Dove Holdings Inc  
Draco Nominees Limited  
Equestrian Activities (UK) Limited  
Euro Petroleum Trading Limited  
Fisher Island Holdings Limited  
Fizzyberry Limited  
Fulmer Properties Limited  
Geneva Moon Limited  
Gowerton Holdings Limited  
Hestia Property Limited  
HPFM (Trinity Lodge) Limited  
Hunter Healthcare Property Limited  
Hydra Investments Group Limited  
Jermyn Pte Ltd  
Libra-Alpha Investments Limited  
Longlands Finance No 2 Limited  
Marsworth Properties Unlimited  
Medieval Investment Fund Limited  
Mensa Nominees Limited  
MiNC Residential Property Fund Limited  
Moules Investments Limited  
Ophelia Holdings Inc  
Paloma Group Limited  
Paloma Holdings Limited  
Paloma Limited  
Paloma Management Limited  
Paloma Properties Limited  
Paragon Outcomes Holdings Limited  
Pavo Nominees Limited  
Pictor Nominees Limited  
Project 407 Limited  
Puma Brandenburg Limited  
Puma Property Advisors Limited  
Puma Sphera Management (Cayman) Limited  
Puma Theta  
Puma Theta Management (Cayman) Limited  
Quantum Energy Limited  
Regeneration (G.P.) Limited  
Retreat Developments (Tenenbaum) Limited  
Saffery Champness  
Saffery Champness Trustees Limited  
SAR Limited  
Shalford Limited  
Shore Epsilon Limited  
Silver Stallion Limited  
Silverdale Holdings Limited  
Southern Cross Nominees Limited  
Thornhill Premium Fund Limited  
Topibel S.A.  
Treal Plc  
Trio Finance Limited  
Tucana Nominees Limited  
Virgo Investments Group Limited  
Wainbridge Capital Limited  
Wiggington Properties Unlimited

	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Nigel Ward	Africa Management Limited Anacap Credit Opportunities GP II Limited Braemar Agricultural Land Investments Limited Braemar Group PCC Limited BSA 001 Limited BSA 002 Limited Crystal Amber Fund Limited Eidos Investments (Guernsey) Limited Gateway (Leeds) Ground Rents Limited Masshouse Ground Rents Limited Midlands Ground Rents Limited North West Ground Rents Limited RENN Entrepreneurial Fund Limited TMG 001 Limited TMG 002 Limited TMG 003 Limited TMG 004 Limited	Baring Asset Management (CI) Limited Centrix IX Fund Limited Nordic Leisure Limited RM Squared Limited

- 6.2. Within the period of five years preceding the date of this document none of the Directors:
- 6.2.1. has any convictions in relation to fraudulent offences;
  - 6.2.2. has been a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or
  - 6.2.3. has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.
- 6.3. None of the Directors has any potential conflicts of interest between their duties to the Company and their private interests or other duties.

## **7. Directors' Remuneration**

- 7.1. The aggregate of the remuneration (including any contingent or deferred compensation) paid and benefits in kind granted to the Directors by Acorn Income Fund in respect of the financial year ended 31 December 2010 was £50,000 made up as follows:

<i>Name</i>	<i>Remuneration (£)</i>
John Boothman	20,000
Helen Green	15,000
John McKean*	15,000

No amounts were set aside or accrued by Acorn Income Fund to provide pension, retirement or similar benefits for Directors in respect of the financial year ended 31 December 2010. Nigel Ward was appointed to the Board on 1 December 2011 and received no remuneration prior to the date of this Prospectus. His initial remuneration will be £15,000 per annum and will be subject to normal future reviews.

\*John McKean retired from the Board with effect from 30 September 2011.

