

F&C FUND MANAGEMENT LIMITED

PROSPECTUS

of

F&C HIGH INCOME FUND

As at 1 February 2016

**Prepared in accordance with The Collective Investment Schemes Sourcebook (COLL)
("the Regulations.")**

F&C FUND MANAGEMENT LIMITED

8th Floor, Exchange House, Primrose Street, London. EC2A 2NY
Telephone: 020 7628 8000 Telex: 886197 Facsimile: 020 7628 8188

(Registered in England with Company No. 2170242)
Authorised and Regulated by the Financial Conduct Authority

1. **The Manager**

The Manager of the F&C High Income Unit Trust is F&C Fund Management Limited (the “Manager”) incorporated in England on 29 September 1987 as a private limited company. F&C Fund Management Limited is a wholly owned subsidiary of F&C Asset Management plc which is incorporated in Scotland. F&C Asset Management plc is owned by Bank of Montreal through its wholly owned subsidiary, BMO Global Asset Management (Europe) Limited. BMO Global Asset Management is part of BMO Financial Group, a highly diversified financial services provider based in North America. The head office and registered address of F&C Fund Management Limited is Exchange House, Primrose Street, London EC2A 2NY.

F&C Fund Management Limited has an issued share capital of £13,200,000 all of which is fully paid up. The directors of the Manager are as follows:-

Benjamin Apfel
David Logan
Nigel Parry
David Sloper
Marrack Tonkin
Richard Watts
Tina Watts
F&C Asset Management plc

The individual directors are employed by the F&C Asset Management Group.

Authorised Collective Investment Schemes (CISs) managed by the Manager are:

F&C Investment Funds ICVC, F&C Investment Funds ICVC II, F&C Investment Funds ICVC III, F&C Fund of Funds ICVC, F&C Money Markets Fund ICVC, F&C MM Lifestyle Investment Funds ICVC, F&C Responsible Investment Funds ICVC, F&C Multi-Capital Funds ICVC, F&C Institutional Investment Solutions ICVC, F&C Institutional Investment Funds ICVC, F&C Institutional Investment Funds ICVC III and F&C Property Growth & Income Fund ICVC, F&C True Styles Portfolios ICVC and as Manager to the authorised unit trust F&C High Income Fund

The Manager has delegated certain unit dealing and administration tasks to International Financial Data Services (UK) Limited, IFDS House, St Nicholas Lane, Basildon Essex SS15 5FS and certain fund accounting and unit pricing tasks to Mellon Bank NA, Princess House, 1 Suffolk Lane, London EC4R 0AN.

2. **The Trustee**

The Trustee of the Fund is State Street Trustees Limited a private company limited by shares incorporated in England and Wales on 24 October 1994. Its registered office is at 20 Churchill Place, London E14 5HJ and its principal place of business is at 20 Churchill Place, London E14 5HJ. Its ultimate holding company is State Street Corporation which is incorporated in Massachusetts, USA. The principal business activity of the Trustee is acting as depositary and trustee of collective investment schemes. The Trustee is authorised by the Financial Conduct Authority.

3. **The Registrar and the Register**

The Registrar of the Fund is International Financial Data Services (UK) Limited of IFDS House, Basildon, Essex SS15 5FS.

4. **Fund accounting and unit pricing**

The Manager has appointed State Street Bank and Trust Company, London Branch to provide certain fund accounting and unit pricing services to the fund. The cost of these services is paid out of the annual management charge.

5. **The Auditor**

The Auditor of the Fund is PricewaterhouseCoopers LLP whose address is Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH.

6. **The F&C High Income Fund**

The Fund is an authorised unit trust. The Fund is classified as a UCITS scheme. The base currency of the Fund is Pounds Sterling.

The Fund was established on 26th January 1993 as an authorised unit trust scheme.

The investment objective is to provide a high monthly income whilst maintaining the value of the property of the Scheme.

The Fund will hold structured debentures and derivatives, equities, fixed interest securities, collective investment schemes and other permitted investments. The equity exposure may be held in shares or securities, which qualify as an investment within an Individual Savings Account or for any other tax purposes as defined from time to time. A list of the 'eligible markets' in which investments are made is contained in Appendix 1 at the back of this document.

This Fund is intended for investors seeking a high monthly income through investing in derivatives, debentures, equities, fixed interest securities, collective investment schemes and other permitted investments. Investors should understand the volatility of investing in equity and debt instruments and be able to accept the possibility of capital losses. The Fund is only intended for investors who understand that a high monthly income is not guaranteed.

The assets of the Fund will be held mainly within the following guidelines:-

Type of Investment	Market Value of Assets as a Proportion of the Fund
Structured Debentures and Derivatives	0 – 60 %
Equities	0 – 60 %
Other Fixed Interest Securities and Cash	0 – 100 %

The exposure may be obtained by direct investments or indirectly by holdings in collective investment schemes, structured debentures and other instruments.

The equity exposure will normally be obtained through investment in EU companies but may at the Manager's discretion include equity exposure in non-EU markets up to 20% of the assets of the Fund.

The Manager presently intends to maintain the proportion of the Fund held in equities in the range 0-40% so as to enable the continuing payment of distributions as interest payments.

The accounting reference date of the Fund is April 30th with accounting periods ending on the last day of other months of the year. Distributions of interest payments to which holders of income units are entitled will normally be made on the twenty eighth day of each month, in respect of units held on the last day of the previous month.

The distinctive feature of this Fund is the asset allocation of up to approximately 60 per cent. in value of the property of the Fund to debt securities issued by investment grade issuers (as defined below) either under a debt issuance programme or as commercial paper of a specific type to seek to produce a high income to boost the overall income yield of the Fund. The income and capital returns on Notes (as defined below) will be based on a formula linked principally to the performance of a package of put and call options, and other derivative contracts linked to the volatility of other assets in relation to shares, individual stock(s), sectors or groups of shares in the Financial Times - Stock Exchange 100 Index ("FT-SE 100"), or other relevant stock market index. These instruments are commonly referred to as 'Structured Debentures'.

"Eligible markets" as defined for the purposes of the Regulations provide the facility for the admission to listing of debt issuance programmes and/or for the trading of commercial paper.

The term "debt issuance programmes" refers here to arrangements for the issuance of securities, which may be medium term notes and/or eurobonds, in accordance with defined terms and conditions in more than one tranche or on a continuing basis and the term "commercial paper" refers here to short-term transferable promissory notes denominated in sterling or other currencies typically with a fixed maturity of less than one year. Debt issuance programmes and commercial paper, because of their nature, are normally bought and traded in by a limited number of investors who are particularly knowledgeable in investment matters. Debt securities issued under a debt issuance programme or as commercial paper (together "Notes") are a flexible investment medium.

For example, the characteristics that each tranche in a debt issuance programme may possess are typically widely drawn and the terms and conditions of a programme may provide that the Notes issued under it (i) be denominated in different currencies, (ii) have a term of a minimum of 1 month from the date of issue, (iii) be issued at par or at a premium or discount to par, (iv) be issued on a fully-paid or partly-paid basis, (v) bear interest at a fixed or floating rate or on an index- or formula-linked basis or be issued on a non-interest bearing fully-discounted basis, (vi) provide that the amount payable upon redemption is fixed or index or formula-linked, (vii) provide that they will be redeemed in one amount or instalments, and/or (viii) provide that payments of principal and/or interest should be made in a currency or currencies other than the original currency of issue. Effectively, Notes can be "designed" to meet the requirements of an investor.

It is intended that the Fund shall invest in Notes which are "transferable securities" (as defined for the purpose of the Regulations) listed or dealt in on an "eligible market" (as defined for the purpose of the Regulations) which by formula-linked income and redemption terms are structured to closely replicate the performance of cash deposits and a package of put and call options or other derivatives linked to the volatility of assets as determined by the Manager. The Notes will be issued by "investment grade issuers" meaning issuers with a credit-rating of at least A1/P1 (short term) by Moody's Investor Services or A (long term) by Standard and Poor's Corporation or, if unrated, after due consideration by the Manager deemed to be of an equivalent or lesser risk.

Receipt by the Fund of the premium and coupon on the Notes is subject to the credit risk of the issuer. The redemption price received on the maturity of a Note will be dependent upon the performance of options to which the Note is formula-linked and is consequently subject to a high degree of risk.

In extreme circumstances the redemption value of the Note could be nil however the coupon should not be affected.

The Manager will seek to reduce any currency risks of investment in non-sterling denominated Notes through forward rate currency agreements.

The property of the Fund shall also be invested in equities, other fixed interest and other transferable securities as described above with the aim of providing capital growth to maintain the real value of unitholders investment and some income. The property of the Fund will be held in investments in order that the units in the Scheme will constitute qualifying investments for the purposes of the Individual Savings Account Regulations 1998 (as amended) and other appropriate tax legislation from time to time in force, subject always that investments will be made in securities which in the opinion of the Manager constitute transferable securities for the purpose of the Regulations.

It is intended that the Fund will operate so as to qualify as a bond fund for the purposes of HM Revenue & Customs regulations. The Manager intends to declare interest distribution payments to holders so entitled and to manage the Fund and to hold permissible assets laid down by HM Revenue & Customs from time to time.

The use of structured debentures and derivatives has and will contribute to the volatility of the fund NAV. However the return is expected to be commensurate with this increase in risk.

7. The Characteristics of Units in the Scheme

(a) Types of Units

The F&C High Income Fund is constituted by a Trust Deed, made between the Trustee and the Manager. The property of the Fund is held by the Trustee on trust for the unitholders of the Trust *pari passu* according to the number of undivided units in the property of the Fund represented by the units held by each unitholder.

The Fund issues income units. With income units, the distribution of income in respect of an accounting period is made to all those who are unitholders on the day before the "xd" or "ex-distribution" date (i.e. the date two calendar months before the distribution is paid).

On the last day in the accounting period, the income built up in each Fund is transferred to a distribution account pending distribution. The next day the price per unit is adjusted to take account of this and the price is quoted "xd" until after the distribution has taken place. The Fund has the power within its Trust Deed to issue accumulation units but has not done so. With accumulation units the income of the Fund is retained in the Fund on behalf of the unitholders, so that the price of accumulation units gradually draws away from that of income units.

Several Classes of Units may be issued in respect of the Fund. Currently the Fund may have one or more of the following Classes, distinguished by their criteria for subscription and fee structure:

Class 1 Shares : minimum investment £1,000

Class C Shares: minimum investment £500,000

The Share Classes currently available are set out in Appendix 4 with full details of the fee structure, current investment and holding limits.

(b) Nature of the Unit

The nature of the right represented by each type of unit is that of a beneficial interest under a trust.

(c) Certificates

Registration details of all new unitholders will be supplied to the Registrar who enters them in the Register (such entry being conclusive evidence as to the persons entitled to units).

(d) Voting Rights

The Trustee or the Manager may convene meetings of unitholders on giving at least fourteen days notice. Additionally holders of not less than one tenth of the units of the Fund in issue may request the Trustee to convene a meeting. At any such meeting unitholders may sanction amendments to the Trust Deed, approve certain policy changes, approve the removal of the Manager or approve an arrangement for the amalgamation or reconstruction of the Fund. At a unitholder meeting, on a show of hands, each registered unitholder who (being an individual) is present in person or by proxy or (being a corporation) is present by one of its officers shall have one vote.

If a poll is demanded each registered unitholder present in person or by proxy shall have one vote for each undivided share in the Fund property and a further part of one vote proportionate to any fraction of such individual share of which he is the holder and a unitholder entitled to more than one vote need not, if he votes, use all his votes, or cast all the votes he uses in the same way.

Income and accumulation unitholders shall have equal voting rights. Any resolution put to a meeting of holders will be proposed as an extraordinary resolution requiring the support of at least 75 per cent. of the votes cast. The quorum at a meeting of unitholders is two unitholders present in person or by proxy on a date to be determined by the Manager and stated in the notice of meeting which is a reasonable time before the notice of meeting was sent out. In the case of an adjourned meeting the quorum shall be one unitholder entitled to be counted in a quorum present at the meeting.

