

JANUARY UPDATE

Stock Codes	Capital Shares	Income Shares	ZDP Shares
Topic	EQPC	EQPI	EQPZ
Bloomberg	EQPC LN	EQPI LN	EQPZ LN
Reuters	EQPL	EQPi.L	EQPZo.L
ISIN	GB0030735483	GB0030735376	GB00B114S147

31 January 2008	Capital Shares	Income Shares	ZDP Shares
Mid Price	100.50p	110.50p	113.00p
NAV	110.03p	102.97p	109.22p

Issue sixteen

January 2008

Fund Manager: EPIC Asset Management Limited (EPAM)



Fund Manager Profile
Jo Welman

Jo Welman graduated in economics from Exeter University in 1979. He joined Baring Brothers where he managed several large segregated UK and US public company pension funds and The Barings UK Smaller Companies Unit Trust. In 1989 he was recruited by Rea Brothers to become the managing director of the investment management subsidiary. He resigned as a director of Rea Brothers Group plc in August 1999 following the bank's take-over by Close Brothers and became Chairman of Brit Insurance Holdings PLC. He resigned from Brit in September 2002 and is managing director of EPIC Investment Partners Limited (formerly Equity Partnership Limited), the investment manager to the Company.

Corporate Details

Launch Date:	17 August 2001
Launch Assets:	£67.63m (net of expenses)
Total Assets:	£88.2m
Capital Structure:	Capital Shares: 40,304,312 Income Shares: 20,736,333 ZDP Shares: 20,000,000
ZDP Shares:	Redemption Price: 139.3p due 31 July 2011
	At time of issue this equated to a 6.5% GRY
Year End:	31 July
NAV:	Monthly
Directors:	Dr C McPhail, DC McCrickard, M Richardson, PP Scales
Winding up Provisions:	31 July 2011
Annual Management Fee:	1%
Brokers:	Landsbanki Securities (UK) Limited

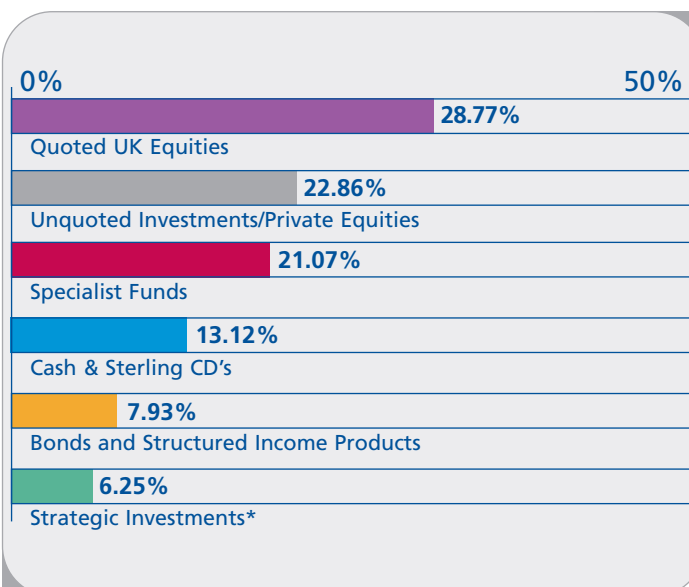
Investment Objective

The Company can invest in quoted and unquoted equities, bonds and structured income products and investment funds to generate capital growth for capital shares and an initial 10% yield for income shares.

Benchmark

Capital Share NAV: Libor + 3% per annum
Income Shares: Entitled to 10% per annum with annual RPI increases (capped at 5% per annum)

Asset Allocation as at 31 January 2008



*Syndicate Asset Management PLC, Strand Partners Limited,
Note: figures do not include the exposure to EPIC Securities PLC

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Manager's Commentary

Market Commentary

Confidence in the financial markets has remained fragile undermined by the problems in the credit markets which have persisted as news of further financial sector write-downs and signs of slower economic growth have emerged. Not surprisingly, this was accompanied by a second wave of risk aversion during the quarter which took credit risk premiums to new highs. Therefore while yields on government bonds moved sharply lower, corporate bond and money market yields increased.

Global equity markets also absorbed the downside risks to corporate activity and earnings and witnessed a sharp correction in prices led by financial stocks.

