

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other appropriately qualified independent financial adviser, authorised under the Financial Services and Markets Act 2000 or, if you are in a territory outside the United Kingdom, an appropriately authorised independent financial adviser.**

If you have sold or otherwise transferred all your Shares in Phaunos Timber Fund Limited (the "**Company**"), please send this Circular, but not the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, such documents should not be distributed, forwarded or transmitted in or into Canada, Australia, South Africa or Japan or into any other jurisdiction if to do so would constitute a violation of the relevant laws and regulations in such other jurisdiction. If you have sold or transferred only part of your holding of Shares please consult the bank, stockbroker or other agent through which the sale or transfer was effected.

The Shares are, and following the Extraordinary General Meeting will continue to be, admitted to the premium equity (closed-ended investment funds) category of the Official List of the UK Listing Authority and admitted to trading on the Premium Segment of the Main Market of the London Stock Exchange.

The Company has not been and will not be registered under the US Investment Company Act of 1940, as amended (the "**Investment Company Act**"). The Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, pledged or otherwise transferred, directly or indirectly, into or within the United States, or to or for the benefit of U.S. persons (as defined in Regulation S under the Securities Act) ("**US Persons**") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States and in a manner which would not require the Company to register under the Investment Company Act.

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**PHAUNOS TIMBER FUND LIMITED**

*(A closed-ended investment company incorporated in Guernsey with registered number 45564)*

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**RECOMMENDED PROPOSALS FOR A MANAGED WIND-DOWN OF THE COMPANY**

**AMENDMENT TO ARTICLES OF INCORPORATION**

**AMENDMENT TO INVESTMENT OBJECTIVE AND POLICY**

**APPOINTMENT OF A NEW DIRECTOR**

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The Proposals described in this Circular are conditional on approval from Shareholders, which is being sought at an Extraordinary General Meeting of the Company to be held at 11 New Street, St Peter Port, Guernsey, GY1 2PF, Channel Islands at 10:00 a.m. on 17 August 2017. Notice of the Extraordinary General Meeting is set out at the end of this Circular.

The Company is authorised as an Authorised Closed-ended investment scheme by the Guernsey Financial Services Commission (the "**Commission**") under Section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Authorised Closed-Ended Investment Schemes Rules 2008 made thereunder (the "**Rules**"). Notification of the Proposals has been given to the Commission in accordance with the Rules.

Shareholders are requested to return the Form of Proxy enclosed with this Circular. Shareholders are asked to complete, sign and return the Form of Proxy in accordance with the instructions

printed thereon, by one of the following means: (i) in hard copy form by post, by courier, or by hand to the Company's Registrar, Capita Registrars Ltd c/o Capita Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; (ii) via [www.signalshares.com](http://www.signalshares.com); or (iii) in the case of CREST members, by utilising the CREST system service (details of which are contained in this Circular), in each case as soon as possible and, in any event, not later than 10:00 a.m. on 15 August 2017. The lodging of a Form of Proxy will not prevent a Shareholder from attending the Extraordinary General Meeting and voting in person if they so wish.

**This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 2 to 9 of this Circular and which recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting. Your attention is drawn to the section entitled "Action to be Taken by Shareholders" on page 8 of this Circular. The definitions used in this document are set out in Part III on pages 13 to 15.**

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## EXPECTED TIMETABLE OF EVENTS

Latest time and date for receipt of Forms of Proxy for the Extraordinary General Meeting\* 10:00 a.m. on 15 August 2017

Extraordinary General Meeting 10:00 a.m. on 17 August 2017

Announcement of the result of the Extraordinary General Meeting 17 August 2017

Each of the times and dates in the expected timetable of events may be extended or brought forward without further notice. If any of the above times and/or dates change, the revised time(s) and/or date(s) will be notified to Shareholders by an announcement through a Regulatory Information Service provider. All references to times are to London times.

\* Please note that the latest time for receipt of the Forms of Proxy in respect of the Extraordinary General Meeting is forty-eight hours (excluding any part of a day which is not a Business Day) prior to the time allotted for the meeting.

**PART I – LETTER FROM THE CHAIRMAN  
PHAUNOS TIMBER FUND LIMITED**

*(A closed-ended investment company incorporated in Guernsey with registered number 45564)*

*Directors*

Sir Henry Studholme (Chairman)  
William Vanderfelt  
Ian Burns  
Jane Lewis  
Brendan Hawthorne

*Registered Office*

11 New Street  
St Peter Port  
Guernsey GY1 2PF  
Channel Islands

Dear Shareholders,

**EXTRAORDINARY GENERAL MEETING AND RECOMMENDED PROPOSALS FOR: (I) A  
MANAGED WIND-DOWN OF THE COMPANY; (II) AMENDMENTS TO THE COMPANY'S  
ARTICLES OF INCORPORATION; (III) AMENDMENTS TO THE COMPANY'S INVESTMENT  
OBJECTIVE AND POLICY; AND (IV) THE APPOINTMENT OF A NEW DIRECTOR**

**1. Introduction**

I am writing to you to outline details of proposals regarding the future of Phaunos Timber Fund Limited (the "**Company**"), which comprise amendments to the Company's Investment Objective and Policy and amendments to its Articles of Incorporation (the "**Articles**") to permit the redemption of its Shares.

At the Company's annual general meeting held on 19 June 2017, a resolution that the Company continue in business for a further five years was not approved by Shareholders. As a result of the resolution not having been passed, the Company was required within four months to put forward to Shareholders alternative proposals for the future of the Company.