8. Valuation of Fund Property and Pricing Basis

The property of the Fund is normally valued at 12 noon on each business day (the "Valuation Point") (being, for the purposes of this Prospectus, each full day on which The London Stock Exchange is open for business) and relevant prices are usually available from 5.00 p.m. Public Holidays, early Stock Exchange closing and concessionary company holidays may, from time to time, cause the Funds to be valued at times other than those stated above.

For the purpose of determining the issue price of units, the Fund property will be valued on an offer basis and for the purpose of determining the cancellation price of units the Fund property will be valued on a bid basis.

The price at which the Manager sells units (the offer price), may not exceed the issue price of units plus the Manager's initial charge. The price at which the Manager redeems units (the bid price) will not be less than the cancellation price (less any redemption charge and any SDRT provision). The bid price will not exceed the relevant issue price.

Large deals may be carried out at a higher offer price or a lower bid price than those published, provided these prices do not exceed the relevant maximum and minimum parameters set out in the paragraph above.

The Manager will, upon completion of each valuation, notify the Trustee of the issue price, the cancellation price, the maximum offer price and the minimum bid price of Units, of each Class.

The price per unit at which units are issued or cancelled is calculated by taking the proportion, attributable to the units of the class in question, of the value on the issue basis (when calculating the issue price per unit) or the cancellation basis (when calculating the cancellation price per unit) of the Fund Property by reference to the most recent valuation, computing the number of units of the relevant class in issue immediately before that valuation, dividing the total by that number of units. Any initial charge or redemption charge, (or SDRT on a specific deal, if applicable) is payable in addition to the price or deducted from the proceeds and is taken from the gross subscription or redemption monies.

9. Manager's Charges

On the last business day of each month or as soon as possible thereafter, the management charge (a periodic charge calculated by reference to the mid-market value of the property of the Fund calculated at monthly accrual intervals) will be paid out of the Fund property to the Manager at the rate of 1.5 per cent per annum (plus any VAT) for all the Funds.

The Manager will remunerate the Investment Adviser a pro-rata share of the management charge received by the Manager in respect of those Funds where the management duties have been delegated to the Investment Adviser. The Investment Adviser is a wholly owned subsidiary of the F&C Group.

The current charge may only be increased in accordance with the Regulations and after the Manager has published and made available a revised Prospectus sharing the new rate of charge and its commencement date.

An initial charge of five per cent (plus VAT) of the creation price of units is included in the price at which units are purchased from the Manager. Such charge is retained by the Manager. The Manager is under no obligation to account to the Trustee or the unitholders of the Trust for any profits made by the Manager on the issue of units or the re-issue or cancellation of units which the Manager has redeemed.

10. Other Charges and Expenses

(a) *Trustee's Remuneration*

The Trustee's remuneration, which is payable out of the Scheme assets, is a periodic charge at such annual percentage rate of the value of the property of each Scheme as the Manager and the Trustee shall at their discretion from time to time agree, with the property of each Scheme being valued and such remuneration accruing and being paid on the same basis as the Manager's periodic charge. Currently, the Manager and the Trustee have agreed that the Trustee's remuneration in respect of each Scheme shall be calculated on a sliding scale as follows:

On the First GBP 50 million	0.01%
On the next GBP 50 million	0.008%
On the balance over GBP 100 million	0.005%

The Trustee is only permitted to increase its remuneration in accordance with the Regulations and after the Manager has made available a revised Prospectus to reflect the proposed increase.

The Trustee is also entitled to receive out of the property of the Scheme remuneration for such services as the Manager and the Trustee may from time to time agree, being services provided by the Trustee in performing or arranging for the performance of the functions conferred on the Trustee by the Trust Deed of that Scheme. The amount or rate of such remuneration for any such service is determined by reference to any scale or tariff in respect thereof from time to time published by the Trustee unless the Trustee and the Manager agree otherwise provided that such charges are on terms no less favourable than would be applicable to a comparable customer of the Trustee. Service charges (other than in respect of acting as registrar, which may accrue and be paid on the same basis as the Trustee's periodic charge) shall accrue when the relevant transaction or other dealing is effected and shall be paid in arrears on the next following date on which payment of the Trustee's periodic charge is to be made or as soon as practicable thereafter. Currently the Trustee does not receive any remuneration or service charges under this paragraph.

Trustees Expenses

In addition to the remuneration referred to above, the Trustee will be entitled to receive reimbursement for expenses properly incurred by it in the discharge of its duties or exercising any of the powers conferred upon it by the Trust Deed or Regulations.

The Trustee is entitled to receive reimbursement of the Custodian's fee as an expense of the Scheme.

The Trustee has appointed State Street Bank and Trust Company as the Custodian of the property of the Scheme. State Street Bank and Trust Company's remuneration for acting as Custodian is calculated at such rates as the Manager, Trustee and the Custodian may from time to time agree and is calculated at an ad valorem rate determined by the territory or country in which the Scheme assets are held. Currently, the lowest rate is 0.0004% and the highest rate is 0.50%. In addition, the Custodian makes a transaction charge determined by the territory or country in which the transaction is effected. Currently, these transaction charges range from £6 - £105 per transaction.

The Trustee is also entitled to be reimbursed out of the property of each Scheme in respect of remuneration charged by the Custodian for such services as the Manager, Trustee and the Custodian may from time to time agree, being services delegated to the Custodian by the Trustee in performing or arranging for the performance of the functions conferred on the Trustee by the Trust Deed of that Scheme. The amount or rate of such remuneration for any such service is determined by reference to any scale or tariff in respect thereof from time to time published by the Custodian unless the Custodian, Trustee and the Manager agree otherwise provided that such charges are on terms no less favourable than would be applicable to a comparable customer of the Custodian. Service charges shall accrue when the relevant transaction or other dealing is effected and shall be paid in arrears. Currently the Custodian does not receive any remuneration or service charges under this paragraph.

(b) Registrar's Remuneration

In addition, the Manager shall be entitled to a registrar's fee of £24.52 per annum (as at 1 January 2014). This fee is adjusted upwards on 1 January each year by an amount corresponding to the increase in the Retail Price Index since the previous 1 January. Charges in relation to the establishment and maintenance of the Register are paid monthly in arrears. This charge is paid out of the property of the Fund.

(c) Other Expenses

In addition to the Manager's and Trustee's charges the following expenses are payable out of the property of the Fund and are determined where appropriate by agreement between the parties involved:

- (a) dealing costs (including brokers commissions);
- (b) interest on borrowings and certain administrative costs in connection therewith;
- (c) taxation or duty payable in respect of trust property, the Trust Deed or the issue of units;
- (d) any costs incurred in modifying a Trust Deed including those incurred in holding a meeting at which the approval of a modification is necessary (or in certain circumstances, expedient) by reason of or as a consequence of a change in the law or to remove obsolete provisions from the Trust Deed is proposed;
- (e) any registrars fees or charges;
- (f) any costs incurred in respect of meetings called by the Trustee alone or by unitholders (other than the Manager or its associate);
- (g) auditors fees and expenses (plus VAT);
- (h) the fees of the Financial Conduct Authority and of any other relevant regulatory authorities;
- (i) certain liabilities on unitisation, amalgamation, and reconstruction.

All payments of a capital nature properly payable out of the Fund property shall be paid out of the capital property of the Fund. All payments of an income nature, properly so payable, shall be paid out of the income property of the Fund, save that to the extent the income property of the Fund is insufficient to meet the income payments they shall be paid out of the capital property of the Fund.

11. **Distributions**

For the F&C High Income Fund distribution of interest payments (if any) to which holders of income units are entitled will normally be made on the twenty eighth day of each month in respect of units held on the last day of the previous month.

On the first distribution which the unitholder is entitled to participate in following the purchase of units in a Fund, other than a purchase during the initial launch period, the unitholder will receive as part of the distribution a capital sum representing that part of the purchase price of the units which represents the value of the accrued income at the time of purchase. This is known as "Equalisation". The amount of Equalisation paid will be the average amount of the accrued income applicable to all units purchased during the accounting period in question (the "grouping period").

12. **Issue and Redemption of Units**

Instructions should be addressed to the Manager at F&C Investment Administration Centre, PO Box 6051, Basildon, Essex SS15 5TP or by telephoning the dealing line on 0870 601 6083. In addition the Manager may from time to time make arrangements to allow shares to be bought or sold through other communication means.

Subject to and in accordance with the Regulations, the issue or cancellation of units may take place through the Trustee directly.

It is the Manager's policy generally not to hold units or seek to make a profit from holding units.

The Manager will normally receive requests for the issue and redemption of units on any business day (being, for the purposes of this Prospectus, each full day on which The London Stock Exchange is open for business) between 9.00 a.m. and 5.00 p.m. Public Holidays, early Stock Exchange closing and concessionary company holidays may, from time to time, cause the issue and redemption to be carried out at times other than those stated above.

Units can be bought by post, by telephone or through an approved agent, at the issue price determined at the next Valuation Point. The Trusts are valued on a forward basis. Settlement will be required within 4 business days of the date of the contract note. Under certain circumstances the Manager may be required to verify the identity of the purchaser(s) of units. The absence of suitable information

being supplied on a timely basis may result in the forced sale of units and/or the withholding of sales proceeds.

Instructions to redeem units may be given to the Manager during normal business hours. Units will be redeemed at the redemption price determined at the next Valuation Point. Unitholders should telephone or write to the Manager, but in either case the renunciation form should be completed and forwarded to the Manager. A cheque for the full amount due is sent within four business days (or in the case of units in a Trust which is for the time being invested as to more than 50% in Government and Public Securities (GAPS), one business day) of receipt of the duly completed renunciation form.

A request to purchase or redeem units with an aggregate value in excess of £15,000 may be treated as a "large deal" within the meaning of the Regulations.

The minimum initial investment is £2,500. Any number of units can be added at any time. If unitholders wish to redeem their units, partial disposals will be allowed provided units worth at least £2,500 are left in the holding.

The issue and redemption prices of units will be published daily in the Financial Times. The Manager is under no obligation to account to the Trustee or the Unitholders for any profit it makes on the issue of units or on the re-issue of units or on the cancellation of units which it has redeemed.

US Investors

Due to legal and compliance burdens associated with permitting investments from US residents and US domiciled entities, the Fund does not accept applications for the purchase or subscription of units from any US Person and does not accept requests for transfer to any person that is a US Person.

Each investor will be required to represent that the investors is not a US Person and the units are not being acquired for the benefit or account of, directly or indirectly, any US Person. For this purpose a US Person is a person who is in either of the following two categories: (a) a person included in the definition of US person under Rule 902 of Regulation S under the 1933 Act, or (b) a person excluded from the definition of Non-United States person as used in the Commodity Futures Trading Commission (CFTC) Rule 4.7. For the avoidance of doubt, a person is excluded from this definition of US Person only if he/she or it does not satisfy any of the definitions of US person in Rule 902 and qualifies as a Non-United States person under CFTC Rule 4.7.

Investors must notify the Administrator if they have moved to the United States or have otherwise become US Persons. Upon such notification, or if the Administrator or ACD determines that there is a reasonable basis for believing that the investor has become a US Person, the investor's account may be frozen and/or compulsorily redeemed and further investments or transfers between funds will not be accepted. Other rights attaching to the units previously purchased will not be affected.

In Specie Applications

The Manager may, by special arrangement and at its discretion, agree to arrange for the issue of units in exchange for assets other than cash, but will only do so where the Trustee has taken reasonable care to ensure that the acquisition by the Fund of those assets in exchange for the units concerned is not likely to result in any material prejudice to the interests of unitholders or potential unitholders. However, the Manager will not issue units linked to the Fund in exchange for assets the holding of, which would be inconsistent with the investment objective, or policy of the Fund. The Manager will ensure that the beneficial interest in the assets concerned is transferred to the Fund with effect from the issue of the relevant units, even if the legal ownership is not then transferred to the Trustee.