Central banks responded to the crisis by injecting liquidity into the markets through a number of short term lending facilities, to ease inter-bank lending rates and broader market financing rates. In addition to this, interest rates in the US and the UK were lowered, although the 1.75 percentage point reduction in the US significantly outweighed the 0.25% cut in the Sterling base rate. Commodity prices remain high and inflation concerns have not receded. The ECB continues to place greater emphasis on this and has yet to loosen monetary policy.

Looking ahead, credit conditions are still relatively tight and the interest rate falls may not be enough to support the housing market, nor confidence in the corporate sector which in time may impact economic activity. It is also still too early to expect that the impact of sub-prime assets has been fully realised and we expect rates of economic growth to slow, adding pressure on respective central banks to enact further monetary easing. In this environment, bond markets are likely to outperform cash investments, although we believe that selective financial sector corporate bonds appear to offer greater value where yields have risen sufficiently to factor in market conditions.

Quoted Equity

At 31 January 2008 EPIC's **quoted equity** portfolio consisted of 26 stocks with a total value of £24.8 million. Below we take a closer look at the holdings and briefly outline their prospects.

Diploma

Current Holding	1,886,870
Share Price at 31 January	172.5p
Market Cap	£195.3m
6 Month Performance	-3.6%

Diploma is a distributor of medical products, seals and controls in the UK, Europe, the USA and Canada. It is conservatively run with an enviable growth record and has been part of the EPIC portfolio for the last six years.

Perhaps this is the best example in the EPIC portfolio of the prevailing attitude towards small and medium sized companies. On 26 November the company released excellent full year results for the period ended 30 September 2007. Revenue and adjusted profit before tax increased by 10% and 14% respectively, allowing the dividend to be increased by 17%. The group spent £32 million on four acquisitions, mainly near the year end, but strong cash generation still left net cash of £12 million. Pre-tax forecasts of around £26 million leave the shares on a forecast prospective P/E ratio of 11.4x to September 2008. This well spread, strongly financed company is in a good position to exploit further

acquisition opportunities and to cope with any slowdown in the world economy.

Lupus Capital

Current Holding	3,544,142
Share Price at 31 January	73p
Market Cap	£94.7m
6 Month Performance	-53.8%

Lupus Capital is the vehicle of entrepreneur Greg Hutchings who made his name with Hanson Trust and Tomkins. The company has three businesses - Gall Thomson, Schlegel and Laird Security Systems. Hutchings is a substantial investor in the business backing the Schlegel and Laird acquisitions that have turned Lupus into a major player in the window seals and security market both in the USA and Europe. The excellent Gall Thomson is a world leader in the supply of flexible couplings to the oil and gas industry and is currently enjoying booming market conditions.

Despite good interim figures released in September the shares have fallen sharply, mainly reflecting concerns relating to the company's exposure to the US housing market. Moreover, if the economic malaise should become more widespread, commercial customers may defer or limit repair and maintenance work. To December 2007 Lupus is forecast to achieve pre-tax profits of £24 million and earnings of 14 pence per share, leaving the shares on an undemanding P/E ratio of 5.2x. Like Heywood Williams, Lupus shares appear

Manager's Commentary (cont.)

cheap and have the advantage of being run by a highly motivated chief executive with a good track record. The company has recently begun to buy back its shares.

Aurum Mining

Current Holding	2,345,000
Share Price at 31 January	103.5p
Market Cap	£49.9m
6 Month Performance	+22.4%

Aurum Mining owns the Andash gold and copper deposit in the remote former soviet republic of Kyrgyzstan.

The project is in the construction phase with production from the estimated 1.1 million ounces of gold equivalent due to start in the second half of 2008. Following a placing raising £30 million the project and exploratory work is fully funded. Recent discoveries nearby on Aurum acreage suggest that reserves may be double the original estimate.

By most industry standards Aurum is remarkably cheap but this is a politically unstable region and investors will need to see regular production before they accord a full valuation to the shares.

Delta

Current Holding	1,949,550
Share Price at 31 January	102p
Market Cap	£156.8m
6 Month Performance	-23.7%

Delta is an international industrial group structured around three business areas; galvanised steel products, zinc products and manganese products mainly in use for the production of batteries. Although the manganese division has great potential, Chinese competition and adverse exchange rates have left the steel and zinc businesses as the main engines of growth.