## 8. Directors' and Others' Interests

- 8.1. The table below sets out the interests of the Directors in the share capital of the Company as at the Latest Practicable Date:

<i>Name</i>	<i>Number of Ordinary Shares held</i>	<i>per cent. of voting rights</i>
John Boothman	25,000	0.28
Helen Green	0	0
Nigel Ward	0	0

- 8.2. Save as set out in this Part 8, following the Placing no Director will have any interest in the share capital of the Company.
- 8.3. So far as is known to the Company by virtue of the notifications made to it pursuant to the Disclosure and Transparency Rules, as at the Latest Practicable Date the following persons held directly or indirectly three per cent. or more of Acorn Income Fund's voting rights:

<i>Name</i>	<i>Number of voting rights held</i>	<i>per cent. of voting rights</i>
Charles Stanley Group PLC	1,566,568	17.96
Armstrong Investments Limited	866,000	9.93
Cheviot Asset Management	649,716	7.45
Rathbone Brothers	434,350	4.98
JP Morgan Asset Management (UK) Limited	425,000	4.87
John Douglas McClure	268,980	3.08

Save as set out in this Part 8, Acorn Income Fund is not aware of any person who holds as shareholder (within the meaning of the Disclosure and Transparency Rules), directly or indirectly, three per cent. or more of the voting rights of Acorn Income Fund.

- 8.4. None of the shareholders referred to in paragraph 8.3 above has different voting rights from any other holder of shares in respect of any shares held by them.
- 8.5. Acorn Income Fund is not aware of any person who directly or indirectly, jointly or severally, owns or could exercise control over Acorn Income Fund.
- 8.6. Placing commitments in respect of over 5 per cent. of the ZDP Shares being issued have been entered into in respect of Sentinel Defensive Fund (2,000,000 ZDP Shares representing 16.7 per cent.), Premier Defensive Growth Fund (1,305,000 ZDP Shares representing 10.9 per cent.), Brooks Macdonald Structured Growth Fund (1,000,000 ZDP Shares representing 8.3 per cent.), Investec Wealth & Investment Limited (1,200,000 ZDP Shares representing 10.0 per cent.), Rathbone Brothers plc (1,134,500 ZDP Shares representing 9.5 per cent.) and Premier Conservative Growth Fund (800,000 ZDP Shares representing 6.7 per cent.). Sentinel Defensive Fund, Premier Defensive Growth Fund and Premier Conservative Growth Fund are managed by Premier Asset Management Limited.

## 9. Directors' Terms of Appointment

There are no letters of appointment or service contracts between any of the Directors and the Company.

## 10. Organisational Structure and Subsidiaries

Acorn Income Fund has no subsidiaries.



## 11. Taxation

The comments below are of a general and non-exhaustive nature based on the Directors' understanding of the current revenue law and published practice in Guernsey and the United Kingdom, which is subject to change, potentially with retrospective effect. The comments relate to the position of persons who are resident or ordinarily resident in Guernsey or the United Kingdom for tax purposes, who hold their Shares as an investment and who are the absolute beneficial owners of Shares. The comments below may not apply to certain classes of persons, such as dealers, collective investment schemes, insurance companies, persons holding 10 per cent. or more of the Shares and persons making or holding their investment with the purpose of obtaining a UK tax advantage.

**If you are in any doubt about your tax position, or if you may be subject to tax in a jurisdiction other than Guernsey or the United Kingdom, you should consult your professional adviser.**

### United Kingdom Taxation

#### (i) *The Company*

The Directors intend to continue to conduct the affairs of the Company so that it does not become resident in the United Kingdom for UK tax purposes. Accordingly, and provided that the Company does not carry on a trade in the United Kingdom (whether or not through a branch, agency or permanent establishment situated there), the Company will not be subject to UK income tax or corporation tax other than on certain types of UK source income.

#### (ii) *ZDP Shareholders*

##### *Tax on disposal or redemption*

Subject to the following paragraph, any profit on a disposal of ZDP Shares or on receipt of the Final Capital Entitlement by a UK resident or ordinarily resident ZDP Shareholder or a ZDP Shareholder who carries on a trade in the United Kingdom through a branch, agency or permanent establishment with which their investment in the Company is connected, should be taxed as a chargeable gain for UK tax purposes, subject to applicable reliefs and allowances.