Following consultation with the Company's major Shareholders, who have indicated that they wish to realise their investments in the Company, the Board is proposing that the affairs of the Company be wound down with a view to returning capital to Shareholders in an orderly manner as soon as practicable, having regard to cost efficiency and working capital requirements. Should the Proposals be approved by Shareholders, an initial return of cash is expected to be made to Shareholders during September 2017. Further payments will be made, when appropriate, during the course of the wind-down process. Shareholders are advised that future returns of cash may not necessarily be made as soon as cash becomes available.

The Company's listing and the capacity to trade in its Shares will be maintained for as long as the Directors believe it to be practicable during the wind-down period, subject to being able to meet the spread of investment risk requirements of Chapter 15 of the Listing Rules. Accordingly, once a significant proportion of the Company's assets have been realised, the Board will then consider, in the light of the then prevailing market conditions and Shareholders' views, proposing a resolution for a formal voluntary liquidation of the Company, which will require additional Shareholder approval at that time.

The Proposals involve modifying the Company's Investment Objective and Policy to reflect a realisation strategy and to cease making any further new investments and amending the Articles to include a mechanism to redeem compulsorily Shares in the Company and to allow cash to be returned to Shareholders.

The proposed modification to the Company's Investment Policy is considered a material change to the Investment Policy, which requires the consent of Shareholders in accordance with the Listing

Rules. The amendments to the Company's Articles to allow Shareholders to realise their investment through compulsory redemptions of their Shares also require Shareholder approval, pursuant to the Companies Law.

The Proposals also include appointing Brendan Hawthorne as a Director of the Board at the Extraordinary General Meeting. For further details, please see paragraph 9 of Part I of this Circular.

This Circular sets out details of, and seeks your approval for, the Proposals and explains why the Board is recommending that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting to be held at 10:00 a.m. on 17 August 2017. Notice of the Extraordinary General Meeting is set out at the end of this Circular. The Proposals are described in paragraph 3 of Part I of this Circular.

The Board believes that, following the Shareholders' decision for the Company not to continue, the Proposals are in the best interests of the Shareholders. Implementing a managed and orderly disposal of assets is expected to maximise the value to be realised on the sale of the Company's assets and, therefore, returns to Shareholders. Further, the Proposals will allow cash to be returned to Shareholders in a cost-effective manner through the Compulsory Redemption of Shares (or other such mechanisms which the Directors consider, in their discretion, are in the best interests of Shareholders, including but not limited to tender offers and dividend payments).

**LIM Advisors, representing 11.03 per cent. of the Company's issued share capital, has indicated its intention to support the resolutions contained in this Circular.**

## **2. Proposed Managed Wind-down**

If the Proposals are approved, the Directors will be able to execute a Managed Wind-down of the Company, in a prudent manner consistent with the principles of good investment management as required by the Listing Rules. As and when proceeds from the sales of the Company's assets accumulate, the Directors will have the discretion to return these proceeds to Shareholders pro rata by redeeming such number of Shares as have an aggregate NAV equivalent to the amount proposed to be returned to Shareholders.

The Company has distributable cash of approximately US\$10 million, in excess of revised projections of costs, that is available in Guernsey or capable of being repatriated to Guernsey. If the Proposals are approved, the Directors intend to distribute this by way of a first redemption (the "**First Redemption**") which is expected to take place during September 2017. Further details of the First Redemption will be announced to the market by way of an announcement released on an RIS shortly after the Extraordinary General Meeting.

Shareholders should expect that, under the terms of the Managed Wind-down, the Board and the Investment Manager will (and the Board will use reasonable endeavours to procure that the Investment Manager's successors will) be committed to distributing as much of the available cash as soon as reasonably practicable having regard to cost efficiency and working capital requirements. Accordingly, in order to minimise the administrative burden, Shareholders are advised that future returns of cash may not necessarily be made as soon as cash becomes available. Shareholders should also note that, due to the illiquid nature of the Company's investments, there can be no certainty of the length of time it may take to complete the Managed Wind-down.

## **3. Proposals**

The Proposals comprise:

- amending the Company's Investment Objective and Policy in the manner set out in paragraph 4 of Part I of this Circular ("**Resolution 1**");
- appointing Mr Hawthorne as a director of the Company with effect from the date of the Extraordinary General Meeting ("**Resolution 2**"); and

- amending the Articles to permit the Compulsory Redemption of Shares, from time to time and at the discretion of the Board, prior to the Company's eventual liquidation, the purpose of such amendment being to facilitate the return to Shareholders of cash proceeds in a cost-efficient manner in accordance with the proposed amended Investment Objective and Policy ("**Resolution 3**"),

(together, the "**Proposals**").

The Proposals are subject to the approval of Shareholders, and this Circular contains a notice of the Extraordinary General Meeting at which Resolutions to approve the Proposals will be considered. The Proposals, if approved, will result in Shareholders having their shareholdings in the Company realised in an orderly manner by way of Compulsory Redemptions of their Shares on a pro rata basis in accordance with the New Articles (or by way of other such mechanisms which the Directors consider, in their discretion, are in the best interests of Shareholders, including but not limited to tender offers and dividend payments).

In the event that Resolution 1 to be proposed at the Extraordinary General Meeting is not passed, the Company will continue to operate under its current Investment Objective and Policy and the Board will consider alternative proposals for the future of the Company. Resolution 3 is conditional upon Resolution 1 being approved by Shareholders. In the event that Resolution 1 is passed but Resolution 3 is not, the Company will consider alternative methods for distributing the proceeds of disposals carried out in accordance with its amended Investment Objective and Policy.