A trading statement issued on 15 January 2008 confirmed that the important Australian market was still strong and the outlook for the manganese business in 2008 was better. The company should report pre-tax profits of around £24 million for the year ended 31 December 2007 to give earnings per share of nearly 11 pence. At a price of 102p this represents a forecast P/E ratio of 9.9x. However, it is particularly worth noting that the company holds over £120 million of cash.

One factor that has often depressed the share's rating is its huge pension scheme. Although the scheme has a relatively small deficit, any variation in interest rates or mortality rates could have a large bearing on the size of the liability. The January trading statement mentioned that the group was assessing an option to reduce the size of the plan. However, despite possibly having to use some of the cash to reduce the potential pension fund liability, Delta is in our opinion a cheap share that has been harshly treated by the market.

Invensys

Current Holding	843,215
Share Price at 31 January	231.5p
Market Cap	£1,844.9m
6 Month Performance	-37.2%

Invensys is a global industrial automation, transportation and controls group. A series of disposals and strong operating cash flows mean that the group should become debt free during 2008. EPIC bought the shares for an exposure to the rail and process systems sectors. These two divisions contribute approximately 60% of sales and achieved margins of around 15% and look set for several years of growth. The Controls

division achieves margins of around 8% on a third of group sales and is more vulnerable to a slowdown in the US economy. Any proof that the Controls division will not depress the group's progress should allow a re-rating to reflect the long term potential of the core businesses.

DTZ

Current Holding	605,809
Share Price at 31 January	241.5p
Market Cap	£141.3m
6 Month Performance	-51.3%

DTZ is one of the world's leading property consultants. Over the last three years it has expanded from its UK and European base to the USA, Canada and the Far East. Earnings of 34 pence for the year ended April 2008 would put the shares on a forecast prospective P/E ratio of 7.1x. The company's business model is based on providing a full property service on a worldwide scale. This service should eventually command premium fees, but in the meantime the credit crunch is impacting the activities of many DTZ customers, particularly in the UK and North America.

Matchtech

Current Holding	390,000
Share Price at 31 January	356.5p
Market Cap	£82.4m
6 Month Performance	-24.4%

Matchtech is a recruitment agency with a difference. The company has historically avoided short-term economic fluctuations by retaining a diverse mix of clients exposed to long term infrastructure projects. Through its clients, Matchtech has exposure to projects such as the London Olympics, the AMP4 water programme and the

Manager's Commentary (cont.)

forthcoming CVF aircraft carrier. The other unusual feature of this agency is that it operates from one high technology site making it more efficient than many of its competitors. To forecast July 2008 earnings the shares trade on a multiple of below 10x and an EV/EBITDA of below 7x, which appears to be a cheap rating for an efficient company with such strong order books.

Woolworths

Current Holding	9,828,094
Share Price at 31 January	10.75p
Market Cap	£160.5m
6 Month Performance	-54.9%

Woolworths trades from 820 high street stores in the UK selling a range of low cost items ranging from sweets, toys, electrical goods, household goods, compact discs and computer games. Woolworths also owns 50% of a joint venture with the BBC called Zentertain which distributes DVDs internationally, and an Entertainment Wholesale division which distributes CD's games and books to other retailers. EPIC bought Woolworths believing that these last two businesses might alone be valued at the entire enterprise value of the group at the time, with the struggling high street operation in for nothing. Indeed if Woolworths retail could be coaxed back into profitability the shares could still be cheap. In the short term management has acknowledged that there will be little help from the consumer, but a more successful retailer to use some of the Woolworths floor space may provide a solution. At current prices Woolworths trades on a forecast January 2009 P/E ratio of 7.7x and an EV/EBITDA of £2.5 million. The severe contraction in retail values

mean that the wholesale businesses might now only be valued at £250 million, half what they were three months ago. Corporate action to release more value from Woolworth's retail remains the key to deriving a good return from this holding.