For corporate ZDP Shareholders, if the Final Capital Entitlement is received otherwise than pursuant to a liquidation of the Company, the amount by which the Final Capital Entitlement exceeds the amount originally subscribed for the ZDP Shares will instead be treated as a "distribution" for UK corporation tax purposes. In the hands of a company that is not "small" (see below), that distribution will normally be exempt from corporation tax. For a company which is "small", that distribution will be subject to corporation tax as income.

A company is "small" for the purposes of the previous paragraph for any accounting period during which staff headcount is below 50 and either turnover or balance sheet total is less than or equal to €10 million.

#### (iii) *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

Generally, no UK stamp duty or SDRT is payable on the issue or transfer of ZDP Shares or an agreement to transfer ZDP Shares.

### Guernsey Taxation

#### (i) *The Company*

The Company currently has tax exempt status pursuant to the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. The Company will need to reapply annually for exempt status, an application that currently incurs a fee of £600 per annum.

The Company is therefore not considered resident in Guernsey for Guernsey income tax purposes and is exempt from tax in Guernsey on both bank deposit interest and any income that does not have its source in Guernsey. It is not anticipated that any income other than bank interest will arise in Guernsey and therefore the Company is not expected to incur any additional liability to Guernsey tax. Payments of dividends and interest by a company that has exempt status for Guernsey tax purposes are regarded as having their source outside Guernsey and hence are payable without deduction of tax in Guernsey.

In the absence of exempt status, the Company would be treated as resident in Guernsey for Guernsey income tax purposes and would be subject to a zero rate of income tax.

At present Guernsey does not levy taxes upon capital inheritances, capital gains (with the exception of a dwellings profit tax), gifts, sales or turnover, nor are there any estate duties, save for an ad valorem fee for the grant of probate or letters of administration. No stamp duty is chargeable in Guernsey on the issue, transfer or redemption of Shares in the Company.

(ii) *Shareholders*

Shareholders resident outside Guernsey will not be subject to any income tax in Guernsey in respect of any Shares owned by them. Any Shareholders who are resident for tax purposes in Guernsey, Alderney or Herm will incur Guernsey income tax on any dividends paid on Shares owned by them but will suffer no deduction of tax by the Company from any such dividends payable by the Company where the Company is granted exempt status. The Company is required to provide details of distributions made to Shareholders resident in the Islands of Guernsey, Alderney and Herm to the Administrator of Income Tax in Guernsey.

Non-Guernsey resident Shareholders will not be subject to Guernsey tax on the redemption or disposal of their holding of Shares in the Company.

## 12. **Securities Laws**

The distribution of this document and the offer of ZDP Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

### 12.1. *United States*

The ZDP Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and accordingly may not be offered or sold within the United States, or to or for the account or benefit of, US Persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The ZDP Shares are only being offered outside the United States to non-US Persons in reliance on the exemption from registration provided by Regulation S.

### 12.2. *European Economic Area*

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive, as amended (each a “**relevant member state**”), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the “**relevant implementation date**”), no ZDP Shares have been offered or will be offered to the public in that relevant member state prior to the publication of a prospectus in relation to the ZDP Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except (with effect from and including the relevant implementation date):

- 12.2.1. to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- 12.2.2. to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual turnover of more than €50,000,000, as shown in its last annual accounts;
- 12.2.3. to fewer than 150 natural or legal persons (other than “**qualified investors**” as defined in the Prospectus Directive) subject to obtaining the prior written consent of Fairfax; or
- 12.2.4. in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such offer of ZDP Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospective Directive or any measure implementing the Prospectus Directive in a relevant member state and each person who initially acquires any Shares or to whom any offer is made under the Placing will be deemed to have represented, acknowledged and agreed that it is a “**qualified investor**” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of ZDP Shares to the public**” in relation to any ZDP Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of any ZDP Shares to be offered so as to enable an investor to decide to purchase or subscribe for the ZDP Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

### 12.3. *United Kingdom*

No ZDP Shares have been offered or sold or will be offered or sold to persons in the United Kingdom prior to Admission except 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 will not result in a breach of any applicable provisions of FSMA.