In Specie Redemptions

Where a unitholder requests redemption or cancellation of units, the Manager may, at its discretion, give written notice to the unitholder before the proceeds of the cancellation would otherwise become payable that, in lieu of paying such proceeds in cash, the Manager will transfer to that holder property attributable to the Fund having the appropriate value. Where such a notice is given, the unitholder may, by written notice given to the Manager before the relevant property is transferred to the holder, require the Manager to arrange for a sale of that property and the payment to the unitholder of the net proceeds of that sale.

The selection of the property to be transferred (or sold) will be made by the Manager, in consultation with the Trustee. The Trustee must take reasonable care to ensure that the property transferred would not be likely to result in any material prejudice to the interests of unitholders.

13. Suspensions

The Manager may, with the prior agreement of the Trustee, and must without delay if the Trustee so requires temporarily suspend the issue, cancellation, sale and redemption of units in the Fund where due to exceptional circumstances it is in the interests of all the unitholders in the Fund. The Manager and the Trustee must ensure that the suspension is only allowed to continue for as long as is justified having regard to the interests of unitholders. The Manager will notify unitholders as soon as is practicable after the commencement of the suspension, including details of the exceptional circumstances which have led to the suspension, in a clear, fair and not misleading way and giving Unitholders details of how to find further information about the suspensions.

Where such suspension takes place, the Manager will publish sufficient details on its website or by other general means, to keep unitholders appropriately informed about the suspension, including, if known, its possible duration. During the suspension none of the obligations in COLL 6.2 (Dealing) will apply but the Manager will comply with as much of COLL 6.3 (Valuation and Pricing) during the period of suspension as is practicable in light of the suspension.

Suspension will cease as soon as practicable after the exceptional circumstances leading to the suspension have ceased but the Manager and the Trustee will formally review the suspension at least every 28 days and will inform the FCA of the review and any change to the information given to unitholders. The Manager may agree during the suspension to deal in Units in which case all deals accepted during and outstanding prior to the suspension will be undertaken at a price calculated at the first Valuation Point after the restart of dealings in units. This suspension may be restricted to any single Fund, or Class within that Fund. Dealings in units in the relevant Fund or Class will commence on the next appropriate Valuation Point following the end of the suspension at the unit price calculated at that Valuation Point.

14. General Information

(a) Reports and Trust Deeds

Report & Accounts are sent to unitholders twice a year within four months of the accounting reference date and two months of the day falling six months after the accounting reference date of a Fund or as soon as practicable thereafter. The annual report and half-yearly reports are prepared as both long and short reports. Unitholders will receive copies of the annual and half-yearly short reports on publication. Copies of the Trust Deed, most recent Prospectus and the latest Report and Accounts may be inspected at and obtained from the Manager's offices at Exchange House, Primrose Street, London EC2A 2NY.

(b) Taxation

General

The information below is a general guide based on current United Kingdom law and HM Revenue & Customs practice, both of which are subject to change. It summarises the tax position of the Fund and of investors who are United Kingdom resident (except where indicated) and hold Units as investments. Prospective investors who are in any doubt about their tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, are recommended to take professional advice.

The Fund

The Fund is generally exempt from United Kingdom tax on capital gains realised on the disposal of investments (including interest-paying securities and derivatives contracts) held within it.

It is also generally exempt from tax on any dividends from United Kingdom or Non-United Kingdom companies and any part of dividend distributions from authorised unit trusts and open-ended companies that represent such dividends are received by the Fund with a tax credit and no further tax is payable by the Fund on that income. The Fund will be subject to corporation tax at 20% on all other income but after deducting allowable management expenses (including the agreed fees and expenses of the Manager and the Trustee) and the gross amount of interest distributions.

Unitholders

The Fund currently pays interest distributions. These are made after income tax at 20% has been deducted and paid to HM Revenue & Customs (except as described below). A tax voucher showing the total interest distribution before the deduction of tax (gross interest), the tax deducted and the amount of the interest distribution after tax has been deducted (net interest) will be supplied to Unitholders.

For individual Unitholders, the gross interest will be subject to United Kingdom income tax at 10% in the case of tax payers subject to the starting rate on savings income, 20% in the case of basic rate taxpayers or their marginal rate in the case of higher and additional rate taxpayers. The tax deducted will satisfy in full the tax liability on the interest of Unitholders subject to basic rate income tax. For Unitholders who are starting rate payers part of the tax deducted will satisfy their liability and part may be reclaimed from HM Revenue & Customs. Unitholders who are higher or additional rate taxpayers will have to pay further income tax. Non-taxpayers may reclaim any tax deducted from HM Revenue & Customs. Where Units are held through ISAs their managers may reclaim any tax deducted.

The Manager may pay interest distributions without deducting income tax from them in the case of certain types of investor. These include companies, ISA managers, Unitholders who are not ordinarily resident in the UK, pension funds and charities. Any eligible investor who wants to benefit from this should contact the Manager who will provide an appropriate form to be completed and returned to it. Unitholders subject to United Kingdom corporation tax will be liable to tax on the gross interest but will receive credit if 20% income tax has been deducted. Non United Kingdom resident Unitholders may be entitled to a refund from HM Revenue & Customs of any tax deducted from their interest distributions (or a proportion of it). This will depend on their personal circumstances and the terms of any double taxation agreement between their country of residence and the United Kingdom.

Income Equalisation

The first income allocation received by an investor after buying Units may include an amount of income equalisation. This is effectively a repayment of the income equalisation paid by the investor as part of the purchase price. It is a return of capital, and is not taxable. Rather it should be deducted from the allowable cost of the Units for capital gains tax purposes.

Gains

Unitholders who are resident in the United Kingdom for tax purposes may, depending on their personal circumstances, be liable to capital gains tax or, if a corporate Unitholder, corporation tax on gains arising from the redemption, transfer or other disposal of Units. Unitholders liable to corporation tax invested in a bond fund must instead treat their Units as creditor relationships, subject to a fair value basis of accounting.

Individual Unitholders will be subject to capital gains tax at 18%, or 28% in the case of higher and additional rate taxpayers, on any chargeable gains they realise in a tax year that exceeds their annual exempt amount for the year (£10,100 for 2010/11). They will find further information in HM Revenue & Customs Help Sheets for the capital gains tax pages of their tax returns.

Reporting Requirements

The Fund is required to report details to HM Revenue & Customs each year of distributions and redemption proceeds paid to residents of the European Union and certain other jurisdictions. This applies where the Fund is invested, broadly, over 15% in the case of distributions and 40% in the case of redemptions, in interest-paying investments. It may also be required to report details of interest paid to United Kingdom residents.

The Manager may require information from investors to enable it to meet its statutory obligations.

Effective beginning in 2013, the Fund will be required to comply with extensive new reporting and withholding requirements designed to inform the US Department of the Treasury of US-owned foreign investment accounts. Failure to comply with these requirements will subject the Fund to US withholding taxes on certain US-sources income and gains. Unitholders may be required to furnish appropriate documentation certifying as to their US or non-US tax status, together with such additional tax information as the Manager may from time to time request, to enable the Fund to satisfy these obligations. Failure to furnish requested information may subject unitholders to US withholding taxes or mandatory redemption of such unitholder's Units in the Fund.

The discussion contained in this Prospectus as to US federal tax considerations is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties. Such discussion is written to support the promotion or marketing of the transactions or matters addressed in the Prospectus. Where necessary each taxpayer should seek US federal tax advice based on the taxpayer's particular circumstances from an independent tax adviser.

Stamp Duty Reserve Tax

- The Funds

SDRT arises on the surrender (i.e. the redemption or switching) and transfers on the register of Units. The charge is 0.5% of the value of surrenders and transfers in the Fund each week reduced proportionately to the extent that during that week and the following week the:

- (a) investments held by the Fund are exempt assets, that is, broadly, any assets other than United Kingdom equities, United Kingdom equity-related instruments and holdings in funds (this would reduce the charge to nil if the Fund were invested entirely in exempt assets); and
- (b) purchases of Units are less by number than surrenders of Units.

The actual amount of SDRT cannot be determined at the time of an investment. The regulations permit the Manager to make a separate payment or deduction of a provision against SDRT where Units are sold or purchased. Such payment or deduction must be paid to the Trustee to become part of the property of the Fund. The Manager has decided that any SDRT will normally be borne by the Fund.

The Regulations permit the manager of a unit trust to impose a charge on the creation or sale of units, or on the cancellation or redemption of units, which will be made as a provision for SDRT for which

the trustee of the unit may become liable in respect of a surrender of units to the manager ("SDRT provision").

The Managers' policy in relation to the unit trust is not to impose an SDRT provision on either the creation or issue of units or on the cancellation or redemption of units, with the result that any SDRT payable in respect of the surrender of units will be paid by the trustee out of the property of the unit trust. However, the Managers reserve the right to require the payment of an SDRT provision in relation to units in the unit trust (up to a maximum of 0.5% of the value of the units involved in the transaction) as an addition to the price of units on their creation or issue, and as a deduction on their cancellation or redemption (other than on a pro rata in specie cancellation) of whatever size whenever it considers that circumstances have arisen which make such imposition fair to all unitholders and potential unitholders. The Managers may impose an SDRT provision on large deals when no SDRT provision is imposed on smaller deals or which is larger than that imposed on smaller deals. A "large deal" is a transaction (or series of transactions in one dealing period) by any person to buy, sell or exchange units at a total value of £15,000 or more. In practice an SDRT provision was not made on any occasion over the 12 month period ended 31 December 2010.

Transfers of Shares

The Manager is entitled not to register a transfer of Units in the Fund unless (a) an SDRT provision of 0.5% of the value transferred has been paid to the Manager for the account of the Fund or (b) the Manager has received all documentation required to provide evidence that the transfer is exempt from SDRT. Unitholders transferring Units should therefore complete a stock transfer form in the normal way, including any appropriate certificate that would be required for exemption from SDRT. Where there is no appropriate certificate, evidence of an exemption from SDRT should be submitted with the transfer. In other cases and as the value transferred is calculated at the valuation point immediately following the Manager's receipt of the instrument of transfer, the transferring Unitholder (being either of the transferor or the transferee) will be contacted after this point and advised of the amount of the SDRT provision due, which amount must be paid immediately.

Notwithstanding this, the Manager has the discretion, and reserves the right, to charge to the Fund SDRT incurred on third party transfers of Units in the Fund. SDRT at 0.5% will also generally be payable on purchases of interests in Units by an investor from another not requiring re-registration.

(c) Data Protection Act

Please note that your name will be added to a mailing list which may be used by ourselves and associated companies to send you details of new and existing products. If you prefer not to receive such details, please write to: The Data Protection Officer, F&C Management Limited, Exchange House, Primrose Street, London EC2A 2NY. Calls made to F&C may be recorded and randomly monitored for training purposes.

(d) Cancellation Rights

Certain investors entering into a contract to purchase units following advice from an independent intermediary will under the FCA Regulations have the right to cancel their purchase of units within 14 days of receipt of the cancellation notice. Otherwise cancellation rights are at the discretion of the Manager.

(e) Winding up

In a case of (i) and (ii) above, the Trustee shall as soon as practicable after the Fund falls to be wound up, realise the property of the Fund and, after paying out all liabilities properly so payable and retaining provision for the costs of the winding up, distribute the proceeds of that realisation to the unitholders and the Manager (upon production by them of evidence as to their entitlement thereto)

proportionately as to their respective interests in the Fund. Any unclaimed net proceeds or other cash held by the Trustee after the expiration of 12 months from the date on which the same became payable shall be paid by the Trustee into court subject to the Trustee having a right to retain any expenses incurred by him in making that payment into court. In a case falling under (iii) above, the Trustee shall wind up the Fund in accordance with the duly approved scheme of amalgamation or reconstruction.