British Airways

Current Holding	249,507
Share Price at 31 January	332p
Market Cap	£3,761.4m
6 Month Performance	-18.1%

British Airways is one of the world's leading airlines. Under the astute leadership of William Walsh it has coped with terrorism, strikes, badly run airports and soaring fuel costs over the last couple of years. Recent signs of the oil price peaking and the potential benefit of Terminal 5 opening at Heathrow is likely to offset the threat of increased competition caused by the EU/USA "open-sky" deal which allows new carriers access to Heathrow. British Airways currently trades on a forecast P/E ratio of 6.1x to March 2008 and has an enterprise value of just half its revenues. British Airways has a strong balance sheet, good management and a dominant position at Heathrow but there is always a risk that factors outside the company's control can damage the business model.

Electrocomponents

Current Holding	432,039
Share Price at 31 January	191.5p
Market Cap	£856.6m
6 Month Performance	-24.3%

Electrocomponents is a distributor of electronic, electrical and industrial products. The group has low borrowings, no pension deficit and a demanding executive options scheme which would vest in March 2009. Although the

group has limited exposure to North America, slower world growth forecasts have called the 2009 targets into question. Electrocomponents provides a long term growth opportunity as it rolls out its business model in Europe and Asia. The potential dividend cut that may occur if the group misses its 2009 targets is we believe reflected probably already in the share's rating.

Heywood Williams

Current Holding	2,089,935
Share Price at 31 January	38.5p
Market Cap	£33.9m
6 Month Performance	-56.6%

Heywood Williams is a leading specialist distribution business serving new build and home improvement markets in the UK, Ireland, Scandinavia and the Baltic's. In the USA LaSalle Bristol serves the manufactured housing, recreational vehicle and modular housing markets.

An 8 January trading statement suggested that the company would make profits before tax of at least £9 million for the year ended 31 December 2007. Consumer caution in the UK and Ireland, allied to subdued US markets, suggest a similar outcome for 2008, although at the current price of 38.5 pence the shares are on an undemanding rating of 6x P/E for both years. As a cyclical recovery play Heywood Williams is already cheap. An enterprise value of around £80 million buys £300 million of sales that in normal market conditions should be able to generate pre-tax profits of £20 million. The shares appear cheap but reluctance to pay a dividend and concerns over the management's commitment mean that the shares are unlikely to recover in the short term.

Manager's Commentary (cont.)

Macfarlane

Current Holding	2,500,000
Share Price at 31 January	27.75p
Market Cap	£31.9m
6 Month Performance	-8.3%

Macfarlane is a nationwide distributor and manufacturer of packaging and is a specialist printer of labels. The 2007 sale of its underperforming Mexican and USA manufacturing operations should enable the group to develop its UK distribution network which it sees as its main strength. For the year to December 2008 the forecast prospective P/E is 9.7x, possibly about right for a slightly accident prone company. However, the distribution business could also be affected if the UK were to enter a prolonged recession.

Castings

Current Holding	2,500,000
Share Price at 31 January	267p
Market Cap	£116.7m
6 Month Performance	-3.2%

Castings is a producer of spheroidal graphite and malleable iron castings for a variety of manufacturing industries. This conservatively run, cash rich engineer is the leading European player in its sector best at what it does in Europe. Castings is a successful and highly rated company although it does have a vulnerability to rising iron and energy prices. It should also be noted that the full order book could dwindle if the European truck industry suffers a significant downturn.

Primary Health Properties*

Current Holding	200,000
Share Price at 31 January	325p
Market Cap	£108.8m
6 Month Performance	-8.8%

Primary Health Properties is a REIT that generates rental income and capital growth through investment in primary health care UK property. This is a strong business model as the portfolio is focused in high quality new build properties with long leases and strong covenants. The NHS is standing behind 90% of the rent roll. Unless future governments change their commitment to a publicly funded NHS this company should continue to grow strongly.

Dialight

Current Holding	498,798
Share Price at 31 January	116p
Market Cap	£36.2m
6 Month Performance	-37.3%

Dialight is the UK based leader in applied LED (light emitting diodes) technology. There are two business segments, signals and illuminations which include traffic signals and obstruction lights and components comprising LED indication products and electromagnetic disconnects. LED technology has major advantages over traditional systems in terms of quality, energy usage and heat emissions.

A trading statement issued on 15 January 2008 confirmed that the results for the year ended 31 December 2007 would be in line with expectations. The Board drew attention to Dialight's strong position in LED lighting markets and reminded shareholders that it would continue to deliver sustained growth in shareholder value.