### 12.4. *General*

No action has been or will be taken in any jurisdiction, other than the United Kingdom, that would permit a public offering of the ZDP Shares, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the ZDP Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the ZDP Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of ZDP Shares, including those in the paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the ZDP Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

## 13. **Working Capital**

Acorn Income Fund is of the opinion that the Company has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this document.

## 14. **Significant Change**

There has been no significant change in the financial or trading position of Acorn Income Fund since 30 June 2011, being the date to which the latest unaudited interim financial information was published.

## **15. Litigation**

Acorn Income Fund is not, nor has it been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Acorn Income Fund is aware) during the 12 months preceding the date of this document which may have, or have had a significant effect on the financial position or profitability of Acorn Income Fund.

## **16. Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Acorn Income Fund within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by Acorn Income Fund and contain provisions under which Acorn Income Fund has an obligation or entitlement which is, or may be, material to Acorn Income Fund as at the date of this document:

### **16.1. *Placing Agreement***

Pursuant to the Placing Agreement, Fairfax has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the ZDP Shares. Fairfax will be entitled to receive a corporate finance fee of £75,000 and a commission of £150,000 and reimbursement for its out-of-pocket expenses, including legal costs, in connection with the Placing, together, in each case, with applicable VAT. The corporate finance fee and the commission set out above are only payable if Admission occurs.

The Placing Agreement is conditional, amongst other things, on:

- (a) this document being approved by the FSA and being made available in accordance with the Placing Agreement; and
- (b) Admission occurring on or before 8.00 a.m. on 21 December 2011 (or such later time or date as Fairfax and Acorn Income Fund may agree being no later than 5.00 p.m. on 31 January 2012).

The Placing Agreement confers on Fairfax the right to terminate its obligations prior to Admission if, amongst other things:

- (a) there is a breach of any of the representations or warranties given under the Placing Agreement which, in the opinion of Fairfax (acting in good faith), is material in the context of the Placing; or
- (b) Acorn Income Fund fails, in any respect which is material in the context of the Placing or Admission, in the opinion of Fairfax (acting in good faith), to comply with any of its obligations under the Placing Agreement; or in the opinion of Fairfax (acting in good faith) a material adverse change occurs with respect to Acorn Income Fund; or
- (c) there is a change in stock market conditions (including international financial markets) or an incident of terrorism or outbreak of hostilities or a suspension or material limitation in trading of securities generally on any stock exchange or a disruption of settlement systems or a material disruption or general moratorium in commercial banking as would, in the opinion of Fairfax (acting in good faith) be likely to materially prejudice the success of the Placing or make it impracticable or inadvisable to proceed with the Placing.

The Placing Agreement also contains:

- (a) certain customary warranties given by Acorn Income Fund and certain customary warranties given by the Investment Advisers;
- (b) customary indemnities given by Acorn Income Fund and the Investment Advisers in favour of Fairfax; and
- (c) certain undertakings from Acorn Income Fund relating, amongst other things, to consultation with, and the provision of information to, Fairfax.

### 16.2. ***Registrar Agreement***

A registrar agreement dated 1 December 2011 between the Registrar and the Company pursuant to which the Registrar has agreed to provide registrar services to the Company. The Registrar is entitled to an annual fee of the higher of (a) £3,000 per register per annum or (b) the sum of £5 per Shareholder per annum, 60 pence per intra CREST transfer, £1.50 per CREST stock deposit/withdrawal and £10 per non-CREST transfer. The Registrar shall also be entitled to fees for the provision of a UK transfer agent facility of £1,500 per annum and fees for processing dividend payments and proxy appointments. The Registrar is entitled to receive reimbursement for disbursements incurred in connection with the services provided under the agreement. The agreement contains an indemnity from the Company in favour of the Registrar for any liabilities it may incur in carrying out its duties under the agreement, save in the case of fraud, negligence, wilful misconduct, wilful default or breach by it of the terms of the agreement or the CREST rules. The agreement may be terminated by either the Company or the Registrar giving to the other at any time, after 6 months from the date of the agreement, not less than 90 days' notice in writing. The agreement may also be terminated by immediate notice in writing if either the Company or the Registrar commits any material and continuing breach of the agreement or goes into liquidation.