(f) Risk Management

A statement of the methods used for risk management in connection with the Fund and the quantitative limits used together with the current risk yields of the main categories of investment is available from the Manager on request.

15. **Information for prospective Unitholders (including Risk Factors)**

The nature of investments of the units is such that investment in the Fund may not be suitable for investors other than those who are particularly knowledgeable in investment matters, are able to bear the economic risk of investment, understand the high degree of risk involved and believe that the investment is suitable for their particular investment objectives and financial needs. **Before subscribing for shares in the Fund, potential investors should consult with their professional advisers as to whether such shares of a Fund represent a suitable investment opportunity.**

General

The information in this document is based on existing legislation, including taxation legislation, which may be subject to change. Accordingly, investors should satisfy themselves as to the nature of the potential investments and the investment policy and objectives of the Fund invested in.

The Fund's investments are subject to normal stockmarket fluctuations and other risks inherent in investing in securities. Stock market prices can move irrationally and be unpredictably affected by many diverse factors, including not only political and economic events but also rumour and sentiment. Investment in a Fund should be regarded as a long-term investment. There can be no guarantee that any appreciation in the value of investments attributable to a Fund will occur or that the investment objective and policy of that Fund will be achieved.

The value of shares linked to a Fund, and the income distributed or accumulated in respect of such shares, may fall as well as rise and is not guaranteed. Accordingly, investors may, on redeeming units, receive less than they paid for those shares.

The units of the Fund are denominated in Sterling while the assets of a Fund may be in a variety of currencies. Currency fluctuations may therefore adversely affect the Sterling value of the Fund's investments and the income derived from them. Changes in exchange rates may also affect the value of individual investments made by the Fund.

Past performance is not necessarily indicative of likely future performance and the value of an investment may go down as well as up. Potential investors should be aware that the value from investment in a fund and the return from them could fluctuate. In addition, investors may not recoup the amount originally invested.

Initial charge

The amount of application monies invested in units is net of the Manager's initial charge (if any) referred to above. Accordingly, an investor who realises his units after a short period may not (even in the absence of a fall in the value of the relevant units) realise the amount originally paid in respect of those units in the Fund. Investment in any Fund should, therefore, be regarded as a long-term investment.

Management charges

If the investment objective and policy of a Fund is to treat the generation of income as a higher priority than capital growth, or the generation of income and capital growth have equal priority, all or part of the Fund's annual management charge may be charged against the capital attributable to that Funds instead of against its income. This treatment of the Manager's annual management charge will increase the amount of income available for distribution to unitholders in that Fund, but may constrain capital growth.

Currency exchange rates

Investments, may, in relation to a Fund, be made in assets denominated in various currencies and the movement of exchange rates may have a separate effect, unfavourable as well as favourable, on the gains and losses otherwise experienced on such investments.

Political and/or regulatory risks

The value of the Fund's assets may be affected by uncertainties such as changes in government policies, taxation, restrictions on foreign investment and on foreign currency repatriation, currency fluctuation and other developments in the laws and regulations of investee countries.

Economic risk

The entities in which the Fund may invest may be sensitive to any general downturn in the overall economy or in that entity's industrial sector. Although the Fund will attempt, through careful selection of investment candidates, to limit the risk associated with general economic conditions, substantial adverse economic conditions might have an impact on the investment assets of the Fund.

Taxation

The levels and bases of taxation set out above and reliefs from such taxation are subject to change and their value, in certain circumstances, depends on an investor's individual circumstances. Existing and intending unitholders should consult their professional advisers regarding potential tax consequences of the application for or redemption of units.

Derivatives and forward transactions

The Fund may use derivatives and forward transactions for investment purposes and there is no limit to the proportion of the Fund that may be invested in derivatives and forward transactions, however, the exposure to the underlying assets must be within the investment limits set by the Regulations and the Fund must have property suitable to cover the Fund's total exposure, taking into account the value of the underlying assets, any reasonable foreseeable market movement, counterparty risk and the time available to liquidate any positions. Investments in derivatives may increase or decrease the volatility of a fund.

Derivatives Techniques

The Regulations permit the Manager to use certain techniques when investing in derivatives and forward transactions in order to manage exposure to particular counterparties and in relation to the use of collateral to reduce overall exposure to OTC (over-the-counter) derivatives; for example, a fund can take collateral from counterparties with whom they have an OTC derivative position and use that collateral to net off against the exposure they have to the counterparty under that OTC derivative position for the purposes of complying with counterparty spread limits. The Regulations also permit the Fund to use derivatives to short sell (i.e. agree to deliver the relevant asset without holding it in the scheme) under certain conditions.

16. **Complaints Handling Policy**

The Manager has appointed a Complaints Officer to investigate and resolve any complaints which should be addressed to it at PO Box 6051, Basildon, SS15 5TP (Telephone 0870 601 6183), or, if you subsequently wish to take your complaint further, direct to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR.

17. **Changes to the Fund**

Where any changes are proposed to be made to the Fund the Manager, will assess whether the change is fundamental, significant or notifiable in accordance with the Regulations. If the change is regarded as fundamental, unitholder approval will be required. If the change is regarded as significant, not less than 60 days' prior written notice will be given to unitholders. If the change is regarded as notifiable, unitholders will receive suitable notice of the change.

APPENDIX 1

ELIGIBLE MARKETS

Eligible markets for the Funds are regulated markets and markets established in EEA States which are regulated, operate regularly and are open to the public.

Plus

Any UK FCA Designated Investment Exchanges and any of the following markets are eligible markets (securities and/or derivatives):

Austria	-	Vienna Stock Exchange
Belgium	-	Euronext Brussels
Czech Republic	-	Prague Stock Exchange
Denmark	-	Kobenhavens Fondbors (including FUTOP) (Copenhagen Stock Exchange)
Finland	-	Finnish Options Market
France	-	Euronext Paris
	-	Paris Stock Exchange
	-	
Germany	-	EUREX & Derivatives Exchange Ltd
	-	
Holland	-	Euronext Amsterdam
	-	
Hungary	-	Budapest Stock Exchange
Ireland	-	Irish Stock Exchange
Italy	-	Italian Futures Market
Japan	-	Osaka Securities Exchange
Poland	-	Warsaw Stock Exchange
Singapore	-	Singapore Exchange
Spain	-	MEFF Renta Fija
	-	MEFF Renta Variable
Sweden	-	
	-	European Options Exchange
		Stockholmsborsen
Switzerland	-	SWX Swiss Exchange
	-	
	-	
	-	EUREX
Turkey	-	Istanbul Stock Exchange
United Kingdom	-	"When Issued Trading"
	-	EuonextLIFFE
	-	The Alternative Investment Market (AIM)
	-	Virt-X
		OMLX
United States of America		Any securities exchange registered as a national stock exchange, NASDAQ and OTC markets regulated by NASD (National Association of Securities Dealers.)
Others	-	European Options Market

As at 1 October 2012 the full list of UK FCA designated Investment Exchanges included:

American Stock Exchange
Australian Stock Exchange
Bolsa Mexicana de Valores
Bourse de Montreal Inc
Channel Islands Stock Exchange
Chicago Board of Trade
Chicago Board Options Exchange
Chicago Stock Exchange
Coffee, Sugar and Cocoa Exchange, Inc
Euronext Amsterdam Commodities Market
Hong Kong Exchanges and Clearing Limited
International Capital Market Association
Johannesburg Stock Exchange
Kansas City Board of Trade
Korea Stock Exchange
MidAmerica Commodity Exchange
Minneapolis Grain Exchange
New York Cotton Exchange
New York Futures Exchange
New York Stock Exchange
New Zealand Stock Exchange
Osaka Securities Exchange
Pacific Exchange
Philadelphia Stock Exchange
Singapore Exchange
South African Futures Exchange
Tokyo International Financial Futures Exchange
Tokyo Stock Exchange
Toronto Stock Exchange

DERIVATIVE USAGE

In order to assist counterparties assess the credit risk associated with F&C open-ended portfolios F&C Fund Management Limited has compiled a list of the types of derivative contracts available for use by its funds. The list is published in the prospectuses of its open-ended funds however it is subject to amendment and the most recent copy is available on request from F&C Fund Management Limited.

The list applies to all funds according to the classification noted and the use, if any, of such contracts will be subject to the investment objective and policy of the fund concerned and the regulations.

Investors should note that funds included in this prospectus are classified as Alternative Investment Fund(s). The list may be amended without notice and the inclusion of a contract as available to a type of fund does not mean that any particular fund will or should use that instrument.

	Equity Funds	Fixed Income Funds	Alternative Investment Funds
Bond Futures (ETD)		X	X
Equity Futures (ETD) Commodity Futures	X		X
(ETD) Interest Rate Options			
(ETD)		X	X
Index Options (ETD)	X		X
Equity Options (ETD) Commodity Futures	X		X
(ETD)			X
Options (OTC)	X	X	X
Warrants (deltal)	X		X
Warrants		X	X
Interest Rate Swaps		X	X
Inflation Linked Swaps		X	X

Credit Default Swaps		X	X
Equity Swaps Collateral Debt	X		X
Obligations		X	X
Credit Linked Notes		X	X
Contract for Difference	X		X
Swaptions		X	X
Interest Rate Collars		X	X
Interest Rate Caps		X	X
Interest Rate Floors		X	X
Floortions		X	X
Captions		X	X
Total Return Swaps	X	X	X
REPOS		X	X
Reverse REPOS		X	X
Exchange Traded Funds	X	X	X
FRAs		X	X
Currency Options			X
Currency Futures		X	X
Currency Swaps		X	X
Forward FX	X	X	X
Dividend Swaps Options on Dividend			X
Swaps Options on Correlation			X
Swaps			X
Correlation Swaps Options on Variance			X

APPENDIX 2

PART I: VALUATION AND PRICING

The value of the property of the Fund shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions.

1. All the property of the Fund (including receivables) is to be included, subject to the following provisions.
2. The valuation of the property of the Fund shall consist of two parts, one on an issue basis and one on a cancellation basis calculated in accordance with the following provisions.
- 2.1 The valuation of property for that part of the valuation which is on an issue basis is as follows:
 - 2.1.1 Property which is not cash (or other assets dealt with in paragraphs 3 and 4 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:
 - 2.1.1.1 units or shares in a collective investment scheme:
 - (a) if a single price for buying and selling units or shares is quoted, at that price (plus any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction and including any dilution levy or SDRT provision which would be added in the event of a purchase by the Fund of the units in question (except that, where the Manager, or an associate of the Manager, is also the manager or authorised corporate director of the collective investment scheme whose units are held by the Fund, dealing costs must not include a preliminary charge which would be payable in the event of a purchase by the Fund of those units) but excluding any preliminary charge on sale of units in a collective investment scheme));
 - or
 - (b) if separate buying and selling prices are quoted, the most recent maximum sale price, less any expected discount (plus any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction but excluding any preliminary charge on sale of units in a collective investment scheme); but where the Manager, or an associate of the Manager, is also the manager or authorised corporate director of the collective investment scheme whose units are held by the Fund, the

issue price shall be taken instead of the maximum sale price;
or

- (c) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a buyer's price which, in the opinion of the Manager, is fair and reasonable;

2.1.1.2 any other investment:

- (a) the best available market dealing offer price on the most appropriate market in a standard size (plus any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction); or
- (b) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a buyer's price which, in the opinion of the Manager, is fair and reasonable.

2.1.1.3 if any other property, or no price exists under 2.1.1.1 or 2.1.1.2, the Manager's reasonable estimate of a buyer's price (plus any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction but excluding any preliminary charge on sale of units in a collective investment scheme). The buyer's price is the consideration which would be paid by the buyer for an immediate transfer or assignment (or, in Scotland, assignation) to him at arm's length.

