

KHG FUNDS PLC

(the "Company")

(INCORPORATED IN THE ISLE OF MAN UNDER COMPANY NUMBER 005208V)

Directors:

Mary Barber
David Nixon

Registered office:

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IM1 2PT

27 April 2018

To Shareholders (and, for information only, to persons with information rights)

Dear Shareholder,

UPDATE ON PROPOSAL TO CREATE SIDE-POCKETS

1. Introduction

On 29 March 2018 we wrote to you (the "Second Proposal Letter") to recommend that you vote in favour of the proposal to vary the rights attaching to Participating Shares and to create Side-Pockets (the "Proposal"). The Second Proposal Letter explained that the Proposal could only come into effect if:

- (a) the New Articles were adopted by a Special Resolution of the Shareholders of the Company's Management Shares; and
- (b) the Proposal was approved at separate Class Meetings of the Shareholders of each Portfolio and of the Shareholders of the Company's Management Shares.

All meetings were held on 17 April 2018, and the Directors are pleased to report that sufficient votes to adopt the Proposal were cast at each Class Meeting and the New Articles were adopted by the Shareholders of the Company's Management Shares.

In the remainder of this letter the Directors have set out, in the form of questions and answers, a summary of the effects of implementing the Proposal. Capitalised expressions, which are not defined in the body of the letter, are listed in the schedule to it.

2. What were the results of voting for the Proposal?

The results of the voting at the Class Meeting of each Portfolio are set out below:

| Portfolio | Votes for Proposal | % | Votes against Proposal | % |
|-------------|--------------------|----------------------------------------|-------------------------|------|
| Balanced | 531,898.407 | 7.14 (100% of proxy returns in favour) | 0 | 0 |
| Diversified | 6,216,188.511 | 38.05 (98.79% of | 75,980.481000 (1.21% of | 0.47 |

| Income | | proxy returns in favour | proxies against) | |
|-------------------------|--------------|-----------------------------------------|------------------|---|
| New World Opportunities | 1,765,948.77 | 78.16 (100% of proxy returns in favour) | 0 | 0 |

3. When will the Proposal come into effect?

The Second Proposal Letter explained that Shareholders will be given notice before the Proposal comes into effect, and accordingly notice is hereby given that the Proposal will come into effect on 15 June 2018.

4. What is the date of the next Valuation Day?

When the Proposal comes into effect, the Directors will resolve to end the suspension of the determination of the Net Asset Value (the "**Suspension**") of the KHG Balanced Portfolio and the KHG Diversified Income Portfolio (the "**Suspended Portfolios**"), which has been in force since 12 July 2017.

The end date of the Suspension, and next Valuation Day of the Suspended Portfolios, will both be on 15 June 2018.

5. What is the date of the next Subscription Day and Redemption Day?

The first Subscription Day and Redemption Day of the Suspended Portfolios, after the Suspension has been lifted, will be on 16 June 2018.

6. What will happen on the next Valuation Day?

On the next Valuation Day the Directors will use their power under the New Articles to transfer to a Side-Pocket any investments of a Suspended Portfolio which cannot at present be easily valued or realised, or which do not provide adequate liquidity ("**Illiquid Assets**"). A separate Side-Pocket will be created for each of the Suspended Portfolios. The Directors will not create a Side-Pocket for the KHG New World Opportunities Portfolio.

7. Will I be allocated shares in a Side-Pocket?

A proportionate number of the Participating Shares of each Shareholder in the Suspended Portfolios will be converted to shares in the Side-Pocket that corresponds to the relevant Suspended Portfolio in accordance with the formula set out in the New Articles ("**Restricted Shares**"). Below the Manager has set out an example of the number of Restricted Shares ("**A**") that will be allocated to a notional Shareholder using that formula.

Where:

B is 25,000, being the number of Participating Shares held by the Shareholder in the Suspended Portfolio;

C is £2,000,000.00, being the Net Asset Value of the Illiquid Assets in the Suspended Portfolio; and

D is £15,000,000.00, being the Net Asset Value of the Suspended Portfolio,

the value of A is calculated as $B \times (C \div D)$, which is 3,333.

Following the conversion of a holding of 25,000 Participating Shares to Restricted Shares, the holding of Participating Shares in the example will fall to 21,667 and the Shareholder will receive 3,333 Restricted Shares.

Please note that the figures quoted above are for illustration purposes only. The Manager will be writing separately to Shareholders in the Suspended Portfolios, to confirm the number of Restricted Shares allocated to them and the balance of Participating Shares held.

8. Will I be able to redeem my Participating Shares?

Each Shareholder will be able to submit a Redemption Request, which will be subject to:

- (a) the provision to the Company of notice of redemption, as detailed in the master offering document of the Company and of the supplementary offering documents for each Portfolio (each an "**Offering Document**" and together the "**Offering Documents**"); and
- (b) the restrictions on redemptions of Participating Shares, which are summarised in the Offering Documents,

In relation to (a) above, please note that the Offering Documents stipulate that notice of redemption must be received by the Manager at least 30 clear days before the relevant Redemption Day.

In relation to (b) above, please note that no more than 5% of the Participating Shares in issue in a Portfolio may be redeemed on any Redemption Day. If redemption requests are received for the redemption of Participating Shares on any Redemption Day in excess of that percentage, the number of Participating Shares to be redeemed will be reduced on a pro rata basis so that the percentage is not exceeded.