### 16.3. ***Administration Agreement***

An administration agreement dated 28 November 2008 between Acorn Income Fund, the Investment Manager and the Administrator, pursuant to which the Investment Manager has delegated the provision of certain administrative and secretarial services to the Administrator in respect of Acorn Income Fund. The Administrator is entitled to receive an annual fee for its services of 0.12 per cent. of total assets, subject to a minimum annual fee of £55,000.

The Administrator is also entitled to reimbursement of out of pocket expenses reasonably incurred by it in carrying out its duties. The agreement contains an indemnity from the Investment Manager in favour of the Administrator and its agents or delegates against any liabilities which they may incur in carrying out their duties under the agreement, save in the case of fraud, negligence, bad faith or wilful default. The agreement may be terminated by Acorn Income Fund or the Administrator on not less than three months' notice in writing. The agreement may also be terminated by immediate notice in writing in circumstances including, *inter alia*, material and continuing breach of the agreement, insolvency of any party or on termination of the management agreement.

### 16.4. ***Global Custody Agreement***

A global custody agreement dated 31 July 2008 between Acorn Income Fund and the Custodian, pursuant to which the Custodian is appointed to provide custodial services to Acorn Income Fund. The Custodian is entitled to receive a fee for each safekeeping and settlement transaction undertaken on Acorn Income Fund's behalf, subject to an overall minimum annual fee of £10,000.

The Custodian is also entitled to reimbursement of out of pocket expenses properly incurred by it in carrying out its duties. The Custodian is permitted to appoint sub-custodians to perform any of its functions and powers under the agreement. The agreement contains an indemnity in favour of the Custodian and any sub-custodians or any of their respective agents or nominees against any liabilities which they may incur in carrying out their duties under the agreement. The agreement may be terminated by either party on not less than 90 days' notice in writing. The agreement may also be terminated by either party by immediate notice in writing if required to do so by any competent legal, governmental, supervisory or regulatory authority or body.

### 16.5. ***Security Agreement***

In connection with the facility agreement referred to at paragraph 16.6 below, the Company has entered into a security agreement dated 31 July 2008 with Bank of Scotland pursuant to which the Company has given security in and over the monies and investments held in the cash and securities custody accounts held with the Custodian. The agreement contains representations, warranties, events of default and indemnities which are customary for agreements of this nature.



#### 16.6. **Facility Agreement**

A facility agreement dated 13 February 2007 between Acorn Income Fund and The Governor and Company of the Bank of Scotland (“**BoS**”), pursuant to which BoS has made available to Acorn Income Fund a sterling revolving credit facility of up to £6,000,000 (the “**Facility**”). The Facility ceases to be available on 13 February 2012 when all advances become immediately repayable. The Facility bears interest at an annual rate which is the sum of (i) margin of 1.00 per cent.; (ii) LIBOR; and (iii) the costs of BoS complying with governmental and regulatory requirements regarding the Facility. BoS is entitled to a monthly non-utilisation fee in arrears of 0.5 per cent. per annum on the average undrawn amount of the Facility during that particular month. BoS is also entitled to reimbursement of all reasonable fees, costs and expenses incurred in respect of the Facility.

The Company is entitled to draw down advances of not less than £300,000. The Company may cancel any or all amounts of the undrawn Facility of not less than £500,000 on not less than ten business days’ notice in writing. If there is a repayment of any part of an advance other than on the last day of an interest period the Company will pay BoS a fee to cover BOS’s loss of interest.

The Company may enter into such interest rate hedging arrangements with HBOS Treasury Services PLC as the Company and BoS may agree from time to time. Any fee or premium payable in connection with such arrangements is payable by the Company on demand.

The terms of the Facility contain representations, warranties, events of default and indemnities which are customary for facility agreements of this nature. The terms also contain financial covenants under which the Company has agreed, *inter alia*, to maintain a ratio of specified investment assets to debt of 2:1.