2.2 The valuation of property for that part of the valuation which is on a cancellation basis is as follows:

2.2.1 Property which is not cash (or other assets dealt with in paragraphs 3 and 4 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:

2.2.1.1 units or shares in a collective investment scheme:

- (a) if a single price for buying and selling units or shares is quoted, at that price (less any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction, any redemption charge payable on sale of units in a collective investment scheme, (taking account of any expected discount, any dilution levy or

SDRT provision which would be deducted in the event of a sale by the Fund of the units in question (except that, where the Manager, or an associate of the Manager, is also the manager or authorised corporate director of the collective investment scheme whose units are held by the Fund, dealing costs must not include a redemption charge which would be payable in the event of a sale by the Fund of those units); or

- (b) if separate buying and selling prices are quoted, the most recent minimum redemption price (less any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction and any charge payable on the sale of units in a collective investment scheme (except that, where the Manager, or an associate of the Manager, is also the manager or authorised corporate director of the collective investment scheme whose units are held by the Fund, dealing costs must not include a redemption charge which would be payable in the event of a sale by the Fund of those units), less any expected discount); but, if the property sold in one transaction would amount to a large deal (as defined in the glossary to the FCA Handbook of Rules and Guidance), the cancellation price shall be taken instead of the minimum redemption price; or
- (c) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a seller's price which, in the opinion of the Manager, is fair and reasonable;

2.2.1.2 any other investment:

- (a) the best available market dealing bid price on the most appropriate market in a standard size (less any fiscal charges, commission or other charges payable in the event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction); or
- (b) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a seller's price which, in the opinion of the Manager, is fair and reasonable;

2.2.1.3 if any other property, or no price exists under 2.2.1.1 or 2.2.1.2, the Manager's reasonable estimate of a seller's price (less any fiscal charges, commission or other charges payable in the

event of the Fund carrying out the transaction in question, assuming that the commission and charges (other than fiscal charges) which would be payable by the Fund are the least that could reasonably be expected to be paid in order to carry out the transaction but excluding any redemption charge payable on sale of units in a collective investment scheme, (taking account of any expected discount, any dilution levy or SDRT provision which would be deducted in the event of a sale by the Fund of the units in question) (except that, where the Manager, or an associate of the Manager, is also the manager or authorised corporate director of the collective investment scheme whose units are held by the Fund, dealing costs must not include a redemption charge which would be payable in the event of a sale by the Fund of those units).

3. Property which is a derivative transaction shall be treated as follows:
 - (a) if a written option, (and the premium for writing the option has become part of the property of the Fund) deduct, for the calculation of the issue basis, the amount of the net valuation of premium (estimated on the basis of writing an option of the same series on the best terms then available on the most appropriate market on which such options are traded, but add, in the case of the calculation of the cancellation basis, dealing costs); but if it is an OTC derivative, the valuation methods in COLL 5.2.23R shall be used; or
 - (b) if an off-exchange future, include at the net value of closing out (in the case of the calculation of the issue basis, estimated on the basis of the amount of profit or loss receivable or incurable by the Fund on closing out the contract and deducting minimum dealing costs in the case of profit and adding them in the case of loss; but if it is an OTC derivative, the valuation methods in COLL 5.2.23R shall be used); or
 - (c) if any other form of derivative transaction, include at the net value of margin on closing out (estimated on the basis of the amount of margin (whether receivable or payable by the Fund on closing out the contract) on the best terms then available on the most appropriate market on which such contracts are traded and including minimum dealing costs so that the value is the figure as a negative sum); but if it is an OTC derivative, the valuation methods in COLL 5.2.23R shall be used.
4. Cash and amounts held in current and deposit accounts shall be valued at their nominal values.
5. In determining the value of the scheme property, all instructions given to the Trustee to issue or cancel units shall be assumed (unless the contrary is shown) to have been carried out and any cash paid or received and all required consequential action required by the Regulations or the Trust Deed shall be assumed (unless the contrary is shown) to have been taken.
6. Subject to paragraphs 7 and 8 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the Manager, their omission shall not materially affect the final net asset amount.

7. Futures or contracts for differences which are not yet due to be performed and unexpired written or purchased options which have not been exercised shall not be included under paragraph 6.
8. All agreements are to be included under paragraph 6 which are, or ought reasonably to have been, known to the person valuing the property assuming that all other persons in the Manager's employment take all reasonable steps to inform it immediately of the making of any agreement.
9. Deduct an estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the property of the Fund; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty and stamp duty reserve tax.
10. Deduct an estimated amount for any liabilities payable out of the property of the Fund and any tax thereon (treating periodic items as accruing from day to day).
11. Deduct the principal amount of any outstanding borrowings whenever payable and any accrued but unpaid interest on borrowings.
12. In the case of a margined contract, deduct any amount reasonably anticipated to be paid by way of variation margin.
13. Add an estimated amount for accrued claims for tax of whatever nature which may be recoverable.
14. Add any other credits due to be paid into the property of the Fund.
15. In the case of a margined contract, add any amount reasonably anticipated to be received by way of variation margin.
16. Add a sum representing any interest or any income accrued due or deemed to have accrued but not received and any stamp duty reserve tax provision anticipated to be received.
17. The valuation is in the Fund's base currency. To convert to the base currency the value of property which would otherwise be valued in another currency the Manager will either:
 - 17.1 select a rate of exchange which represents the average of the highest and lowest rates quoted at the relevant time for conversion of that currency into base currency on the market on which the manager would normally deal if it wished to make such a conversion; or
 - 17.2 invite the Trustee to agree that it is in the interests of unitholders to select a different rate, and, if the Trustee so agrees, use that other rate."

PART II : INVESTMENT AND BORROWING POWERS OF THE TRUST

1. The investment powers of the Fund are determined by its Trust Deed but subject to the limits set out in Chapter 5 of the COLL Sourcebook (“COLL 5”) and this Prospectus. These limits apply to the Fund as summarised below: -
 - 1.1 **Prudent spread of risk**
 - 1.1.1 The Manager must ensure that, taking account of the investment objectives and policy of the Fund, the scheme property aims to provide a prudent spread of risk.
 - 1.2 **Cover**
 - 1.2.1 Where the COLL Sourcebook allows a transaction to be entered into or an investment to be retained only (for example, investment in warrants and nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5, it must be assumed that the maximum possible liability of the Fund under any other of those rules has also to be provided for.
 - 1.2.2 Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transaction, or the retention, or other similar transactions, are covered:
 - 1.2.2.1 it must be assumed that in applying any of those rules, the Fund must also simultaneously satisfy any other obligation relating to cover; and
 - 1.2.2.2 no element of cover must be used more than once.
 - 1.3 **UCITS schemes - general**
 - 1.3.1 Subject to the investment objective and policy of the Fund, the scheme property must, except where otherwise provided in COLL 5, only consist of any or all of:
 - 1.3.1.1 transferable securities;
 - 1.3.1.2 approved money-market instruments;
 - 1.3.1.3 permitted derivatives and forward transactions;
 - 1.3.1.4 permitted deposits; and
 - 1.3.1.5 permitted units in collective investments schemes.
 - 1.4 **Transferable Securities**
 - 1.4.1 A transferable security is an investment falling within article 76 (Shares etc), article 77 (Instruments creating or acknowledging indebtedness), article 78 (Government and public securities), article 79 (Instruments giving entitlement to investments) and article 80 (Certificates representing certain securities) of the Regulated Activities Order.
 - 1.4.2 An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party.

- 1.4.3 In applying paragraph 1.4.2 to an investment which is issued by a body corporate, and which is an investment falling within articles 76 (Shares, etc) or 77 (Instruments creating or acknowledging indebtedness) of the Regulated Activities Order, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.
- 1.4.4 An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.
- 1.4.5 The Fund may invest in a transferable security only to the extent that the transferable security fulfils the following criteria:
 - 1.4.5.1 the potential loss which the Fund may incur with respect to holding the transferable security is limited to the amount paid for it;
 - 1.4.5.2 its liquidity does not compromise the ability of the Manager to comply with its obligation to redeem units at the request of any qualifying Shareholder under the Regulations;
 - 1.4.5.3 reliable valuation is available for it as follows:
 - 1.4.5.3.1 in the case of a transferable security admitted to or dealt in on an eligible market, where there are accurate, reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers;
 - 1.4.5.3.2 in the case of a transferable security not admitted to or dealt in on an eligible market, where there is a valuation on a periodic basis which is derived from information from the issuer of the transferable security or from competent investment research;
 - 1.4.5.4 appropriate information is available for it as follows:
 - 1.4.5.4.1 in the case of a transferable security admitted to or dealt in on an eligible market, where there is regular, accurate and comprehensive information available to the market on the transferable security or, where relevant, on the portfolio of the transferable security;
 - 1.4.5.4.2 in the case of a transferable security not admitted to or dealt in on an eligible market, where there is regular and accurate information available to the Manager on the transferable security or, where relevant, on the portfolio of the transferable security;
 - 1.4.5.5 it is negotiable; and
 - 1.4.5.6 its risks are adequately captured by the risk management process of the Manager of the Fund.
- 1.4.6 Unless there is information available to the Manager that would lead to a different determination, a transferable security which is admitted to or dealt in on an eligible market shall be presumed:

1.4.6.1.1 not to compromise the ability of the Manager to comply with its obligation to redeem units at the request of any qualifying Shareholder; and

1.4.6.1.2 to be negotiable.

1.4.7 No more than 5% of the scheme property may be invested in warrants.

1.5 Closed end funds constituting transferable securities

1.5.1 A unit in a closed end fund shall be taken to be a transferable security for the purposes of investment by the Manager of the Fund, provided it fulfils the criteria for transferable securities set out in 1.4 and either:

1.5.1.1 where the closed end fund is constituted as an investment company or a unit trust:

1.5.1.1.1 it is subject to corporate governance mechanisms applied to companies; and

1.5.1.1.2 where another person carries out asset management activity on its behalf, that person is subject to national regulation for the purpose of investor protection; or

1.5.1.2 where the closed end fund is constituted under the law of contract:

1.5.1.2.1 it is subject to corporate governance mechanisms equivalent to those applied to companies; and

1.5.1.2.2 it is managed by a person who is subject to national regulation for the purpose of investor protection.

1.6 Transferable securities linked to other assets

1.6.1 The Manager of the Fund may invest in any other investment which shall be taken to be a transferable security for the purposes of investment by the Fund provided the investment:

1.6.1.1 fulfils the criteria for transferable securities set out above; and

1.6.1.2 is backed by or linked to the performance of other assets, which may differ from those in which the Fund can invest.

1.6.2 Where an investment in 1.6.1 contains an embedded derivative component, the requirements of this section with respect to derivatives and forwards will apply to that component.

1.7 Approved Money-Market Instruments

1.7.1 An approved money-market instrument is a money-market instrument which is normally dealt in on the money market, is liquid and has a value which can be accurately determined at any time.

1.7.2 A money-market instrument shall be regarded as normally dealt in on the money market if it:

- 1.7.2.1 has a maturity at issuance of up to and including 397 days;
- 1.7.2.2 has a residual maturity of up to and including 397 days;
- 1.7.2.3 undergoes regular yield adjustments in line with money market conditions at least every 397 days; or
- 1.7.2.4 has a risk profile, including credit and interest rate risks, corresponding to that of an instrument which has a maturity as set out in 1.7.2.1 or 1.7.2.2 or is subject to yield adjustments as set out in 1.7.2.3.
- 1.7.3 A money-market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the Manager to redeem units at the request of any qualifying unitholder.
- 1.7.4 A money-market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuations systems, which fulfil the following criteria, are available:
 - 1.7.4.1 enabling the Manager to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and
 - 1.7.4.2 based either on market data or on valuation models including systems based on amortised costs.
- 1.7.5 A money-market instrument that is normally dealt in on the money market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time unless there is information available to the Manager that would lead to a different determination.
- 1.8 **Transferable securities and money-market instruments generally to be admitted or dealt in on an Eligible Market**
 - 1.8.1 Transferable securities and approved money-market instruments held within the Fund must be:
 - 1.8.1.1 admitted to or dealt on an eligible market (as described in 1.8.3.1 or 1.8.3.2); or
 - 1.8.1.2 dealt on an eligible market (as described in 1.9.4); or
 - 1.8.1.3 for an approved money-market instrument not admitted to or dealt in on an eligible market, within 1.10.1; or
 - 1.8.1.4 recently issued transferable securities provided that:
 - 1.8.1.4.1 the terms of issue include an undertaking that application will be made to be admitted to an eligible market; and
 - 1.8.1.4.2 such admission is secured within a year of issue.