#### **4. Investment Objective and Policy**

In order to implement the Managed Wind-down, it is necessary to amend the Company's Investment Objective and Policy to reflect the objective of realising the Company's Portfolio.

The current Investment Objective and Policy of the Company is as set out below:

*"The Company's investment objective is to provide Shareholders with attractive long term total returns, predominantly expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.*

*The Portfolio is diversified through investment in a broad range of investment strategies and vehicles including, but not limited to, investment in a variety of tree species, tree age classes and a diversified range of geographical timberland markets in order to provide sustainable returns, to control volatility and to manage risks. There are no predetermined geographical limits on investments made by the Company. The investment focus of the Company includes both investments in well established markets and investments in less developed timberland markets. The Company will invest in at least four different regions of the world. No single country (or region of the US) will represent more than 40 per cent. of Gross Assets and no continent more than 60 per cent. of Gross Assets. Generally, the Company will not invest in securities carrying unlimited liability and no single investment or investment in the securities of one company may, at the time of acquisition, exceed 30 per cent. of Gross Assets. For these purposes, where the Company invests in a portfolio of assets, each underlying individual asset shall be treated as a single investment and where the Company invests by means of a holding company, joint venture or similar investment or investment vehicle, each underlying property or similar asset shall be treated as a single investment."*

It is proposed that, if the Proposals are approved, the new Investment Objective and Policy of the Company will be as follows:

##### **"Investment Objective**

*The Company will be managed with the intention of realising all remaining assets in the Portfolio, in a prudent manner consistent with the principles of good investment management with a view to returning capital to the Shareholders in an orderly manner.*

##### **Investment Policy**

*The Managed Wind-down will be effected with a view to the Company realising all of its investments in a manner that achieves a balance between maximising the value from the Company's investments and making timely returns of capital to Shareholders. The Company may*

*sell its investments either to co-investors in the relevant asset or to third parties, but in all cases with the objective of achieving the best available price in a reasonable time scale.*

*The Company will cease to make any new investments or to undertake capital expenditure except where necessary in the reasonable opinion of the Board and the Investment Manager (or, where relevant, the Investment Manager's successors) in order to protect or enhance the value of any existing investments or to facilitate orderly disposals.*

*Any cash received by the Company as part of the realisation process prior to its distribution to Shareholders will be held by the Company as cash on deposit and/or as cash equivalents.*

*The Company will not undertake new borrowing other than for short-term working capital purposes."*

## **5. Amendments to the Articles**

In order to effect the Managed Wind-down, it is necessary for the Company to make changes to its Articles. The substantive change which is proposed to be made to the Articles will, if the New Articles are adopted by Shareholders at the Extraordinary General Meeting, permit the Directors, at their sole discretion, to redeem compulsorily Shares on an ongoing basis, and pro rata to a Shareholder's shareholding in the Company, in order to return capital to Shareholders ("**Compulsory Redemption**").

A detailed description of the Compulsory Redemption mechanism included in the New Articles is set out in paragraph 6 of Part I of this Circular.

A copy of the existing Articles and the New Articles will be available for inspection at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG and at the registered office of the Company during normal business hours on any Business Day from the date of this Circular until the conclusion of the Extraordinary General Meeting and at the place of the Extraordinary General Meeting for at least 15 minutes prior to, and during, the relevant meeting.

## **6. Compulsory Redemptions, settlement and alternative mechanisms to return cash**

### ***Compulsory Redemption mechanism***

Pursuant to the Proposals, and subject to the passing of the Resolutions, the Company will have the power to make Compulsory Redemptions of Shares in volumes and on dates to be determined at the Directors' sole discretion, with the amount distributed in respect of the Shares on each occasion representing the cash available for distribution by the Company at the relevant time. Shares will be redeemed from all Shareholders pro rata to their existing holdings of the Shares on the Redemption Date. The Directors will be authorised to make such redemptions under the New Articles.

Details of the tax consequences of the Proposals are set out in paragraph 2 of Part II of this Circular.

As and when the Directors exercise their discretion to redeem compulsorily a given percentage of the Shares of any class in issue, the Company will make a Redemption Announcement in advance of the relevant Redemption Date. The Redemption Announcement is expected to include the following details:

- the aggregate amount to be distributed to Shareholders;
- the Relevant Percentage of Shares to be redeemed (pro rata as between the holders of Shares as at the Redemption Record Date);
- a timetable for the redemption and distribution of redemption proceeds, including the Redemption Date and Redemption Record Date;
- the Redemption Price per Share in respect of Shares;
- a new ISIN in respect of Shares which will continue to be listed following the relevant Redemption Date; and
- any additional information that the Board deems necessary in connection with the redemption.

Redemptions of Shares will become effective on each Redemption Date, being a date chosen at the Directors' absolute discretion, as determined by the Directors to be in the best interests of



Shareholders as a whole. In determining the timing of any Redemption Date, the Directors will take into account the amount of cash available for payment of redemption proceeds and the costs associated with such redemption. Accordingly, the proceeds of the disposals will not necessarily be distributed at or soon after the date of any such disposal but may be retained and aggregated with the proceeds of other disposals pending distribution. The Shares redeemed will be the Relevant Percentage of the Shares registered in the names of Shareholders on the Redemption Date. Shareholders will receive the Redemption Price per Share in respect of each of their Shares redeemed compulsorily.