#### 16.7. **Management Agreement**

A management agreement dated 11 December 2006 between Acorn Income Fund and the Investment Manager pursuant to which the Investment Manager has agreed to provide investment management services to Acorn Income Fund in relation to the portfolio of assets held by it from time to time. In consideration for its services thereunder, the Investment Manager is entitled to receive a management fee of 0.7 per cent. per annum of total assets, calculated monthly and payable quarterly in arrears. The Investment Manager is also potentially entitled to a performance fee, of 15 per cent. of any excess of the Net Asset Value per Ordinary Share over a benchmark NAV per share multiplied by the time weighted number of shares in issue during the relevant financial period.

The Investment Manager has agreed that if the total expense ratio of Acorn Income Fund (ignoring any performance fee and any non-routine professional expenses) for any financial period will exceed 1.5 per cent. of the total assets it will reimburse or, to the extent not already paid, waive that part of its management fee and/or performance fee paid or payable in respect of that relevant financial period so as to reduce the total expense ratio of Acorn Income Fund for that period to 1.5 per cent. of total assets, provided always that the Investment Manager shall in any event be entitled to a minimum management fee of £100,000 per annum.

In addition to the fees referred to above, the Investment Manager is also entitled to be reimbursed reasonable expenses and the costs of delegating administration services. The total amount it may be reimbursed for delegating administrative services shall not exceed 0.12 per cent. per annum of total assets but is subject to a minimum annual payment of £55,000.

Pursuant to the management agreement, the Investment Manager is entitled, with the written consent of the Directors, to delegate certain of its duties and responsibilities. The Investment Manager has delegated responsibility for the management of the Portfolios to the Investment Advisers.

The Investment Manager has the benefit of an indemnity from Acorn Income Fund in relation to liabilities incurred by the Investment Manager in the discharge of its duties other than those arising by reason of any negligence, wilful default, fraud or breach of agreement of or by the Investment Manager or any party to whom it has delegated any of its functions under the management agreement.



The Investment Manager's appointment is terminable by either party on not less than 12 months' notice. The management agreement may also be terminated by either the Investment Manager or Acorn Income Fund if the other party has committed a material and continuing breach of the agreement or has gone into liquidation or receivership.

## **17. Related Party Transactions**

Acorn Income Fund entered into no related party transactions during the three years ended 31 December 2008, 2009 and 2010 except in respect of services provided by the Investment Manager and the Directors. Fees payable to the Investment Manager amounted to £133,698 in 2010; £106,296 in 2009 and £122,819 in 2008. The Directors' aggregate remuneration payable in respect of each of those years was £50,000, comprising £20,000 for the Chairman and £15,000 for each of the other two Directors. During the period from 1 January 2011 up to the date of this document, investment management fees of £80,914 have been paid in respect of the period 1 January 2011 to 30 June 2011. The amount due for the remainder of the year ended 31 December 2011 will depend in part on the value of the Company's assets as at 31 December 2011. Based on the valuation as at 14 December 2011 the amount due to the Investment Manager from 1 July 2011 to the date of this document is estimated at £70,959. The amounts of Directors' remuneration for the period from 1 January 2011 up to the date of this document are as follows: John Boothman (Chairman) £19,178; Helen Green £14,384; John McKean £11,250 and Nigel Ward £658.

## **18. Consent**

Fairfax has given and has not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which it appears.

