

The Directors of Discus Feeder Limited (the “Company”), whose names appear in the Section “Directory” of this Memorandum, accept responsibility for the information contained herein. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Memorandum (including the appendices which form an integral part hereof) is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

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# Discus Feeder Limited

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(an open ended investment company incorporated in the British Virgin Islands as a company limited by shares under the BVI Business Companies Act, 2004 (as amended))

## OFFERING MEMORANDUM

**Securities Offered:** Up to 100,000,000 in the aggregate of ordinary, non-voting shares in twelve separate classes:

Class B Shares	USD Standard Leverage
Class B1-N Shares	USD Standard Leverage
Class B2-N Shares	USD Standard Leverage
Class C Shares	USD Double Leverage
Class C1-N Shares	USD Double Leverage
Class C2-N Shares	USD Double Leverage
Class D Shares	Euro Standard Leverage
Class D1-N Shares	Euro Standard Leverage
Class D2-N Shares	Euro Standard Leverage
Class E Shares	Euro Double Leverage
Class E1-N Shares	Euro Double Leverage
Class E2-N Shares	Euro Double Leverage

**Minimum Initial Investment:** USD 1,000,000 or its equivalent in Euro

**Investment Manager** Capital Fund Management S.A.

**Administrator** HSBC Securities Services (Ireland) Limited

*15 September 2011*

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As at the date of this Memorandum the Company has no loan capital (including term loans) outstanding or created but unissued, and no outstanding mortgages or indebtedness in the nature of liabilities under acceptances or acceptance credits, hire purchase or finance lease commitments or guarantees. The Company has not issued or granted any debt securities, warrants or options.

## **CFTC DISCLOSURES**

**PURSUANT TO AN EXEMPTION UNDER THE UNITED STATES COMMODITY FUTURES TRADING COMMISSION (“CFTC”) REGULATIONS, THE INVESTMENT MANAGER, IS NOT REQUIRED TO REGISTER AS A COMMODITY POOL OPERATOR IN CONNECTION WITH THE COMPANY. AS A RESULT, UNLIKE A REGISTERED CPO, THE INVESTMENT MANAGER WILL NOT BE REQUIRED TO DELIVER A DISCLOSURE DOCUMENT (CONTAINING CERTAIN CFTC PRESCRIBED DISCLOSURES) OR A CERTIFIED ANNUAL REPORT TO THE COMPANY’S INVESTORS. A CLAIM OF EXEMPTION HAS BEEN FILED EFFECTING THIS EXEMPTION.**

**THE INVESTMENT MANAGERS’S ELIGIBILITY FOR SUCH REGISTRATION EXEMPTION IS SET FORTH IN SECTION 4.13(A)(4) OF THE CFTC’S REGULATIONS AND IS BASED ON THE FACT THAT (I) THE OFFER AND SALE OF THE COMPANY’S SHARES ARE EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED; AND (II) SHAREHOLDERS IN THE COMPANY ARE LIMITED TO PERSONS THAT ARE “QUALIFIED PURCHASERS”, ALL AS SET OUT IN THE COMPANY’S SUBSCRIPTION DOCUMENTS.**

**INVESTORS SHOULD BE AWARE THAT THIS COMMODITY POOL MAY TRADE FOREIGN FUTURES OR OPTIONS CONTRACTS. TRANSACTIONS ON MARKETS LOCATED OUTSIDE OF THE UNITED STATES, INCLUDING MARKETS FORMALLY LINKED TO A UNITED STATES MARKET, MAY BE SUBJECT TO REGULATIONS WHICH OFFER DIFFERENT OR DIMINISHED PROTECTION TO THE POOL AND ITS PARTICIPANTS. FURTHER, UNITED STATES REGULATORY AUTHORITIES MAY BE UNABLE TO COMPEL THE ENFORCEMENT OF THE RULES OR REGULATORY AUTHORITIES OR MARKETS IN NON-UNITED STATES JURISDICTIONS WHERE TRANSACTIONS FOR THE POOL MAY BE EFFECTED.**