At the current share price Dialight sells on a forecast December 2007 P/E ratio of 10.5x and 8.0x December 2008 earnings forecasts. There is always a risk that Dialight's major customers could delay or cancel orders, but as a world leader in its sector capitalised at

only £36 million its long term independence must be questionable.

Worthington Nichols*

Current Holding	5,009,061
Share Price at 31 January	10p
Market Cap	£7.8m
6 Month Performance	n/a

Worthington Nicholls is a supplier and servicer of air conditioning systems. Despite the undoubted potential of the business, management errors led to an ousting of the Board in late 2007. Former Revenue Assurance Chief Executive Simon Beart, Chairman Ian Mann and Finance Director William Goode have taken over. A realistic appraisal of the company is likely to lead to substantial write-downs and possibly division closures. However, the company has £8 million in cash and a successful and motivated management team to extract value from what is left of the business. The risks to this management story are firstly that more skeletons are uncovered and secondly that after the recent market turmoil potential customers defer or cancel orders.

Carlo

Current Holding	600,000
Share Price at 31 January	81.5p
Market Cap	£45.9m
6 Month Performance	-30.9%

Carlo is engaged in the design and manufacture of close tolerance plastic components and a range of lighting and control systems for the automotive optical-medical, teletronics and aerospace industries. The company has used its engineering expertise to become a major player in conductive inkjet technology. The shares are on a forecast prospective P/E ratio of 12.3x to March 2008 and 8.5x for the

* Denotes New Holding

Manager's Commentary (cont.)

year after. The shares trade at a relatively high rating for a small engineer, reflecting the market's appreciation of the attractive growth opportunities in inkjet technology in areas such as supermarket labelling.

Johnson Matthey*

Current Holding	25,000
Share Price at 31 January	1,858p
Market Cap	£3,988.4m
6 Month Performance	+8.6%

Johnson Matthey is an international processor and marketer of precious metals and a manufacturer of catalysts, coatings and pharmaceutical materials. The technical skill base and potential for life saving and ecologically sound inventions mean that Johnson Matthey commands a high stock market rating. However, Johnson Matthey's technology is likely to continue to attract a high rating and perhaps the attention of a predator.

Ricardo*

Current Holding	140,597
Share Price at 31 January	312p
Market Cap	£159.1m
6 Month Performance	-2.9%

Ricardo provides technical and strategic consulting to industry, commerce and other agencies. Major customers include automotive producers who use Ricardo's consultants to solve a variety of design issues. Prospective earnings of 21 pence to June 2008 leave the shares on a seemingly demanding rating of 14.9x, but Ricardo's skills are highly thought of and could attract corporate interest. Against this, the automotive industry is a large customer with cyclical characteristics.

Findel

Current Holding	72,356
Share Price at 31 January	530.5p
Market Cap	£459.1m
6 Month Performance	-23.5%

Findel is a general retailer with three divisions, home shopping, education and healthcare. Over half the company's profits are generated from home shopping where consumer reticence is balanced by a huge expansion of internet values. Findel is a well run company with exposure to internet shopping, one of the fast growing sectors the UK retail market, and is on a forecast prospective P/E ratio of 8.3x to March 2009.

Cryo-Save*

Current Holding	180,000
Share Price at 31 January	185.5p
Market Cap	£89.1m
6 Month Performance	n/a

Cryo-Save is involved in storing cord blood stem cells, where it has 50% of the European market. Cord blood is rich in adult stem cells which are less likely to be rejected by the immune system than stem cells from either bone marrow or embryos. Cryo-Save is not involved with cells derived from embryos. The market potential is large with only 0.8% of European live births storing their cord blood stem cells compared to 2.3% in the USA. Cryo-Save raised £26.5 million in late 2007 to buy more laboratories and lead a consolidation in this industry. Although the company is already profitable it has the potential to increase profits to £12-15 million within five years. If Cryo-Save can achieve its ambitious medium term objectives the shares are very cheap.

Wagon

Current Holding	941,739
Share Price at 31 January	34p
Market Cap	£39.2m
6 Month Performance	-48.9%

Wagon is one of Europe's major suppliers of automotive body shells and components. In 2006 legendary US investor Wilbur Ross injected his Oxford S.p.A pressing business into Wagon in exchange for a 15% stake. Problems with the French car industry, employment practices and financing terms have put back the intended rationalisation benefits by at least a year. A consequence of these delays is that debt has doubled to around £100 million compared to a market capitalisation of £39 million and the banks have extracted punishing terms. Wagon is in a precarious state. Any downturn in the European automotive industry will probably lead to a rescue rights issue, but on the positive side, £700 million of sales makes it an important industry player and Wilbur Ross and associates will probably underwrite any issue.

