

23 November 2010

## Connaught Asset Management

Income Fund Series 2 launch

Coverage from feature email interview with WealthBriefing Asia

Publication: Wealth Briefing Asia

Date: 23 November, 2010

Headline: Asian Investors Eye UK Property Market Opportunities

**Christine Wood**  
Senior Vice President  
Financial Dynamics  
+852 3716 9868  
[christine.wood@fd.com](mailto:christine.wood@fd.com)

**Wendy Choy**  
Senior Consultant  
Financial Dynamics  
+852 3716 9821  
[wendy.choy@fd.com](mailto:wendy.choy@fd.com)



Tuesday 23rd of November 2010

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**Tom Burroughes**

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Job of the Week

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## Asian Investors Eye UK Property Market Opportunities

Vanessa Doctor

Asia Editor

As Asian investors start to look into non-conventional asset classes to build their wealth in the wake of the 2008 financial crisis, the UK property sector is appearing to be a viable route for wealth preservation. This publication recently spoke to Alistair Mawdsley, the managing director of Connaught Asset Management, on prospects in the UK property market and why it can promise steady growth.

Connaught Asset Management was created in February 2007 to provide services to fund operators that cater to institutional and sophisticated investor markets through IFAs and Wealth Management Companies.

**WealthBriefingAsia:** Can you give us an overview on the concept of coursing through asset backed UK property lending for wealth preservation?

**Alistair Mawdsley:** Since the early 1970s, the UK has been a property-owning culture, with around 70 per cent of homes owned by residents. Couple this with a booming private rental market (new tenancy enquiries are increasing by 40,000 a month compared with 2009 (Countrywide, September 2010) and a finite supply of housing and land and you have an asset class that offers a high level of security.

The Connaught Income Fund 2 Fund is particularly low risk as it is not dependent upon rising land or property prices to achieve returns, the returns are paid from the interest charged on loans secured on those properties; non-volatility in property values protects the original investment, with an average of 35 per cent equity margin on the loan book to provide an additional buffer, thereby making it a consistent investment option for wealth preservation

The Connaught Income Fund Series 1 has never failed to pay the fixed annualised distribution of up to 8.5 per cent in the 2 1/2 years it has been running, has an average loan to value in the securities forming its assets of less than 65 per cent and has never lost money on the sale of any of its securities. The Specialist Partner lender is authorised by the Financial Services Authority and, in addition to strict underwriting criteria by Tiuta PLC, the largest short term lender in the UK residential property investment market, each loan in Series 2, as with Series 1, will be scrutinised by Connaught as the Asset Manager and the Fund Trustee before any funds are approved for release to the borrower.

**WBA:** How does the UK property sector factor into a highly watched wealth market like Asia? (It is known that the Asian market is the target of foreign firms offering various asset classes, each promising to deliver high returns.)

**AM:** The spectre of deflation is very real, with many analysts placing the developed Western economies 30 years behind Japan's economy. The wealth market in developed economies, such as the UK, as well as in some parts of Asia, is increasingly exploring themes on global diversification, to capture consistent growth both in Asia and beyond.

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Senior Vice President  
Financial Dynamics  
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[christine.wood@fd.com](mailto:christine.wood@fd.com)

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We identify with the risk appetite of the Asia wealth market, particularly the intensified search for strong yields at a low VAR (value at risk) due to continued volatility in senior markets and offers, through the Fund, access to the less volatile UK residential property market, with exposure to other sectors of the property market and is non correlated to equities and low interest rates.

The UK property sector offers a reduced risk of volatility as the return is not linked to movements in the asset values, but is achieved through high rates of interest paid by borrowers on short to medium term loans. "The promise" is in fact a fixed rate of return, often higher than current inflation, and is based on those fixed interest loan rates rather than a projection.

Furthermore, in some markets such as Hong Kong, HNWIs from the UK enjoy zero tax on invested income, again offering an appealing investment horizon for those keen on consistent wealth creation.

**WBA:** Asia has since the global crisis shown that it is actually relatively self-sufficient, in terms of wealth creation and economic growth. What is the outlook for UK property asset backed lending in the region?

**AM:** The downturn in economy and credit squeeze has led to a shortage of secured loan finance in the UK and demand led high interest rates where finance is available. A particular beneficiary is the short to medium term asset backed lending market.

Alternatives are playing a larger part in client portfolios as conventional asset classes haven't produced returns and are generally dependent upon timing, which most people get wrong.

**WBA:** How would this offering attract the region's high net worth demographic? Are there specific countries the product is targeting?

**AM:** We have developed a fund (The Connaught Income Fund Series 2) specifically aimed at the overseas high worth market. It has been a year in development in order to put in place appropriate risk management processes and to satisfy our regulator, the Guernsey Financial Services Commissioner, that it has the appropriate level of risk to meet its consumer protection remit.

As Asia has a developed expatriate workforce - either transitory, permanent or contractors - it is one of the areas we had in mind when developing the fund. UK expats/Non domiciles generally prefer to invest in their local market - the UK- as it is the one they know and understand the best.

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