## **BRITISH VIRGIN ISLANDS DISCLOSURES**

**THE COMPANY HAS BEEN ESTABLISHED AND IS RECOGNISED AS A PROFESSIONAL FUND UNDER THE BRITISH VIRGIN ISLANDS SECURITIES AND INVESTMENT BUSINESS ACT, 2010 (THE “ACT”). AS SUCH, NO OFFER OR INVITATION MAY BE MADE TO AN INVESTOR OR POTENTIAL INVESTOR TO PURCHASE OR SUBSCRIBE FOR SHARES UNLESS THE INVESTOR OR POTENTIAL INVESTOR IS PROVIDED WITH THE FOLLOWING INVESTMENT WARNING COMPLYING WITH THE MUTUAL FUNDS REGULATIONS, 2010: AN INVESTMENT IN THE FUND IS ONLY SUITABLE FOR AND SHARES MAY ONLY BE ISSUED TO “PROFESSIONAL INVESTORS” (AS DEFINED BELOW) AND THE INITIAL INVESTMENT OF EACH INVESTOR IN THE COMPANY, OTHER THAN EXEMPTED INVESTORS (AS DEFINED IN THE ACT), SHALL NOT BE LESS THAN US\$100,000 OR ITS EQUIVALENT IN ANOTHER CURRENCY. RECOGNITION OF THE COMPANY DOES NOT ENTAIL THE SUPERVISION OF THE COMPANY BY THE BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION (THE “BVI FSC”) OR BY ANY OTHER REGULATOR OUTSIDE OF THE BRITISH VIRGIN ISLANDS. THE REQUIREMENTS CONSIDERED NECESSARY FOR THE PROTECTION OF INVESTORS THAT APPLY TO A FUND REGISTERED UNDER THE ACT AS A PUBLIC FUND DO NOT APPLY TO THE COMPANY. AN INVESTOR IN THE COMPANY IS SOLELY RESPONSIBLE FOR DETERMINING WHETHER THE COMPANY IS SUITABLE FOR HIS INVESTMENT NEEDS. INVESTMENT IN THE COMPANY MAY PRESENT A GREATER RISK TO AN INVESTOR THAN AN INVESTMENT IN A FUND REGISTERED UNDER THE ACT AS A PUBLIC FUND. A “PROFESSIONAL INVESTOR” IS A PERSON: (A) WHOSE ORDINARY BUSINESS INVOLVES, WHETHER FOR THAT PERSON’S OWN ACCOUNT OR THE ACCOUNT OF OTHERS, THE ACQUISITION OR DISPOSAL OF PROPERTY OF THE SAME KIND AS THE PROPERTY, OR A SUBSTANTIAL PART OF THE PROPERTY, OF THE FUND; OR (B) WHO HAS SIGNED A DECLARATION THAT HE, WHETHER INDIVIDUALLY OR JOINTLY WITH HIS SPOUSE, HAS NET WORTH IN EXCESS OF US\$1,000,000 AND THAT HE CONSENTS TO BEING TREATED AS A PROFESSIONAL INVESTOR.**

THE FINANCIAL SERVICES COMMISSION ACT, 2001 PROVIDES THAT THE BVI FSC MAY REQUIRE THE COMPANY TO PROVIDE SPECIFIED INFORMATION OR INFORMATION OF A SPECIFIED DESCRIPTION OR TO PRODUCE SPECIFIED DOCUMENTS OR DOCUMENTS OF A SPECIFIED DESCRIPTION IF SUCH DISCLOSURE IS REASONABLY REQUIRED FOR THE PURPOSE OF DISCHARGING THE BVI FSC'S FUNCTION OR ENSURING COMPLIANCE WITH ANY FINANCIAL SERVICES LEGISLATION. THE BVI FSC MAY IMPOSE CONDITIONS ON THE COMPANY'S CERTIFICATE OF RECOGNITION. IN ADDITION, THE BVI FSC MAY TAKE ENFORCEMENT ACTION AGAINST THE COMPANY (WHICH MAY INCLUDE REVOCATION OR SUSPENSION OF THE COMPANY'S CERTIFICATE OF RECOGNITION).

## **SYNOPSIS**

**THIS IS A SUMMARY OF THE PRINCIPAL FEATURES OF DISCUS FEEDER LIMITED (THE “COMPANY”) WHICH ARE MORE FULLY ADDRESSED IN THE FULL TEXT OF THE MEMORANDUM, INCLUDING ITS EXHIBITS, WHICH SHOULD BE READ CAREFULLY IN THEIR ENTIRETY.**

### **INVESTMENT**

*The Company’s Investment Objective* is to achieve substantial capital appreciation through investment in a variety of futures, currency and derivative markets pursuant to the Investment Manager’s investment program.

*The Company’s Investment Strategy* is to follow the proprietary, quantitative Discus trading program (the “**Program**”) designed by the Investment Manager, which trades listed futures contracts on medium and long-term bonds, short-term interest rates, stock indices, currencies and commodities, as well as fixed income and equity securities and spot foreign exchange. The Program may also trade derivatives on all of the above. Substantially all assets of the Company will be invested in shares of the Master Fund. The Master Fund will maintain significant amounts of cash that will either be posted as collateral in connection with the trading activities of the Master Fund or held on deposit or invested in money market instruments or funds.