- 1.8.2 However, the Fund may invest no more than 10% of the scheme property in transferable securities and approved money-market instruments other than those referred to in 1.8.1

1.9 Eligible markets regime: purpose

- 1.9.1 To protect investors the markets on which investments of the Fund are dealt in or traded on should be of an adequate quality (“eligible”) at the time of acquisition of the investment and until it is sold.
- 1.9.2 Where a market ceases to be eligible, investments on that market cease to be approved securities. The 10% restriction in 1.7 above on investing in non approved securities applies and exceeding this limit because a market ceases to be eligible will generally be regarded as an inadvertent breach.
- 1.9.3 A market is eligible for the purposes of the rules if it is:
- 1.9.3.1 a regulated market as defined in the FCA Regulations; or
 - 1.9.3.2 a market in an EEA State which is regulated, operates regularly and is open to the public.
- 1.9.4 A market not falling within paragraph 1.9.3 above is eligible for the purposes of COLL 5 if:
- 1.9.4.1 the Manager, after consultation and notification with the Trustee, decides that market is appropriate for investment of, or dealing in, the scheme property;
 - 1.9.4.2 the market is included in a list in the Prospectus; and
 - 1.9.4.3 the Trustee has taken reasonable care to determine that:
 - 1.9.4.3.1 adequate custody arrangements can be provided for the investment dealt in on that market; and
 - 1.9.4.3.2 all reasonable steps have been taken by the Manager in deciding whether that market is eligible.
- 1.9.5 In paragraph 1.9.4 a market must not be considered appropriate unless it is regulated, operates regularly, is recognised by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or to the order of investors. The eligible securities and derivatives markets for the Fund are set out in Appendix I.

1.10 Money-market instruments with a regulated issuer

- 1.10.1 In addition to instruments admitted to or dealt in on an eligible market, the Fund may invest in an approved money-market instrument provided it fulfils the following requirements:
- 1.10.1.1 the issue or the issuer is regulated for the purpose of protecting investors and savings; and
 - 1.10.1.2 the instrument is issued or guaranteed in accordance with paragraph 1.11 below.

1.10.2 The issue or the issuer of a money-market instrument, other than one dealt in on an eligible market, shall be regarded as regulated for the purpose of protecting investors and savings if:

1.10.2.1 the instrument is an approved money-market instrument;

1.10.2.2 appropriate information is available for the instrument (including information which allows an appropriate assessment of the credit risks related to investment in it), in accordance with paragraph 1.13 below; and

1.10.2.3 the instrument is freely transferable.

1.11 **Issuers and guarantors of money-market instruments**

1.11.1 The Fund may invest in an approved money-market instrument if it is:

1.11.1.1 issued or guaranteed by any one of the following:

1.11.1.1.1 a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation;

1.11.1.1.2 a regional or local authority of an EEA State;

1.11.1.1.3 the European Central Bank or a central bank of an EEA State;

1.11.1.1.4 the European Union or the European Investment Bank;

1.11.1.1.5 a non-EEA State or, in the case of a federal state, one of the members making up the federation;

1.11.1.1.6 a public international body to which one or more EEA States belong; or

1.11.1.2 issued by a body, any securities of which are dealt in on an eligible market; or

1.11.1.3 issued or guaranteed by an establishment which is:

1.11.1.3.1 subject to prudential supervision in accordance with criteria defined by European Community law; or

1.11.1.3.2 subject to and complies with prudential rules considered by the FCA to be at least as stringent as those laid down by European Community law.

1.11.2 An establishment shall be considered to satisfy the requirement in 1.11.1.3.2 if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria:

1.11.2.1 it is located in the European Economic Area;

1.11.2.2 it is located in an OECD country belonging to the Group of Ten;

1.11.2.3 it has at least investment grade rating;

- 1.11.2.4 on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by European Community law.

1.12 **Appropriate information for money-market instruments**

- 1.12.1 In the case of an approved money-market instrument within 1.11.1.2 or issued by a body of the type referred to in COLL 5.2.10EG, or which is issued by an authority within 1.11.1.1.2 or a public international body within 1.11.1.1.6 but is not guaranteed by a central authority within 1.11.1.1.1, the following information must be available:

- 1.12.1.1 information on both the issue or the issuance programme, and the legal and financial situation of the issuer prior to the issue of the instrument, verified by appropriately qualified third parties not subject to instructions from the issuer;

- 1.12.1.2 updates of that information on a regular basis and whenever a significant event occurs; and

- 1.12.1.3 available and reliable statistics on the issue or the issuance programme.

- 1.12.2 In the case of an approved money-market instrument issued or guaranteed by an establishment within 1.11.1.3, the following information must be available:

- 1.12.2.1 information on the issue or the issuance programme or on the legal and financial situation of the issuer prior to the issue of the instrument;

- 1.12.2.2 updates of that information on a regular basis and whenever a significant event occurs; and

- 1.12.2.3 available and reliable statistics on the issue or the issuance programme, or other data enabling an appropriate assessment of the credit risks related to investment in those instruments.

- 1.12.3 In the case of an approved money-market instrument:

- 1.12.3.1 within 1.11.1.1.1, 1.11.1.1.4 and 1.11.1.1.5; or

- 1.12.3.2 which is issued by an authority within 1.11.1.1.2 or a public international body within 1.11.1.1.6 and is guaranteed by a central authority within 1.11.1.1.1;

information must be available on the issue or the issuance programme, or on the legal and financial situation of the issuer prior to the issue of the instrument.

1.13 **Spread: general**

- 1.13.1 This rule on spread does not apply to government and public securities.

- 1.13.2 For the purposes of this requirement companies included in the same group for the purposes of consolidated accounts as defined in accordance with Directive

83/349/EEC or in the same group in accordance with international accounting standards are regarded as a single body.

- 1.13.3 Not more than 20% in the value of the scheme property is to consist of deposits with a single body.
- 1.13.4 Not more than 5% in value of the scheme property is to consist of transferable securities or approved money -market instruments issued by any single body, except that the limit of 5% is raised to 10% in respect of up to 40% in value of the scheme property (covered bonds need not be taken into account for the purposes of applying the limit of 40%). For these purposes certificates representing certain securities are treated as equivalent to the underlying security.
- 1.13.5 The limit of 5% is raised to 25% in value of the scheme property in respect of covered bonds provided that when the Fund invests more than 5% in covered bonds issued by a single body, the total value of covered bonds held must not exceed 80% in value of the scheme property.
- 1.13.6 The exposure to any one counterparty in an OTC derivative transaction must not exceed 5% in value of the scheme property. This limit is raised to 10% where the counterparty is an Approved Bank.
- 1.13.7 Not more than 20% in value of the scheme property is to consist of transferable securities and approved money -market instruments issued by the same group.
- 1.13.8 Not more than 10% in value of the scheme property is to consist of the units of any one collective investment scheme.
- 1.13.9 In applying the limits in 1.13.3, to 1.13.4 and 1.13.6 and subject to 1.13.5, not more than 20% in value of the scheme property is to consist of any combination of two or more of the following:
 - 1.13.9.1 transferable securities (including covered bonds) or approved money -market instruments issued by; or
 - 1.13.9.2 deposits made with; or
 - 1.13.9.3 exposures from OTC derivatives transactions made with a single body.

1.14 Counterparty risk and issuer concentration

- 1.14.1 The ACD must ensure that counterparty risk arising from an OTC derivative is subject to the limits set out in paragraphs 1.13.6 and 1.13.9 above.
- 1.14.2 When calculating the exposure of a Fund to a counterparty in accordance with the limits in paragraph 1.13.6 the ACD must use the positive mark-to-market value of the OTC derivative contract with that counterparty.
- 1.14.3 The ACD may net the OTC derivative positions of a Fund with the same counterparty, provided they are able legally to enforce netting agreements with the counterparty on behalf of the Fund.

- 1.14.4 The netting agreements in paragraph 1.14.3 above are permissible only with respect to OTC derivatives with the same counterparty and not in relation to any other exposures the Fund may have with that same counterparty.
- 1.14.5 The ACD may reduce the exposure of scheme property to a counterparty of an OTC derivative through the receipt of collateral. Collateral received must be sufficiently liquid so that it can be sold quickly at a price that is close to its pre-sale valuation.
- 1.14.6 The ACD must take collateral into account in calculating exposure to counterparty risk in accordance with the limits in paragraph 1.13.6 when it passes collateral to an OTC counterparty on behalf of a Fund.
- 1.14.7 Collateral passed in accordance with paragraph 1.14.6 may be taken into account on a net basis only if the ACD is able legally to enforce netting arrangements with this counterparty on behalf of that Fund.
- 1.14.8 In relation to the exposure arising from OTC derivatives as referred to in paragraph 1.13.6 the ACD must include any exposure to OTC derivative counterparty risk in the calculation.
- 1.14.9 The ACD must calculate the issuer concentration limits referred to in paragraph 6.6 on the basis of the underlying exposure created through the use of OTC derivatives pursuant to the commitment approach.

1.15 **Spread: government and public securities**

- 1.15.1 The following section applies to government and public securities (“such securities”).
- 1.15.2 Where no more than 35% in value of the scheme property is invested in such securities issued by any one body, there is no limit on the amount which may be invested in such securities or in any one issue.
- 1.15.3 The Manager may invest more than 35% in value of the scheme property in such securities issued by any one body provided that:
 - 1.15.3.1 the Manager has before any such investment is made consulted with the Trustee and as a result considers that the issuer of such securities is one which is appropriate in accordance with the investment objectives of the Fund;
 - 1.15.3.2 no more than 30% in value of the scheme property consists of such securities of any one issue;
 - 1.15.3.3 the scheme property includes such securities issued by that or another issuer, of at least six different issues;
 - 1.15.3.4 the disclosures required by the FCA have been made.
- 1.15.4 Notwithstanding paragraph 1.15.1 and subject to 1.15.2 and 1.15.3, in applying the 20% limit in paragraph 1.13.9 with respect to a single body, government and public securities issued by that body shall be taken into account.

1.16 **Investment in collective investment schemes**

1.16.1 The Fund may invest in units or other collective investment schemes (“Second Scheme”) provided the Second Scheme satisfies all of the following conditions and provided that no more than 30% of the value of the Fund is invested in Second Schemes within 1.16.1.1-4 below.

1.16.1.1 The Second Scheme must:

1.16.1.1.1 satisfy the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or

1.16.1.1.2 be recognised under the provisions of s.270 of the Financial Services and Markets Act 2000; or

1.16.1.1.3 be authorised as a non-UCITS retail Scheme (provided the requirements of Article 50(1)(e) of the UCITS Directive are met); or

1.16.1.1.4 be authorised in another EEA State provided the requirements of Article 50(1)(e) of the UCITS Directive are met.

1.16.1.2 The Second Scheme has terms which prohibit more than 10% in value of the scheme property consisting of units in collective investment schemes.

1.16.1.3 Investment may only be made in other collective investment schemes managed by the Manager or an associate of the Manager if the Fund’s Prospectus clearly states that it may enter into such investments and the rules on double charging contained in the COLL Sourcebook are complied with.