### **Settlement**

In the case of Shares held in uncertificated form (that is, in CREST), redemptions will take effect automatically on each Redemption Date and redeemed Shares will be cancelled. All Shares in issue will be disabled in CREST on the Redemption Date and the existing ISIN applicable to such Shares (the "**Old ISIN**") (which, as at the date of this Circular, is GG00B1G3RS66), will expire. A new ISIN (the "**New ISIN**") in respect of the remaining Shares in issue and which have not been redeemed will be enabled and available for transactions from and including the first Business Day following the relevant Redemption Date (or such other date notified to Shareholders). The New ISIN will be notified to Shareholders in the relevant Redemption Announcement. Up to and including the Redemption Date, Shares will be traded under the Old ISIN and, as such, a purchaser of such Shares would have a market claim for a proportion of the redemption proceeds. CREST will automatically transform any open transactions as at the Redemption Date (which may be the record date for the purposes of the redemption) into the New ISIN.

In the case of Shares held in certificated form (that is, not in CREST), redemptions will take effect automatically on each Redemption Date. As the Shares will be compulsorily redeemed, certificated Shareholders do not need to return their Share certificates to the Company in order to claim their redemption monies. Shareholders' existing Share certificates will be cancelled and new Share certificates will be issued to each such Shareholder for the balance of their shareholding in the Company after each Redemption Date. Cheques will automatically be issued to certificated Shareholders upon the cancellation of any of their Shares. All Shares that are redeemed will be cancelled with effect from the relevant Redemption Date. Accordingly, once redeemed, Shares will be incapable of transfer.

Payments of redemption monies are expected to be effected either through CREST (in the case of Shares held in uncertificated form) or by cheque (in the case of Shares held in certificated form) within 14 Business Days of the relevant Redemption Date, or as soon as practicable thereafter. Shareholders will be paid their redemption proceeds in US Dollars.

### **7. Alternative methods to return cash to Shareholders**

The Directors shall continue to have the right to return cash otherwise than through Compulsory Redemptions, such as by way of tender offers to Shareholders to purchase their Shares. In such circumstances, a tender offer will be made to Shareholders in accordance with market practice and in compliance with the Listing Rules and the Companies Law. Further, the Directors may determine, in their absolute discretion where they consider it to be in the best interests of Shareholders, to return cash from sales made pursuant to the Managed Wind-down to Shareholders by way of dividend or any other distribution permitted by the Listing Rules and the Companies Law.

### **8. Risks associated with the Proposals**

In considering your decision in relation to the Proposals, you are referred to the risks set out below.

**Shareholders should read this Circular carefully and in its entirety and, if you are in any doubt about the contents of this Circular or the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the UK Financial Services and Markets Act 2000 or, if you are in a territory outside the United Kingdom, from an appropriately authorised independent financial adviser.**

Only those risks which are material and currently known to the Company have been disclosed. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, may also have an adverse effect on the Company.

- In a Managed Wind-down, the value of the Portfolio will be reduced and concentrated in fewer holdings, and the mix of asset exposure will be affected accordingly.
- The Company might experience increased volatility in its Net Asset Value and/or its Share price as a result of possible changes to the Portfolio structure following the approval of the Proposals.
- The Company's assets may not be realised at their fair market value, and it is possible that the Company may not be able to realise some assets at any value.
- Sales commissions, liquidations cost, taxes and other costs associated with the realisation of the Company's assets will reduce the cash available for distribution to Shareholders.
- Due to the time it would typically take to repatriate the proceeds from the sale of assets to Guernsey, it is expected that there could be potentially significant time lags between sales made by the Company and any subsequent returns of capital to Shareholders. Further, the timing and ultimate amount of any returns will be impacted by the tax regimes of the countries in which the Company invests.
- The liquidity profile of the Portfolio is such that Shareholders may have to wait a considerable period of time before receiving all of their distributions pursuant to the Managed Wind-down. During that time, the concentration of the value of the Portfolio in fewer holdings will reduce diversification and the spread of risk. This may adversely affect the Portfolio's performance.
- The maintenance of the Company as an ongoing listed vehicle will entail administrative, legal and listing costs, which will decrease the amount ultimately distributed to Shareholders. Although the Board intends to maintain the Company's listing for as long as the Directors believe it to be practicable during the Managed Wind-down period, the Directors shall immediately notify the FCA and may seek suspension of the listing of the Shares pursuant to the requirements of the Listing Rules (which may include Shareholder approval prior to any suspension or de-listing) if the Company can no longer satisfy the continuing obligations for listing set out therein including, but not limited to, the requirements in respect of Shares held in "public hands" (as such phrase is defined in the Listing Rules) and in relation to spreading investment risk, and consequently the listing of the Shares may be suspended and/or cancelled. Once suspended and/or cancelled, the Shares would no longer be capable of being traded on the London Stock Exchange, which would materially reduce market liquidity in the Shares.
- It should also be noted that there may be other matters or factors which affect the availability, amount or timing of receipt of the proceeds of realisation of some or all of the Company's investments. In particular, ongoing redemptions will decrease the size of the Company's assets, thereby increasing the impact of fixed costs incurred by the Company on the remaining assets. In determining the size of any distributions, the Directors will take into account the Company's ongoing running costs, however, should these costs be greater than expected or should cash receipts for the realisations of investments be less than expected, this will reduce the amount available for Shareholders in future distributions.
- Redemptions of Shares will be made at the Directors' sole discretion, as and when they deem that the Company has sufficient assets available to make a redemption. Shareholders will therefore have little certainty as to when their Shares will be redeemed.
- In the event that the Proposals are not approved by Shareholders, the Company will put forward alternative proposals within four months for the Company to be placed into voluntary liquidation. Shareholders should note that if the Company is placed into voluntary liquidation, cash will not necessarily be returned to them any faster than under the Managed Wind-down being proposed, and it is likely that the Company will not be able to realise the assets at their fair market value. In addition, the continued trading in the Shares would not be possible through the liquidation process and the Board may incur additional costs in considering alternative proposals for the future of the Company.