### **STRUCTURE**

*The Company* is an open ended investment company incorporated in the British Virgin Islands as a company limited by shares under the BVI Business Companies Act, 2004 (as amended) and conducts all trading activities through Discus Holdings Limited (the “**Master Fund**”). The Master Fund and the Company referred to herein collectively as the “**Fund**”, unless the context otherwise requires. The Master Fund may also accept investment from other feeder funds following the Program and managed by the Investment Manager.

*The Investment Manager* is Capital Fund Management S.A. (“**CFM**”), which was initially organized as a French partnership in January 1991 and was subsequently incorporated in 1993. CFM is regulated by the US Securities and Exchange Commission (“**SEC**”) as an investment adviser, by the US Commodity Futures Trading Commission (“**CFTC**”) as a Commodity Trading Advisor and by the French Autorité des Marchés Financiers (“**AMF**”). The Investment Manager is responsible for the Fund’s trading and investment activities using its trading models.

*The Directors* of the Company and the Master Fund are Jacques Saulière, Allan D. Marshall and Humphry Leue, who direct the business and administrative affairs of the Company and the Master Fund.

### **OFFERING**

*The Minimum Initial Investment* is US\$1,000,000 or its equivalent in Euros or such lesser amount not below US\$100,000 or its equivalent in Euros as may be approved by the Directors. Existing investors may add to their investments by contributing at least US\$1,000,000 or its equivalent in Euros or such lesser amount as may be approved by the Directors.

*Subscription Eligibility Requirements* specify that investors must be non-US Persons who meet the eligibility requirements or Eligible Tax-Exempt US Persons. An investment in the Fund is only appropriate for persons who can afford a loss of principal and who have no need for immediate liquidity. The Shares are accumulating and are not expected to pay any distributions.

*Subscription Applications* are accepted at the beginning of each month.

*Redemptions* generally are permitted at the end of any calendar month upon written notice on or before the 15<sup>th</sup> day of the month preceding a Dealing Day. Redemption amounts generally are paid in full, in cash, no later than the 15<sup>th</sup> business day following the Dealing Day.

## **SHARE CLASSES**

The Company is offering shares in several separate classes. Class B, Class B1-N, Class B2-N, Class C, Class C1-N and Class C2-N are offered in US\$ and Class D, Class D1-N, Class D2-N, Class E, Class E1-N and Class E2-N are offered in Euros. Class B, Class B1-N, Class B2-N, Class D, Class D1-N and Class D2-N are designated “Standard Leverage” classes with Leveraged Equity per Share equal to the NAV per respective Share and Class C, Class C1-N, Class C2-N, Class E, Class E1-N and E2-N are designated “Double Leverage” classes with Leveraged Equity per Share equal to twice the NAV per respective Share. The B1-N, B2-N, C1-N, C2-N, D1-N, D2-N, E1-N and E2-N Share Classes mean separate Share Classes labeled with an integer N which may vary from 1 to 100. In this Memorandum a reference to the Classes “B1-N”, “B2-N”, “C1-N”, “C2-N”, “D1-N”, “D2-N”, “E1-N” or “E2-N”, without specifying the integer N, shall mean a combined reference to all the associated Classes where N is varied between 1 and 100.

The B1-N, B2-N, C1-N, C2-N, D1-N, D2-N, E1-N and E2-N Share Classes only differ from the corresponding B, C, D or E Share Class in their fee structure (as explained below). Shares in the B1-N, B2-N, C1-N, C2-N, D1-N, D2-N, E1-N and E2-N Share Classes may only be issued at the discretion of the Directors. Generally the B1-N, C1-N, D1-N and E1-N Shares Classes are available to investors having an investment above US\$100m or its equivalent in Euros and the B2-N, C2-N, D2-N and E2-N Share Classes are available to investors having an investment above US\$300m or its equivalent in Euros.

Profits and losses as well as income and expenses incurred by the Company will be allocated to the Share Classes in the ratio of the Leveraged Equity of each Share Class to the total Leveraged Net Asset Value of the Company (See “Net Asset Value of the Company”). Therefore, investors in Double Leverage Share Classes will bear approximately twice the risk and be entitled to approximately twice the return as investors in Standard Leverage Share Classes.

## **FEE STRUCTURE**

***The Investment Manager*** will receive a management fee monthly in arrears equal to 2% per annum of the net asset value of Share Classes B and D, 1.5% per annum of the net asset value of Share Classes B1-N and D1-N, 1% per annum of the net asset value of Share Classes B2-N and D2-N.