1.16.1.4 The Fund may invest in collective investment schemes managed or operated by, or whose authorised corporate director is, the Manager of the Fund or one of its associates.

1.17 **Investment in nil and partly paid securities**

1.17.1 A transferable security or an approved money-market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Fund, at the time when payment is required, without contravening the rules in COLL 5.

1.18 **Derivatives: general**

1.18.1 (A transaction in derivatives or a forward transaction must not be effected for the Fund unless the transaction is of a kind specified in paragraph 1.19 (Permitted transactions (derivatives and forwards)) below, and the transaction is covered, as required by paragraph 1.30 (Cover for investment in derivatives and forward transactions)).

1.18.2 Where the Fund invests in derivatives, the exposure to the underlying assets must not exceed the limits set out in the COLL Sourcebook in relation to spread (COLL 5.2.11 R Spread: general, COLL 5.2.12 R Spread: government and public securities) except for index based derivatives where the rules below apply.

- 1.18.3 Where a transferable security or approved money -market instrument embeds a derivative, this must be taken into account for the purposes of complying with this section.
- 1.18.4 A transferable security or an approved money-market instrument will embed a derivative if it contains a component which fulfils the following criteria:
 - 1.18.4.1 by virtue of that component some or all of the cash flows that otherwise would be required by the transferable security or approved money-market instrument which functions as host contract can be modified according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, and therefore vary in a way similar to a stand-alone derivative;
 - 1.18.4.2 its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and
 - 1.18.4.3 it has a significant impact on the risk profile and pricing of the transferable security or approved money-market instrument.
- 1.18.5 A transferable security or an approved money-market instrument does not embed a derivative where it contains a component which is contractually transferable independently of the transferable security or the approved money-market instrument. That component shall be deemed to be a separate instrument.
- 1.18.6 Where the Fund invests in an index based derivative, provided the relevant index falls within COLL 5.2.20 AR (Financial Indices underlying derivatives) the underlying constituents of the index do not have to be taken into account for the purposes of COLL 5.2.11R and COLL 5.2.12R.
- 1.18.7 **Under COLL derivatives are permitted for UCITS Schemes for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives or both. The Fund intends to use its property to invest in derivatives and forward transactions under COLL for the purposes of efficient portfolio management and/or meeting the investment objective of the Fund. Such use is not expected to have a detrimental effect on the risk profile of the Fund.**
- 1.19 **Permitted transactions: derivatives and forwards**
 - 1.19.1 A transaction in a derivative must be in an approved derivative; or be one which complies with paragraph 1.23 (OTC transactions in derivatives).
 - 1.19.2 A transaction in a derivative must have the underlying consisting of any one or more of the following to which the Fund is dedicated: transferable securities, money-market instruments permitted under paragraph 1.7 (Approved money-market instruments), deposits, permitted derivatives under this paragraph, collective investment scheme units permitted under paragraph 1.16 (Investment in collective investment schemes), financial indices which satisfy the criteria set out in paragraph 1.19, interest rates, foreign exchange rates, and currencies.
 - 1.19.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market.

- 1.19.4 A transaction in a derivative must not cause the Fund to diverge from its investment objectives as stated in the Trust Deed and the most recently published version of this Prospectus.
- 1.19.5 A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more transferable securities, approved money -market instruments, units in collective investment schemes, or derivatives, provided that a sale is not to be considered as uncovered if the conditions in paragraph 1.21 are satisfied.
- 1.19.6 Any forward transaction must be with an Eligible Institution or an Approved Bank.
- 1.19.7 A derivative includes an instrument which fulfils the following criteria:
 - 1.19.7.1 it allows the transfer of the credit risk of the underlying independently from the other risks associated with that underlying;
 - 1.19.7.2 it does not result in the delivery or the transfer of assets other than those referred to in paragraph 1.3 including cash;
 - 1.19.7.3 in the case of an OTC derivative, it complies with the requirements in paragraph 1.22 (OTC transactions in derivatives);
 - 1.19.7.4 its risks are adequately captured by the risk management process of the Manager and by its internal control mechanisms in the case of risks of asymmetry of information between the Manager and the counterparty to the derivative, resulting from potential access of the counterparty to non-public information on persons whose assets are used as the underlying by that derivative.

1.20 **Financial indices underlying derivatives**

- 1.20.1 The financial indices referred to in 1.18.2 are those which satisfy the following criteria:
 - 1.20.1.1 the index is sufficiently diversified;
 - 1.20.1.2 the index represents an adequate benchmark for the market to which it refers; and
 - 1.20.1.3 the index is published in an appropriate manner.
- 1.20.2 A financial index is sufficiently diversified if:
 - 1.20.2.1 it is composed in such a way that price movements or trading activities regarding one component do not unduly influence the performance of the whole index;
 - 1.20.2.2 where it is composed of assets in which the Fund is permitted to invest, its composition is at least diversified in accordance with the requirements with respect to spread and concentration set out in this section; and
 - 1.20.2.3 where it is composed of assets in which the Fund cannot invest, it is diversified in a way which is equivalent to the diversification

achieved by the requirements with respect to spread and concentration set out in this section.

1.20.3 A financial index represents an adequate benchmark for the market to which it refers if:

1.20.3.1 it measures the performance of a representative group of underlyings in a relevant and appropriate way;

1.20.3.2 it is revised or rebalanced periodically to ensure that it continues to reflect the markets to which it refers, following criteria which are publicly available; and

1.20.3.3 the underlyings are sufficiently liquid, allowing users to replicate it if necessary.

1.20.4 A financial index is published in an appropriate manner if:

1.20.4.1 its publication process relies on sound procedures to collect prices, and calculate and subsequently publish the index value, including pricing procedures for components where a market price is not available; and

1.20.4.2 material information on matters such as index calculation, rebalancing methodologies, index changes or any operational difficulties in providing timely or accurate information is provided on a wide and timely basis.

1.20.4.3 Where the composition of underlyings of a transaction in a derivative does not satisfy the requirements for a financial index, the underlyings for that transaction shall where they satisfy the requirements with respect to other underlyings pursuant to 1.18.2, be regarded as a combination of those underlyings.

1.21 **Transactions for the purchase of property**

1.21.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of the Fund may be entered into only if that property can be held for the account of the Fund, and the Manager having taken reasonable care determines that delivery of the scheme property under the transaction will not occur or will not lead to a breach of the rules in the COLL Sourcebook.

1.22 **Requirement to cover sales**

1.22.1 No agreement by or on behalf of the Fund to dispose of property or rights may be made unless the obligation to make the disposal and any other similar obligation could immediately be honoured by the Fund by delivery of property or the assignment (or, in Scotland, assignation) of rights, and the property and rights above are owned by the Fund at the time of the agreement. This requirement does not apply to a deposit.

1.23 **OTC transactions in derivatives**

1.23.1 Any transaction in an OTC derivative must be:

- 1.23.1.1 in a future or an option or a contract for differences;
- 1.23.1.2 with an approved counterparty; A counterparty to a transaction in derivatives is approved only if the counterparty is an Eligible Institution or an Approved Bank; or a person whose permission (including any requirements or limitations), as published in the FCA Register or whose Home State authorisation, permits it to enter into the transaction as principal off-exchange;
- 1.23.1.3 on approved terms. The terms of the transaction in derivatives are approved only if, the ACD
 - 1.23.1.3.1 carries out at least daily a reliable and verifiable valuation in respect of that transaction corresponding to its fair value and which does not rely only on market quotations by the counterparty; and
 - 1.23.1.3.2 can enter into one or more further transactions to sell, liquidate or close out that transaction at any time, at its fair value; and
- 1.23.1.4 that it or an alternative counterparty will, at the request of the Manager, enter into a further transaction to close out that transaction at any time, at a fair value arrived at under the reliable market value basis or pricing model agreed under the following paragraph; and
- 1.23.1.5 capable of reliable valuation; a transaction in derivatives is capable of reliable valuation only if the Manager having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy:
 - 1.23.1.5.1 on the basis of an up-to-date market value which the Manager and the Trustee have agreed is reliable; or
 - 1.23.1.5.2 if the value referred to in 1.22.1.5.1 is not available, on the basis of a pricing model which the Manager and the Trustee have agreed uses an adequate recognised methodology; and
- 1.23.1.6 subject to verifiable valuation: a transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into) verification of the valuation is carried out by:
 - 1.23.1.6.1 an appropriate third party which is independent from the counterparty of the derivative at an adequate frequency and in such a way that the Manager is able to check it; or
 - 1.23.1.6.2 a department within the Manager which is independent from the department in charge of managing the Fund and which is adequately equipped for such a purpose.

1.24 **Valuation of OTC derivatives**

- 1.24.1 For the purposes of paragraph 1.23.1.3, the ACD must:

- 1.24.2 establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of the exposures of a Fund to OTC derivatives; and
- 1.24.3 ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment.
- 1.24.4 Where the arrangements and procedures referred to above involve the performance of certain activities by third parties, the ACD must comply with the requirements in SYSC 8.1.13 R (Additional requirements for a management company) and COLL 6.6A.4 R (4) to (6) (Due diligence requirements of AFMs of UCITS schemes).
- 1.24.5 The arrangements and procedures referred to in this rule must be:
 - 1.24.5.1 adequate and proportionate to the nature and complexity of the OTC derivative concerned; and
 - 1.24.5.2 adequately documented.

1.25 **Risk management**

- 1.25.1 The ACD uses a risk management process, enabling it to monitor and measure at any time the risk of a Fund's positions and their contribution to the overall risk profile of a Fund.
- 1.25.2 The following details of the risk management process must be regularly notified by the ACD to the FCA and at least on an annual basis:
 - 1.25.2.1 a true and fair view of the types of derivatives and forward transactions to be used within a Fund together with their underlying risks and any relevant quantitative limits; and
 - 1.25.2.2 the methods for estimating risks in derivative and forward transactions.

1.26 **Daily calculation of global exposure**

- 1.26.1 The ACD must calculate the global exposure of a Fund on at least a daily basis.
- 1.26.2 For the purposes of this section, exposure must be calculated taking into account the current value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions.

1.27 **Calculation of global exposure**

- 1.27.1 The ACD must calculate the global exposure of any Fund it manages either as:
 - 1.27.1.1 the incremental exposure and leverage generated through the use of derivatives and forward transactions (including embedded derivatives, which may not exceed 100% of the net value of the scheme property of a Fund, by way of the commitment approach; or
 - 1.27.1.2 the market risk of the scheme property of a Fund, by way of the value at risk approach.

- 1.27.2 The ACD must ensure that the method selected above is appropriate, taking into account:
- 1.27.2.1 the investment strategy pursued by the Fund;
 - 1.27.2.2 the types and complexities of the derivatives and forward transactions used; and
 - 1.27.2.3 the proportion of the scheme property comprising derivatives and forward transactions.
- 1.27.3 Where a Fund employs techniques and instruments including repo contracts or stock lending transactions in order to generate additional leverage or exposure to market risk, the ACD must take those transactions into consideration when calculating global exposure.
- 1.27.4 For the purposes of paragraph 1.27.1, value at risk means a measure of the maximum expected loss at a given confidence level over the specific time period.

1.28 **Commitment approach**

- 1.28.1 Where the ACD uses the commitment approach for the calculation of global exposure, it must:
- 1.28.1.1 ensure that it applies this approach to all derivative and forward transactions (including embedded), whether used as part of the Fund's general investment policy, for the purposes of risk reduction or for the purposes of efficient portfolio; and
 - 1.28.1.2 convert each derivative or forward transaction into the market value of an equivalent position in the underlying asset of that derivative or forward (standard commitment approach).
- 1.28.2 The ACD may apply other calculation methods which are equivalent to the standard commitment approach.
- 1.28.3 For the commitment approach, the ACD may take account of netting and hedging arrangements when calculating global exposure of a Fund, where these arrangements do not disregard obvious and material risks and result in a clear reduction in risk exposure.
- 1.28.4 Where the use of derivatives or forward transactions does not generate incremental exposure for the Fund, the underlying exposure need not be included in the commitment calculation.
- 1.28.5 Where the commitment approach is used, temporary borrowing arrangements entered into on behalf of the Fund need not form part of the global exposure calculation.