## **9. Changes to the Board**

Further to the Company's announcement of 25 July 2017, Mr Hawthorne has been appointed by the Board as a Director. It is proposed that this interim appointment will be effective from 25 July 2017 to the date of the Extraordinary General Meeting, at which point Mr Hawthorne will resign and stand for appointment as a Director by the Shareholders. Details of Mr Hawthorne's experience were contained in the Company's announcement of 25 July 2017.

As set out in the Company's announcement of 3 July 2017, professional search agents have been engaged with a mandate to recruit a replacement Chairman and two replacement non-executive Directors with appropriate skills, in addition to Mr Hawthorne. As at the date of this Circular, the appointment of Mr Hawthorne is the only change to the Board that is being proposed. Future changes to the members of the Board will be announced by way of an announcement released on an RIS in due course.

## **10. Extraordinary General Meeting**

An Extraordinary General Meeting of the Company will be held at 10:00 a.m. on 17 August 2017 at 11 New Street, St Peter Port, Guernsey GY1 2PF, Channel Islands for the purpose of approving the Proposals. The business to be considered at the Extraordinary General Meeting is contained in the Notice of Extraordinary General Meeting at the end of this Circular.

At the Extraordinary General Meeting, Resolution 1 will be proposed as an Ordinary Resolution to amend the Investment Objective and Policy of the Company in the manner described above. Resolution 2 will be proposed as an Ordinary Resolution to appoint Mr Hawthorne as a Director of the Company. Lastly, and conditional upon Resolution 1 being approved by Shareholders, Resolution 3 will be proposed as a Special Resolution to adopt the New Articles. Resolution 1 and Resolution 2 will each require the approval of a majority of members present by a show of hands or, if a poll is demanded, the total voting rights held by Shareholders cast at the Extraordinary General Meeting (in each case, whether voted by Shareholders in person or by proxy), while Resolution 3 will require the approval of a majority of not less than three-quarters of the members present by a show of hands or, if a poll is demanded, the total voting rights held by Shareholders cast at the Extraordinary General Meeting (in each case, whether voted by Shareholders in person or by proxy).

In order to become effective, the Resolutions must be approved by the requisite majority of Shareholders at the Extraordinary General Meeting either by a show of hands or by a poll at the option of the Chairman, in accordance with the Articles.

The quorum for the Extraordinary General Meeting will be two or more members (other than the Company itself where it holds its own Shares as treasury shares) present in person or by proxy. If within half an hour after the time appointed for the Extraordinary General Meeting a quorum is not present, the Extraordinary General Meeting shall stand adjourned for seven days at the same time and place or such other day and such other time and place as the Board may determine and no notice of adjournment is required. On the resumption of an adjourned Extraordinary General Meeting, those Shareholders present in person or by proxy shall constitute a quorum.

### **ACTION TO BE TAKEN BY SHAREHOLDERS**

If you are a Shareholder, you will find enclosed with this Circular the Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the Extraordinary General Meeting, you are asked to complete the Form of Proxy in accordance with the instructions printed thereon and return the Form of Proxy to the Company's Registrar, Capita Registrars Ltd, by one of the following means:

- in hard copy form by post, by courier or by hand to Capita Registrars Ltd c/o Capita Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU;
- via [www.signalshares.com](http://www.signalshares.com); or
- in the case of CREST members, by utilising the CREST system service in accordance with the procedures set out in the notes to the Notice of Extraordinary General Meeting.

In each case, the Form of Proxy must arrive by the time and date specified within. To be valid, the relevant Form of Proxy should be completed in accordance with the instructions accompanying it and lodged with the Company's Registrars by the relevant time.

The completion and return of the Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you wish to do so.

#### **RECOMMENDATION**

**The Board considers that, following the decision made at the Annual General Meeting on 19 June 2017 for the Company not to continue, the Proposals are in the best interests of Shareholders as a whole.**

Yours sincerely

Sir Henry Studholme  
**Chairman**

## PART II – ADDITIONAL INFORMATION

### 1. Documents Available For Inspection

Copies of the following documents will be available for inspection at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG and at the registered office of the Company during normal business hours on any Business Day from the date of this Circular until the conclusion of the Extraordinary General Meeting and at the place of the Extraordinary General Meeting for at least 15 minutes prior to, and during, the meeting.

- the Memorandum and Articles;
- a draft of the proposed New Articles (showing the full terms of the amendments proposed to be made); and
- this Circular.