## **19. General**

- 19.1. The financial statements of Acorn Income Fund in respect of the three years ended 31 December 2010 were reported on by KPMG Channel Islands Limited, a member of the Institute of Chartered Accountants for England and Wales, the auditors of Acorn Income Fund.
- 19.2. The Placing Price, which is to be paid in cash, represents a premium of 99 pence over the nominal value of 1 pence per ZDP Share.
- 19.3. On the assumption that the Placing is fully subscribed, the Initial Gross Proceeds of the Placing will be £12 million, the expenses payable by Acorn Income Fund pursuant to the Placing will be approximately £399,540 (including any amounts in respect of value added tax thereon) and the net proceeds of the Placing will be £11,600,460.
- 19.4. Acorn Income Fund has no tangible fixed assets and does not intend to acquire any and has not entered into any material commitments to acquire any tangible fixed assets.
- 19.5. Fairfax, which is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange, is acting exclusively for the Company and no-one else in connection with the Placing and the proposed Admission. Fairfax will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Fairfax nor for providing advice in relation to the transactions or arrangements detailed in this document. Fairfax is not making any representation or warranty, express or implied, as to the contents of this document and accordingly without limiting the statutory rights of any recipient of this document, no liability is accepted by Fairfax for the accuracy of any information or opinions contained in this document or for any omission of any material information for which it is not responsible.
- 19.6. Certain market statistics in paragraph 1 of Part 2 have been extracted from published third party sources (being Morningstar). This information has been accurately reproduced and as far as the Company is aware and is able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 19.7. All additional fees and expenses incurred by the Company including, but not limited to, listing fees, regulatory fees and tax exemption fees are paid out of the assets of the Company.

## **20. Documents for Inspection**

20.1. Copies of the following documents will be available for inspection on the website of Acorn Income Fund (which does not form part of this Prospectus) at [www.premierassetmanagement.co.uk](http://www.premierassetmanagement.co.uk) and during normal business hours on any weekday (public holidays excepted) at the registered office of the Company at Anson Place, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 1EJ, up to and including 31 January 2012:

- 20.1.1 the Memorandum and Articles of Association of the Company;
- 20.1.2 the audited accounts of Acorn Income Fund for the three financial years ended 31 December 2010;
- 20.1.3 the unaudited interim accounts of Acorn Income Fund for the half financial year ended 30 June 2011; and
- 20.1.4 this document.

**Dated: 16 December 2011**

## PART 9

### DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

<b>“Administrator”</b>	Anson Fund Managers Limited
<b>“Admission”</b>	Listing and Admission to Trading and a reference to Admission becoming <b>“effective”</b> is to be construed in accordance with the Listing Rules or the Standards (as applicable)
<b>“Admission to Trading”</b>	the admission to trading on the London Stock Exchange’s market for listed securities of the ZDP Shares
<b>“Acorn Income Fund” or “the Company”</b>	Acorn Income Fund Limited
<b>“Articles”</b>	the articles of association of Acorn Income Fund
<b>“Assumptions”</b>	the principal bases and assumptions set out in Part 7 of this document
<b>“Auditors”</b>	KPMG Channel Islands Limited
<b>“Bank Loan”</b>	the term loan facility provided to Acorn Income Fund by the Bank of Scotland, a summary of which is set out in paragraph 16.6 of Part 8 of this document
<b>“Cover”</b>	has the meaning given to it in paragraph 7 of Part 7 of this document
<b>“CREST”</b>	the system for paperless settlement of trades in listed securities, of which Euroclear UK & Ireland Limited is the operator
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) (as amended)
<b>“Custodian”</b>	BNP Paribas Trust Company (Guernsey) Limited
<b>“Directors” or “Board”</b>	the directors of Acorn Income Fund
<b>“Disclosure and Transparency Rules”</b>	the disclosure and transparency rules made under Part VI of FSMA (as set out in the FSA Handbook) (as amended)
<b>“EEA”</b>	European Economic Area
<b>“Fairfax”</b>	Fairfax I.S. PLC
<b>“Final Capital Entitlement”</b>	138 pence per ZDP Share
<b>“FSA”</b>	the Financial Services Authority
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended)
<b>“Hurdle Rate”</b>	has the meaning given to it in paragraph 11 of Part 7 of this document
<b>“IAS”</b>	International Accounting Standards
<b>“IFRS”</b>	International Financial Reporting Standards
<b>“Income Portfolio”</b>	the portfolio of investments of Acorn Income Fund in high income and fixed interest securities and which is managed by Premier Fund Managers Limited
<b>“Initial Cover”</b>	has the meaning given to it in paragraph 6 of Part 7 of this document