Any unfulfilled redemption requests will be carried forward to the next Redemption Day, and so on, until each request has been executed in full. Redemption requests that have been carried forward from an earlier Redemption Day will be complied with in priority to subsequently received requests for redemption of Participating Shares.

A full description of the procedure for, and the restrictions on, the redemption of Participating Shares is set out in the Offering Documents, the latest versions of which are available at: <http://www.khgfunds.com>.

9. What happens if I submitted a Redemption Request during the Suspension period?

Redemption Requests, which have already been received by the Directors, but which could not be processed due to the Suspension, will (subject to the restrictions described in section 8 above) be implemented on the Redemption Day noted in section 5 above.

The number of Participating Shares to be redeemed will (subject to the restrictions described in section 8 above) be the lower of:

- (a) the number of Participating Shares in the Redemption Request; and
- (b) the number of Participating Shares held by the relevant Shareholder following the conversion to Restricted Shares of a number of that Shareholder's Participating Shares (as explained in section 7 above).

10. Can I redeem Restricted Shares?

As explained in the Second Proposal Letter, Restricted Shares differ from Participating Shares in that they may not be redeemed, they carry no voting rights and, on a winding up or on a reduction of capital involving a return of capital, the Restricted Shares rank pari passu with Participating Shares, but the repayment of the nominal amounts paid up on them and the repayment of surplus is made only from the Side-Pocket to which they relate.

However, if, in the opinion of the Directors, there is a change in circumstances, they may re-allocate all or part of the Illiquid Assets or of the remittances arising in respect of the Illiquid Assets to the Portfolio from which the Illiquid Assets were originally transferred.

When the re-allocation has taken place, a proportionate number of the Restricted Shares of each affected Shareholder will be cancelled, and bonus Participating Shares will be allotted to those Shareholders in the relevant Portfolios. The bonus Participating Shares will carry the same rights as the other Participating Shares in the same Portfolio, including the right to be redeemed.

11. Further information

If you have any questions relating to this document, please contact the Manager, SMP Fund Services Limited, Clinch's House, Lord Street, Douglas, Isle of Man IM99 1RZ, by telephone between 9.00 a.m. and 5.00 p.m. (London time) Monday to Friday (except Isle of Man public holidays) on 01624 683229 from within the Isle of Man or the UK or +44 1624 683229 if calling from outside the UK. The Manager cannot give any financial, legal or tax advice.

Yours faithfully

Mary Barber & David Nixon

The Directors

SCHEDULE

DEFINITIONS

The following capitalised expressions shall have the meanings set out below in this document:

| | |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Business Day | means any day on which banks are open for foreign currency exchange dealing business in London, the Isle of Man, Jersey and such other places (if any) as the Manager may specify in relation to the Fund; |
| Class Meetings | means the meetings of Shareholders called to consider and if thought fit approve the Proposal; |
| Board or Directors | means the board of directors of the Company; |
| Director | means a director of the Company; |
| Management Share | means the Non-Redeemable Non-Participating Management Shares of GBP1.00 nominal value each in the capital of the Fund having the rights and restrictions attached thereto in the New Articles; |
| Manager | means SMP Fund Services Limited; |
| Net Asset Value | means, as the context requires, the net asset value of a Portfolio or the net asset value of a Sub-class (as determined in accordance with the New Articles); |
| New Articles | means the new articles of association of the Company, which have been adopted pursuant to the Proposal and which are available at: http://www.khgfunds.com ; |
| Participating Share | means a participating redeemable preference share of US\$0.01, £0.01 or €0.01 each in the capital of the Company which is attributed to an individual a Portfolio; |
| Portfolio | means a class of Shares in the Company established by the Directors in accordance with the New Articles and the accounting entries established in the books of the Company for the purpose of allocating assets and liabilities relating to that class of Shares and keeping them separately identifiable from assets and liabilities relating to any other Portfolio; |
| Redemption Day | means, in relation to a Portfolio, such Business Days as the Directors shall from time to time in their absolute discretion appoint as a day upon which Participating Shares may (subject to the New Articles) be redeemed; |

| | |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Redemption Request | means a request made by a Shareholder to the Company to redeem Participating Shares; |
| Share | means a share in the capital of the Company, being either a Management Share or a Participating Share; |
| Shareholders | means the registered holders of Shares; |
| Side Pocket | means a class of Shares in the Company established by the Directors under the New Articles to apportion the investments if the Board determine that it is in the interests of the affected Shareholders to do so because, <i>inter alia</i> , of the illiquidity of certain investments; |
| Special Resolution | means the special resolution to adopt the New Articles; |
| Sub-class | means, in relation to a Portfolio, a sub-class of Shares of that Portfolio which may be issued with a nominal value denominated in such currency as the Directors may determine; |
| Subscription Day | means, in relation to a Portfolio, such Business Days as the Directors shall from time to time in their absolute discretion appoint as a day upon which Participating Shares may be subscribed for; and |
| Valuation Day | means, in relation to a Portfolio, such Business Days as the Directors shall from time to time in their absolute discretion appoint for the purposes of calculating the Net Asset Value of the relevant Portfolio. |