### 2. Taxation

**The following comments are intended only as a general guide to certain aspects of current UK tax law and HMRC's published practice, both of which are subject to change, possibly with retrospective effect. They are of a general nature and do not constitute tax advice and apply only to Shareholders who are resident in the UK (except where indicated) and who hold their Shares beneficially as an investment. They do not address the position of certain classes of Shareholders such as dealers in securities, insurance companies, collective investment schemes and persons acquiring their Shares in connection with their employment. The tax consequences for each Shareholder may depend upon the Shareholder's own tax position and upon the relevant laws of any jurisdiction to which the Shareholder is subject. The tax position on any tender offer will be described in the circular accompanying any such tender offer.**

#### ***The Company***

The Directors have been advised that, following certain changes to the UK tax rules regarding "alternative investment funds" implemented by the Finance Act 2014 and contained in section 363A of the Taxation (International and Other Provisions) Act 2010, the Company should not be resident in the UK for UK tax purposes. Accordingly, and provided that the Company does not carry on a trade in the UK (whether or not through a branch, agency or permanent establishment situated therein), the Company will not be subject to UK income tax or corporation tax other than on any UK source income.

#### ***Compulsory redemption and liquidation***

##### *UK resident individuals*

Any individual Shareholder who is UK resident may, depending on that Shareholder's personal circumstances, be subject to capital gains tax in respect of any gain arising on a disposal (including a redemption or on any distribution paid on the final liquidation of the Company) of their Shares. For such individuals, capital gains are taxed at a rate of 10 per cent. (for basic rate taxpayers) or 20 per cent. (for higher or additional rate taxpayers). Individuals may, depending on their personal circumstances, benefit from certain reliefs and allowances (including an annual exemption from capital gains which is £11,300 for the tax year 2017/2018).

Shareholders who are not resident in the UK for taxation purposes will not normally be liable to UK taxation on chargeable gains arising from the disposal of their Shares unless those Shares are held for the purposes of a trade, profession or vocation through a UK branch, agency or permanent establishment, although such Shareholders may be subject to foreign taxation depending on their own particular circumstances. Individual Shareholders who are temporarily not resident in the UK for tax purposes may be liable to capital gains tax under tax anti-avoidance legislation.

### *UK resident companies*

For Shareholders who are UK resident companies, the redemption of Shares may be treated as giving rise to both an income distribution and a capital disposal. The extent to which the proceeds are treated as a distribution will depend amongst other things on the amount initially subscribed for the redeemed Shares by the original subscriber and may be affected by subsequent transactions such as conversions of the Shares. Shareholders should seek appropriate professional advice where necessary.

Shareholders within the charge to UK corporation tax which are "small companies" (for the purposes of UK taxation of distributions) should expect to be subject to tax on any distribution deemed to arise on the redemption of Shares. Other Shareholders within the charge to UK corporation tax will not be subject to tax on any distribution deemed to arise on redemption of the Shares so long as the distribution falls within an exempt category and certain conditions are met. In general, a distribution to a UK corporate shareholder which holds less than 10 per cent. of the Shares should fall within an exempt category.

However, the exemptions are not comprehensive and are subject to anti-avoidance rules. If the conditions for exemption are not or cease to be satisfied, or such a Shareholder elects for an otherwise exempt distribution to be taxable, the Shareholder will be subject to UK corporation tax on any distribution deemed to arise on redemption of the Shares.

Based on the existing practice of HM Revenue & Customs, the part of the proceeds that is not treated as an income distribution should be treated as consideration for a disposal of the shares for a Shareholder within the charge to UK corporation tax. This may, depending upon the Shareholder's circumstances and subject to any available exemption or relief (such as an indexation allowance), give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax.

Amounts received on a final liquidation of the Company following a managed wind-down should be treated as consideration for a disposal of the Shares for the purposes of United Kingdom taxation of chargeable gains for Shareholders within the charge to United Kingdom corporation tax.

### *Offshore Fund Rules*

The treatment described above is based on any gain arising on a disposal of a Shareholder's Shares not being taxed as income under the "offshore fund" rules which apply for the purposes of UK tax legislation. Under current law, if the Company (or any class of shares) were to be treated for UK taxation purposes as an "offshore fund", gains on disposals of Shares realised by a Shareholder would be taxable as income and not as capital gains.

### **Dividends**

Significant changes have been made to the income tax treatment of dividends with effect from 6 April 2016, with the dividend tax credit abolished and replaced with a nil rate of income tax on the first £5,000 of dividend income in a tax year (the "**Nil Rate Amount**"). Any dividend income received by a UK resident individual Shareholder in respect of the Shares in excess of the Nil Rate Amount will be subject to income tax at a rate of 7.5 per cent. to the extent that it is within the basic rate band, 32.5 per cent. to the extent that it is within the higher rate band and 38.1 per cent. to the extent that it is within the additional rate band. The Government announced in the Spring Budget 2017 that it would reduce the Nil Rate Amount to £2,000 from April 2018.

Dividend income that is within the Nil Rate Amount counts towards an individual's basic or higher rate limits – and will therefore affect the level of savings allowance to which they are entitled, and the rate of tax that is due on any dividend income in excess of the Nil Rate Amount. In calculating into which tax band any dividend income over the Nil Rate Amount falls, savings and dividend income are treated as the highest part of an individual's income.

### **Stamp duty**

No UK stamp duty or stamp duty reserve tax ("**SDRT**") will be payable by the Shareholder on the redemption of the Shares.