<b>“Initial Gross Proceeds”</b>	the aggregate value of the ZDP Shares to be issued or sold pursuant to the Placing taken at their Placing Price
<b>“Investment Adviser”</b>	Premier Fund Managers Limited, in its capacity as investment adviser to the Income Portfolio or Unicorn Asset Management Limited, in its capacity as investment adviser to the Smaller Companies Portfolio (and together the <b>“Investment Advisers”</b> )
<b>“Investment Manager”</b>	Premier Asset Management (Guernsey) Limited
<b>“Latest Practicable Date”</b>	14 December 2011, being the latest practicable date prior to the date of this document for ascertaining certain information contained herein
<b>“Law”</b>	The Companies (Guernsey) Law, 2008, as amended
<b>“Listing”</b>	standard listing by the UK Listing Authority
<b>“Listing Rules”</b>	the rules and regulations made by the FSA under Part VI of FSMA
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Memorandum of Association”</b>	the memorandum of association of Acorn Income Fund
<b>“NAV” or “Net Asset Value”</b>	net asset value calculated in accordance with the Company’s normal accounting policies
<b>“Official List”</b>	the Official List of the FSA
<b>“Ordinary Shareholders”</b>	holders of Ordinary Shares
<b>“Ordinary Shares”</b>	the ordinary shares of 1p each in the capital of the Company
<b>“Placees”</b>	the persons with whom the ZDP Shares are placed pursuant to the Placing
<b>“Placing”</b>	the placing of ZDP Shares with institutional and certain other investors described in Part 1 of this document
<b>“Placing Agreement”</b>	the placing agreement entered into between Fairfax, the Investment Advisers and Acorn Income Fund in relation to the Placing
<b>“Placing Letter”</b>	the placing letter entered into between Fairfax and each Placee pursuant to the Placing
<b>“Placing Price”</b>	the price of 100 pence per ZDP Share at which ZDP Shares are to be issued or sold under the Placing
<b>“Portfolios”</b>	together the Income Portfolio and the Smaller Companies Portfolio and each a <b>“Portfolio”</b>
<b>“Prospectus”</b>	this document
<b>“Prospectus Directive”</b>	Directive 2003/7/EC
<b>“Prospectus Rules”</b>	rules published by the FSA under section 73A FSMA
<b>“Redemption Yield”</b>	the annualised return that can be achieved in terms of capital from purchasing a ZDP Share at 100 pence on 21 December 2011 and holding it until the ZDP Repayment Date
<b>“Registrar”</b>	Anson Registrars Limited
<b>“Responsible Persons”</b>	Acorn Income Fund and the Directors
<b>“RIS”</b>	Regulatory Information Service
<b>“SDRT”</b>	stamp duty reserve tax
<b>“Securities Act”</b>	the United States Securities Act of 1933 (as amended)

<b>“Shareholders”</b>	Ordinary Shareholders and, where the context requires, ZDP Shareholders
<b>“Shares”</b>	Ordinary Shares and ZDP Shares
<b>“Smaller Companies Portfolio”</b>	the portfolio invested by Acorn Income Fund predominantly in equities of companies with a market capitalisation of under £1 billion and which is managed by Unicorn Asset Management Limited
<b>“Standards”</b>	the <b>“Admission and Disclosure Standards”</b> of the London Stock Exchange
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers
<b>“UK Corporate Governance Code”</b>	The UK Corporate Governance Code as published by the UK Financial Reporting Council
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“US” or “United States”</b>	United States of America, its territories and possessions, any state of the United States and the District of Columbia
<b>“US Person”</b>	has the meaning given to it in Regulation S under the Securities Act
<b>“ZDP Repayment Date”</b>	the date on which the ZDP Shares are due to be redeemed, being 31 January 2017
<b>“ZDP Shareholders”</b>	holders of ZDP Shares
<b>“ZDP Shares”</b>	the redeemable zero dividend preference shares of 1p each in the capital of the Company

In this document words denoting any gender include both genders (unless the context otherwise requires).