Microgen

Current Holding	555,000
Share Price at 31 January	41p
Market Cap	£102.9m
6 Month Performance	-13.2%

Microgen is a small software and consultancy business that after several ordinary years has begun to make real progress using its proprietary "Microgen Aptitude" platform. Microgen Aptitude serves clients in the banking, energy and commercial markets. Growth in these sectors makes the group attractive despite having some mature offerings in the wealth management and consulting

* Denotes New Holding

Manager's Commentary (cont.)

sectors. Nearly half of the company's market capitalisation is in cash so the forecast prospective P/E ratio of 9x to December 2008 may be unflattering. An EV/EBITDA of 5.4x might be more representative of the shares' value.

Eleco

Current Holding	250,000
Share Price at 31 January	93p
Market Cap	£55.8m
6 Month Performance	-8.6%

Eleco manufactures and supplies building systems and products augmenting its offer with software systems that aid customers with building design. Earnings of 10 pence to June 2008 would put the shares on a forecast prospective P/E of 8.9x. This rating within the sector may be explained by the potential of the software business and the "off-site" nature of its business which is perceived as an advantage. Eleco would be harmed by a severe downturn in the UK housing market but should be more resilient than most.

CML Microsystems

Current Holding	187,500
Share Price at 31 January	84p
Market Cap	£12.6m
6 Month Performance	-29.1%

CML designs and manufactures low-power, mixed signal semi-conductors for niche telecom applications and, through Myperstone, digital microcontrollers for memory cards, among other applications. The company has struggled since the loss of a major customer in 2006, but at these levels there is asset backing for this tiny family controlled company.

Lookers*

Current Holding	93,290
Share Price at 31 January	87.5p
Market Cap	£157.9m
6 Month Performance	-43.7%

Lookers is one of the top five players in the UK motor retail industry with around 3% market share and 100 outlets. It has a broad spread of brands, being equally committed to both the volume and prestige ends of the car market. Although there is likely to be some softening of retail demand in 2008, Lookers is likely to generate 13 pence of earnings putting this asset rich company on an undemanding P/E ratio of 6.7x. While there is some risk to earnings estimates from softening consumer demand, any share price weakness may trigger further consolidation of the sector.

Specialist Funds

The **Specialist Funds** portfolio is targeted at diversifying assets to achieve non-correlated returns in excess of the Company's Libor + 3% per annum performance benchmark. The largest holdings are **Jupiter Hyde Park Hedge Fund Ltd** (\$6.3m), a long/short equity fund which has performed strongly over the past quarter; **CCFM Bristol & Stone Baltic Property Ltd** (€3.3m), a fund which invests in a portfolio of real estate assets in the Baltic states of Latvia, Lithuania and Estonia; **AHG Trading GmbH** (€3m), German tax transaction sponsored by Macquarie Bank; **EEA Life Settlement Fund** (\$3.5m), a US Viatical Fund which purchases life insurance policies where the insured has an impaired life expectancy and which has now risen for 24 consecutive months;

and **European Equity Tranche Income Ltd** (£1.2m), a fund established to invest in the equity tranche of high quality European residential mortgage backed securities. Despite having no US or sub-prime mortgage exposure **European Equity Tranche Income Ltd ("EET")** has seen a further recent fall in its share price as a result of an increase in the level of pre-payments in their prime Italian mortgage book in the last quarter. We have confidence in the Board of the Company.

Private Equity

The **Private Equity** division aims to generate yield through investment in mezzanine debt coupled with significant capital appreciation by investing in equity stakes in smaller private companies. The portfolio as a whole is performing strongly with some businesses showing signs of achieving their full potential and therefore moving towards exits. The Manager has a number of new companies under investigation, and expects to complete a number of investments in 2008 as the cooling of the credit markets creates value opportunities.