**Shareholders who are subject to tax in a jurisdiction other than the UK or who are in any doubt as to the potential tax consequences of the Proposals for their Shares are strongly recommended to consult their own professional advisers without delay.**

**3. Directors' Interests**

As at 26 July 2017 (the latest practicable date prior to the publication of this document), the number of Shares held by each Director and/or their close family was as follows:

<i>Director</i>	<i>No. Of Shares</i>
<i>(all non-executive)</i>	
Sir Henry Studholme ( <i>Chairman</i> )	499,750
Ian Burns	None
Jane Lewis	22,694
William Vanderfelt	12,500,000
Brendan Hawthorne	None

No Director has any interest in any transaction which is of an unusual nature, contains unusual conditions or is significant to the business of the Company and which was effected by the Company during the current or immediately preceding financial year or during any earlier financial year and which remains in any respect outstanding or unperformed.

**4. Major Shareholders**

As at 26 July 2017 (the latest practicable date prior to the publication of this document), the Company had received notification pursuant to Disclosure Guidance and Transparency Rule 5.1.2 or is otherwise aware that the following had an interest of 5 per cent. or more in the voting rights of the Company:

<i>Shareholder</i>	<i>Percentage holding</i>
The Bank of New York (Nominees) Limited	13.44%
Credit Suisse Nominees (Ireland) Limited	11.03%
Deutsche Bank AG	9.24%
Euroclear Nominees Limited	9.00%
Lynchwood Nominees Limited	7.72%
HSBC Global Custody Nominee (UK) Limited	7.29%
Chase Nominees Limited	5.31%

**5. Significant change**

Following the failure to pass the continuation resolution at the Company's Annual General Meeting of 19 June 2017, the Company is no longer a going concern. There will be consequential changes in the Company's future accounting policies, and an impact on the methodology of valuations. Save for these changes, the disclosures contained in this Circular or otherwise contemplated by the Proposals, there has been no significant change in the underlying trading or financial position of the Company in the period since 31 December 2016, the date of the Company's most recently published annual report and accounts.

1 August 2017

### PART III – DEFINITIONS

"Articles"	the articles of incorporation of the Company in force from time to time
"Board" or "Directors"	the board of directors of the Company whose names are set out in Part I of this Circular
"Business Day"	means any day other than a Saturday or Sunday or a day on which the major clearing banks are not open for business in London and Guernsey
"Circular"	this document
"Commission"	Guernsey Financial Services Commission
"Companies Law"	the Companies (Guernsey) Law, 2008, as amended
"Company"	Phaunos Timber Fund Limited
"Compulsory Redemption"	has the meaning given in paragraph 5 of Part I of this Circular
"CREST"	the system for paperless settlement of trades and the holding of uncertificated securities administered by Euroclear
"Extraordinary General Meeting"	the extraordinary general meeting of the Company convened at 10:00 a.m. on 17 August 2017
"FCA"	the Financial Conduct Authority of the United Kingdom
"First Redemption"	has the meaning given in paragraph 2 of Part I of this Circular
"Form of Proxy"	the form of proxy for use at the Extraordinary General Meeting
"HMRC"	HM Revenue & Customs
"Investment Company Act"	US Investment Company Act of 1940, as amended
"Investment Manager"	Stafford Capital Partners Limited (formerly known as Stafford Timberland Limited) a company limited by shares and incorporated in England and Wales with company number 04752750
"Investment Objective and Policy"	the Company's investment objective and policy as set out in paragraph 4 of Part I of this Circular
"ISA"	an Individual Savings Account approved in the UK by HMRC
"Listing Rules"	the listing rules made by the FCA for the purposes of Part VI of the UK Financial Services and Markets Act 2000
"Managed Wind-down"	the proposed wind-down of the Portfolio to effect the disposal of the Company's investments, as described in this Circular
"NAV" or "Net Asset Value"	the total assets of the Company less the total liabilities of the Company (including accrued but unpaid fees) valued in accordance with the accounting policies adopted by the Company from time to time and expressed in U.S. Dollars
"Net Asset Value Date"	a date on which an estimated or confirmed Net Asset Value per



	Share is published by the Company
<b>"New Articles"</b>	the new articles of incorporation of the Company as proposed to be adopted at the Extraordinary General Meeting pursuant to Resolution 3
<b>"New ISIN"</b>	a new ISIN in respect of the remaining Shares in issue and which have not been redeemed
<b>"Notice of Extraordinary General Meeting"</b>	the notice convening the Extraordinary General Meeting, as set out at the end of this Circular
<b>"Old ISIN"</b>	the disabled ISIN by virtue of the redemption of Shares on the Redemption Date (being, at the date of this Circular, GG00B1G3RS66)
<b>"Ordinary Resolution"</b>	an ordinary resolution set out in the Notice of Extraordinary General Meeting and to be proposed at the Extraordinary General Meeting, which requires a majority of the Shareholders present in person or by proxy and entitled to vote and voting at the appropriate meeting
<b>"Portfolio"</b>	the Company's portfolio of investments from time to time
<b>"Proposals"</b>	the proposals described in paragraph 3 of Part I of this Circular for the amendment of the Company's investment policy and the amendment of the Articles
<b>"Redemption Announcement"</b>	the announcements to be made by the Company to Shareholders in advance of any Compulsory Redemption
<b>"Redemption Date"</b>	the date on which a Compulsory Redemption becomes effective
<b>"Redemption Price"</b>	the Net Asset Value per Share of Shares that will be redeemed on a particular Redemption Date (as at a Net Asset Value Date selected by the directors), less the costs associated with the relevant redemption and as adjusted as the directors consider appropriate
<b>"Redemption Record Date"</b>	the close of business on the relevant Redemption Date or as otherwise set out in the relevant Redemption Announcement
<b>"Registrar"</b>	Capita Registrars Ltd
<b>"Relevant Percentage"</b>	the percentage of Shares to be redeemed by the Company on a given Redemption Date
<b>"Resolutions"</b>	Resolution 1, Resolution 2 and Resolution 3 (as set out in the Notice of Extraordinary General Meeting appended to this Circular)
<b>"RIS"</b>	a regulatory information service, being one of the service providers listed in Schedule 12 of the Listing Rules
<b>"Rules"</b>	the Guernsey Authorised Closed-Ended Investment Schemes Rules 2008
<b>"Securities Act"</b>	US Securities Act of 1933, as amended
<b>"Shareholders"</b>	holders of Shares