1.29 **Investment in deposits**

- 1.29.1 The Fund may invest in deposits only with an Approved Bank and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.

1.30 **Significant influence**

- 1.30.1 The Manager must not acquire, or cause to be acquired for an authorised unit trust of which it is the Manager, transferable securities issued by a body corporate and carrying rights to vote (whether or not on substantially all matters) at a general meeting of that body if:
- 1.30.1.1 immediately before the acquisition, the aggregate of any such securities held for the Fund, taken together with any such securities already held for other authorised unit trusts of which it is also the Manager, gives the Manager power significantly to influence the conduct of business of that body corporate; or
 - 1.30.1.2 the acquisition gives the Manager that power.
- 1.30.2 For the purposes of paragraph 1.30.1, the Manager is to be taken to have power significantly to influence the conduct of business of a body corporate if it can, because of the transferable securities held for all the authorised unit trusts of which it is the Manager, exercise or control the exercise of 20% or more of the voting rights in that body corporate (disregarding for this purpose any temporary suspension of voting rights in respect of the transferable securities of that body corporate).

1.31 **Concentration**

- 1.31.1 A UCITS Scheme:
- 1.31.1.1 must not acquire transferable securities other than debt securities which:
 - 1.31.1.1.1 do not carry a right to vote on any matter at a general meeting of the body corporate that issued them; and
 - 1.31.1.1.2 represent more than 10% of these securities issued by that body corporate;
 - 1.31.1.1.3 must not acquire more than 10% of the debt securities issued by any single issuing body;
 - 1.31.1.1.4 must not acquire more than 25% of the units in a collective investment scheme;
 - 1.31.1.1.5 must not acquire more than 10% of the approved money -market instruments issued by any single body;
 - 1.31.1.2 need not comply with the limits in paragraphs 1.31.1.1.2, 1.31.1.1.3 and 1.31.1.1.4 if, at the time of the acquisition, the net amount in issue of the relevant investment cannot be calculated.

1.32 **Derivative exposure**

- 1.32.1 The Fund may invest in derivatives and forward transactions as long as the exposure to which the Fund is committed by that transaction itself is suitably covered from within its scheme property. Exposure will include any initial outlay in respect of that transaction.

- 1.32.2 Cover ensures that the Fund is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the scheme property. Therefore, the Fund must hold scheme property which is sufficient in value or amount to match the exposure arising from a derivative obligation to which the Fund is committed. Paragraph 1.30 (Cover for transactions in derivatives and forward transactions) below sets out detailed requirements for cover of the Fund.
- 1.32.3 A future is to be regarded as an obligation to which the Fund is committed (in that, unless closed out, the future will require something to be delivered, or accepted and paid for); a written option as an obligation to which the Fund is committed (in that it gives the right of potential exercise to another thereby creating exposure); and a bought option as a right (in that the purchaser can, but need not, exercise the right to require the writer to deliver and accept and pay for something).
- 1.32.4 Cover used in respect of one transaction in derivatives or forward transaction must not be used for cover in respect of another transaction in derivatives or a forward transaction.

1.33 **Schemes replicating an Index**

- 1.33.1 The Fund may invest up to 20% in value of the scheme property in shares and debentures which are issued by the same body where the stated investment policy is to replicate the composition of a relevant index as defined below.
- 1.33.2 Replication of the composition of a relevant index shall be understood to be a reference to a replication of the composition of the underlying assets of that index, including the use of techniques and instruments permitted for the purpose of efficient portfolio management.
- 1.33.3 The 20% limit can be raised for a particular Fund up to 35% in value of the scheme property, but only in respect of one body and where justified by exceptional market conditions.
- 1.33.4 In the case of the Fund replicating an index the scheme property need not consist of the exact composition and weighting of the underlying in the relevant index in cases where the Fund's investment objective is to achieve a result consistent with the replication of an index rather than an exact replication.
- 1.33.5 The indices referred to above are those which satisfy the following criteria:
 - 1.33.5.1 the composition is sufficiently diversified;
 - 1.33.5.2 the index represents an adequate benchmark for the market to which it refers; and
 - 1.33.5.3 the index is published in an appropriate manner.
- 1.33.6 The composition of an index is sufficiently diversified if its components adhere to the spread and concentration requirements in this section.
- 1.33.7 An index represents an adequate benchmark if its provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers.

- 1.33.8 An index is published in an appropriate manner if:
- 1.33.8.1 it is accessible to the public;
 - 1.33.8.2 the index provider is independent from the index-replicating UCITS scheme; this does not preclude index providers and the UCITS Scheme from forming part of the same group, provided that effective arrangements for the management of conflicts of interest are in place.

1.34 Cover for transactions in derivatives and forward transactions

- 1.34.1 A transaction in derivatives or forward transaction is to be entered into only if the maximum exposure, in terms of the principal or notional principal created by the transaction to which the Fund is or may be committed by another person is covered globally.
- 1.34.2 Exposure is covered globally if adequate cover from within the scheme property is available to meet the scheme's total exposure, taking into account the value of the underlying assets, any reasonably foreseeable market movement, counterparty risk, and the time available to liquidate any positions.
- 1.34.3 Cash not yet received into the scheme property but due to be received within one month is available as cover.
- 1.34.4 Scheme property the subject of a stock lending transaction is only available for cover if the Manager has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.
- 1.34.5 The global exposure relating to derivatives held in the Fund may not exceed the Net Asset Value of the scheme property.

1.35 Cover and Borrowing

- 1.35.1 Cash obtained from borrowing, and borrowing which the Manager reasonably regards an Eligible Institution or an Approved Bank to be committed to provide, is not available for cover under paragraph 1.29 except where 1.30.2 below applies.
- 1.35.2 Where, for the purposes of this paragraph the Fund borrows an amount of currency from an Eligible Institution or an Approved Bank; and keeps an amount in another currency, at least equal to such borrowing for the time being in 1.30.1 on deposit with the lender (or his agent or nominee), then this paragraph 1.30.2 applies as if the borrowed currency, and not the deposited currency, were part of the scheme property.

1.36 Cash and near cash

- 1.36.1 Cash and near cash must not be retained in the scheme property except to the extent that, where this may reasonably be regarded as necessary in order to enable:
 - 1.36.1.1 the pursuit of the Fund's investment objectives; or

- 1.36.1.2 redemption of units; or
- 1.36.1.3 efficient management of the Fund in accordance with its investment objectives; or
- 1.36.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of the Fund.
- 1.36.2 During the period of the initial offer the scheme property may consist of cash and near cash without limitation.
- 1.37 **General**
 - 1.37.1 It is not intended that the Fund will have an interest in any immovable property or tangible movable property.
 - 1.37.2 It is envisaged that the Fund will normally be fully invested but there may be times that it is appropriate not to be fully invested when the Manager reasonably regards this as necessary in pursuit of the investment objective and policy, redemption of units, efficient management of the Fund or any one purpose which may reasonably be regarded as ancillary to the investment objectives of the Fund.
- 1.38 **Underwriting**
 - 1.38.1 Underwriting and sub underwriting contracts and placings may also, subject to certain conditions set out in the COLL Sourcebook, be entered into for the account of the Fund.
- 1.39 **Borrowing Powers**
 - 1.39.1 The Trustee (on the instructions of the Manager) may borrow sums from an Eligible Institution or an Approved Bank for the use of a Fund, on the terms that the borrowing is to be repayable out of the property of the Fund.
 - 1.39.2 The Manager must ensure that such borrowing is on a temporary basis, must not be persistent and, for this purpose:-
 - 1.39.2.1 The Manager may have regard in particular to:
 - 1.39.2.1.1 the duration of any period of borrowing, and
 - 1.39.2.1.2 the number of occasions on which borrowing is undertaken in any period;
 - 1.39.2.2 The Manager must ensure that no period of borrowing exceeds 3 months without the consent of the Trustee, whether in respect of any specific sum or at all.
 - 1.39.3 The Manager must ensure that the borrowing of the Fund does not, on any business day, exceed 10% of the value of the property of that Fund. These borrowing restrictions do not apply to back-to-back borrowing for currency hedging purposes (i.e. borrowing permitted in order to reduce or eliminate risk arising by reason of fluctuations in exchange rates).

1.40 **Best Execution**

- 1.40.1 The Manager shall be entitled, subject to its duty to secure Best Execution for you (which for these purposes shall disregard any benefit which might enure directly or indirectly to the Fund as a result of the arrangement hereinafter described), to effect transactions with or through the agency of another person with whom the Manager has an arrangement under which that person will from time to time provide to or procure for the Manager services or other benefits the nature of which are such that their provision results, or is designed to result, in an improvement in the Manager's performance in providing services for its clients and for which the Manager makes no direct payment but instead undertakes to place business with that person.

1.41 **Commission Sharing Arrangements**

The F&C Group policy on Commission Sharing Arrangements is available on request.

APPENDIX 4 – FUND DETAILS

Name: **F&C High Income Fund**

Category of Fund UCITS Scheme

Investment objective and policy: The investment objective is to provide a high monthly income whilst maintaining the value of the property of the Scheme.

The Fund will hold structured debentures and derivatives, equities, fixed interest securities, collective investment schemes and other permitted investments. The equity exposure may be held in shares or securities, which qualify as an investment within an Individual Savings Account or for any other tax purposes as defined from time to time. A list of the ‘eligible markets’ in which investments are made is contained in Appendix 1 at the back of this document.

This Fund is intended for investors seeking a high monthly income through investing in derivatives, debentures, equities, fixed interest securities, collective investment schemes and other permitted investments. Investors should understand the volatility of investing in equity and debt instruments and be able to accept the possibility of capital losses. The Fund is only intended for investors who understand that a high monthly income is not guaranteed.

The assets of the Fund will be held mainly within the following guidelines:-

Type of Investment	Market Value of Assets as a Proportion of the Fund
Structured Debentures and Derivatives	0 – 60 %
Equities	0 – 60 %
Other Fixed Interest Securities and Cash	0 – 100 %

The exposure may be obtained by direct investments or indirectly by holdings in collective investment schemes, structured debentures and other instruments.

The equity exposure will normally be obtained through investment in EU companies but may at the Manager’s discretion include equity exposure in non-EU markets up to 20% of the assets of the Fund.

The Manager presently intends to maintain the proportion of the Fund held in equities in the range 0-40% so as to enable the continuing payment of distributions as interest payments.

Income allocation dates: Monthly on the 28th of the month

ISA status Qualifying investment for stocks and shares ISA

Shares Classes and type of Shares: F&C High Income Class 1 Shares, net income

F&C High Income Class C Shares, net income

	Class 1 Shares	Class C Shares
Initial charge:	Current: 5.00%	0%
Annual ACD fee:	Current: 1.50%	0.75%
	Annual Management Charge taken from Income	

Investment minima:	Lump sum	£1,000	£500,000
	Holding	£1,000	£500,000
	Top-up	£1,000	£250,000
	Monthly saving	£50	£50
	Redemption	£100	N/A

APPENDIX 5

PAST PERFORMANCE

	% Growth ExD GBP 31/12/2010 – 31/12/2011	% Growth ExD GBP 31/12/2011 – 31/12/2012	% Growth ExD GBP 31/12/2012 – 31/12/2013	% Growth ExD GBP 31/12/2013 – 31/12/2014	% Growth ExD GBP 31/12/2014 – 31/12/2015
High Income	-3.15	0.62	3.18	-1.75	-1.19

Source: F&C Fund Management Limited. Total return in sterling with no allowance for initial charges. Past performance is not necessarily a guide to future performance.