* Denotes New Holding

Market Data

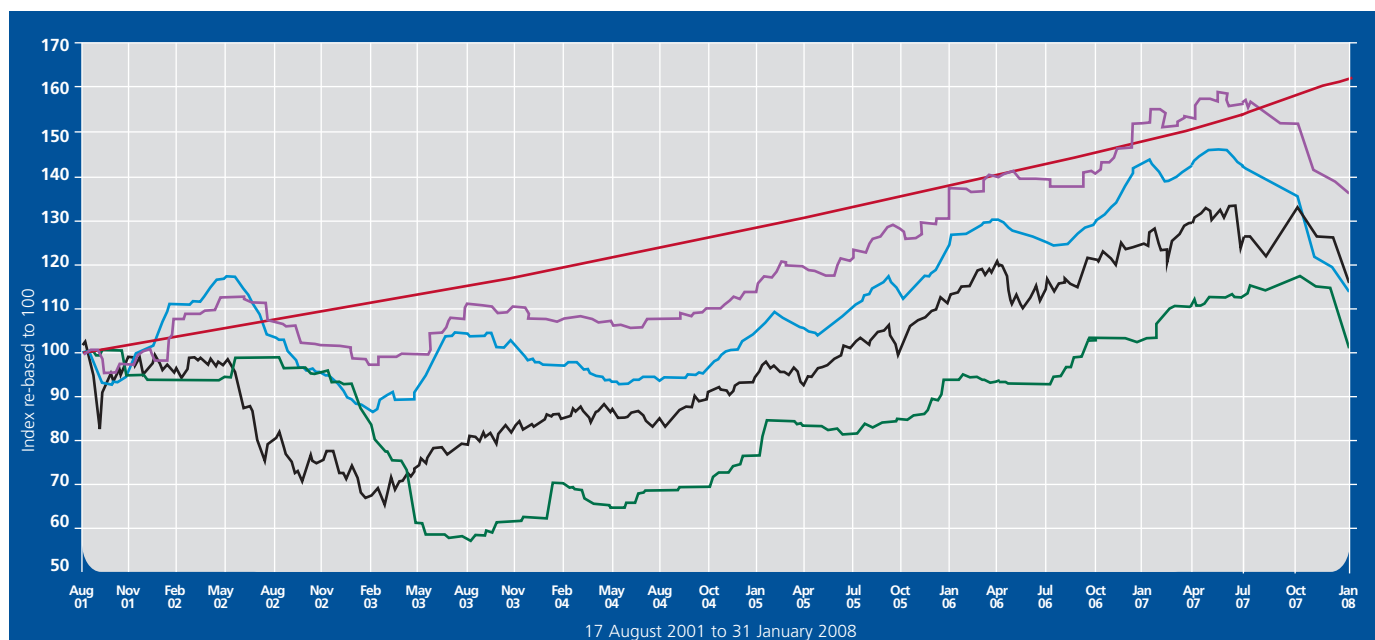
	77.5 months since launch
Capital Shares	1.52%
FTSE All Share Index	15.81%
NAV	14.57%
Benchmark	62.79%

- Capital Share Price
- Capital Share NAV
- Benchmark (Libor + 3%)
- FTSE All Share Index
- NAV (Cap+Inc) Divs Reinvested

Largest Investments

	% of total investments
Sterling CD-Barclays 6.53000% 10 Dec 2007-10 Mar 2008	9.50%
Nexus Industries Limited	5.14%
Palatinate School Holdings	4.99%
Alpha Real Estate GMBH 8% 11 February 2010	4.39%
Diploma Plc	3.81%
Jupiter Hyde Park Hedge Fund Limited	3.81%
Syndicate Asset Management Plc – 6% Loan Stock	3.12%
Lupus Capital Plc	3.04%
CCFM Bristol & Stone Baltic Property Limited	2.89%
Pinnacle-psg Limited	2.82%
Aurum Mining Plc	2.81%
AHG Trading Genussscheine	2.63%
Eurosterling-Irish Nationwide BS 4 3/4% 22 Dec 2008	2.51%
Delta Plc	2.31%
Keatings Limited	2.29%
Total of 15 largest investments	56.08%
Other investments	42.90%
BGI Sterling Liquidity First Fund - Institutional	1.03%
Total investments	100.00%

Share Price and NAV Performance vs Benchmark (from 17 August 2001 to 31 January 2008 - re-based to 100)



Source: Bloomberg

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