<b>"Shares"</b>	ordinary shares of no par value in the capital of the Company or such other class of shares as issued by the Company from time to time
<b>"Special Resolution"</b>	a special resolution set out in the Notice of Extraordinary General Meeting and to be proposed at the Extraordinary General Meeting, which requires a majority representing not less than three-fourths of the Shareholders present in person or by proxy and entitled to vote and voting at the appropriate meeting
<b>"US Persons"</b>	as defined in Regulation S under the Securities Act

**PHAUNOS TIMBER FUND LIMITED**

*(a closed-ended company incorporated with limited liability under the laws of Guernsey with registered number 45564)*

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at 11 New Street, St Peter Port, Guernsey GY1 2PF, Channel Islands at 10:00 a.m. on 17 August 2017 to consider and, if thought fit, to pass the following resolutions:**

**ORDINARY RESOLUTION**

**THAT:**

1. the Company modify its Investment Objective and Policy in the manner described in the Circular sent by the Company to its Shareholders on 1 August 2017; and
2. the Company appoint Brendan Hawthorne as a Director of the Company with effect from the date of the Extraordinary General Meeting.

**SPECIAL RESOLUTION**

**THAT:**

3. conditional upon the passing of Resolution 1 above, the New Articles, which are drafted to effect the Proposals described in the Circular sent by the Company to its Shareholders on 1 August 2017, be approved and adopted as the articles of incorporation of the Company in substitution for and to the exclusion of the existing Articles in the form presented to the meeting and initialled by the Chairman for the purpose of identification.

Save where the context requires otherwise, the definitions contained in the Circular shall have the same meanings where used in these Resolutions.

*By order of the Board*

Vistra Fund Services Limited  
*Secretary*

*Registered office:*

11 New Street  
St Peter Port  
Guernsey GY1 2PF  
Channel Islands

Date: 1 August 2017

**Explanatory notes to the Notice of Extraordinary General Meeting:**

1. The approval of a majority of the total number of votes cast by Shareholders being entitled to vote is required to pass an Ordinary Resolution while the approval of not less than 75 per cent. of the total number of votes cast by Shareholders being entitled to vote is required to pass a Special Resolution.
2. A member of a company is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different Share or Shares held by him.

3. If it is desired to appoint some other person or persons as proxy or proxies the name(s) of the proxy or proxies desired must be inserted in the space provided and the alteration should be initialled. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
4. Please indicate with an 'X' in the appropriate box how you wish your vote to be cast in respect of each Resolution. If you do not insert an 'X' in the appropriate box your proxy will vote or abstain at his discretion.
5. Any instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation either under its common seal or under the hand of an officer or attorney so authorised.
6. All joint holders should be named but the signature of any one is sufficient. In all cases, names must be entered as they appear on the Company's register.
7. In the case of joint holders of a Share such persons shall not have the right of voting individually but shall elect one of their number to represent them and vote in their names in default of which the vote of the first-named who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose "first-named" shall be determined by the order in which the names stand in the Company's register in respect of the Shares.
8. Any corporate which is a member of the Company may by resolution of its directors or other governing body or officers authorised by such body authorise such person as it thinks fit to act as its representative at any meeting of the Company and the person so authorised shall be entitled to exercise the same power on behalf of the corporation which he represents as that corporate could exercise if it were an individual member of the Company.
9. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority shall be delivered to Capita Registrars Ltd c/o Capita Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than forty-eight hours (excluding any part of a day which is not a Business Day) before the time appointed for holding the meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve months from the date named in it as the date of its execution except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date.
10. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (RA10) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. Shareholders wishing to vote online should visit [www.signalshares.com](http://www.signalshares.com) and follow the instructions.
11. Only Shareholders registered in the register of members of the Company at the close of business on 15 August 2017 shall be entitled to attend or vote at the aforesaid meeting in respect of the number of Shares registered in their name at the time, or in the event that the meeting is adjourned in accordance with the provisions contained in the Company's Articles, in the register of members at close of business two days before the time of any adjourned meeting. Changes to entries on the register of members after such time or, in the event that the meeting is adjourned, to entries in the register of members after close of business before the time of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
12. To change your proxy instructions, simply submit a new proxy appointment using the method set out above. If you submit more than one valid proxy appointment, the

appointment received last before the latest time for the receipt of proxies will take precedence. Please note that the cut-off time for receipt of proxy appointments also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

13. To appoint more than one proxy you may photocopy the Form of Proxy. Please indicate the proxy holder's name and the number of Shares in relation to which they are authorised to act as your proxy (which, in the aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
14. Completion of the Form of Proxy will not prevent a member from attending the meeting and voting in person should the member so wish.
15. Any alterations made to the Form of Proxy should be initialled.