The Investment Manager will receive a management fee monthly in arrears equal to 4% per annum of the net asset value of Share Classes C and E, 3% per annum of the net asset value of Share Classes C1-N and E1-N and 2% per annum of the net asset value of Share Classes C2-N and E2-N.

***An Incentive Fee*** will also accrue monthly to the Investment Manager equal to 25% of the Trading Profits (as defined in the Section ‘Fees, Compensation and Expenses’) allocated to Share Classes B, C, D and E; 22.5% of Trading Profits allocated to Share Classes B1-N, C1-N, D1-N and E1-N; and 20% of Trading Profits allocated to Share Classes B2-N, D2-N, C2-N and E2-N. The incentive fee will be paid quarterly in arrears in respect of Trading Profits for the preceding quarter and subject to carry forward losses. The Incentive Fee is calculated at the level of the Company on an aggregate basis per Share Class (and not on a per share basis).

## **OTHER FEES AND EXPENSES**

***An Initial Charge*** in an amount up to 3% of the amount of any requested subscription may be charged at the discretion of the Directors and deducted from the subscription monies and paid to any sales agent for the Company. In such event, the number of shares subscribed will be reduced to reflect the subscription amount after deduction of the Initial Charge, if any.

***Other Fees and Expenses*** of the Fund include transaction, custodial, and administration costs, and legal, audit, and other ordinary and extraordinary expenses, as well as organizational and initial offering expenses.

## **RISK FACTORS**

**THE RISK FACTORS SET FORTH IN THIS MEMORANDUM SHOULD BE READ CAREFULLY BEFORE MAKING AN INVESTMENT IN THE COMPANY. THE RISK FACTORS OF THE MASTER FUND ARE LARGELY THE SAME AS THOSE OF THE COMPANY. THE SHARES ARE SPECULATIVE SECURITIES WHOSE VALUE MAY GO UP AS WELL AS DOWN.**

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#### EXHIBITS \*

<u>Exhibit S</u>	Subscription Agreement and Application Form
<u>Exhibit ADV</u>	Investment Manager's Form ADV, Part 2A/B

**\* The exhibits form an integral part of this Memorandum and should be read and considered with the Memorandum as a whole.**

## **DIRECTORY**

**Directors of the Company and the Master Fund:**

Jacques Saulière  
Allan D. Marshall  
Humphry Leue

**Registered Office:**

Craigmuir Chambers  
PO Box 71, Road Town, Tortola  
British Virgin Islands

**Investment Manager to the Company and the Master Fund:**

Capital Fund Management S.A.  
6, boulevard Haussmann  
75009 Paris, France

**Prime Brokers to the Master Fund:**

Barclays Capital Securities Limited  
1 Churchill Place  
London, E14 5HP  
United Kingdom

Deutsche Bank AG  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Futures Clearers to the Master fund:**

Barclays Capital, Inc  
200 Park Avenue  
New York, New York 10166  
United States of America

Deutsche Bank Securities, Inc  
60 Wall Street  
New York, NY 10005  
United States of America

**Bankers to the Master fund:**

HSBC Bank plc 8 Canada Square  
London E14 5HQ  
United Kingdom

JP Morgan Chase Bank NA, London Branch  
125 London Wall, London, EC2Y 5AJ  
United Kingdom

BNP Paribas, London Branch  
10 Harewood Ave  
London NW1 6AA  
United Kingdom

**Administrator, Registrar and Transfer Agent to the Company and the Master Fund:**

HSBC Securities Services (Ireland) Limited  
1 Grand Canal Square  
Grand Canal Harbour  
Dublin, 2, Ireland



**Auditors to the Company and the  
Master Fund:**

KPMG  
Chartered Accountants  
1 Harbourmaster Place  
IFSC, Dublin 1, Ireland

**Adviser on British Virgin Islands Law  
and affiliate of the BVI authorised  
representative:**

Harney Westwood & Riegels  
Craigmuir Chambers  
PO Box 71, Road Town, Tortola, British Virgin Islands

**Adviser on United States Securities,  
Commodities and Tax Law:**

Katten Muchin Rosenman LLP  
575 Madison Avenue  
New York, NY 10022, United States of America

## NOTICES

The Shares offered hereby will be issued only on the basis of the information and representations contained in this Memorandum including the attached exhibits and no other information or representation has been authorised. Any purchase made by any person on the basis of statements or representations not contained herein or inconsistent with information contained herein shall be solely at the risk of the purchaser. Neither delivery of this Memorandum nor anything stated herein should be taken to imply that any information contained herein is correct at any time subsequent to the date hereof.

The Company has been recognized as a professional fund (a “**Professional Fund**”) under the Securities and Investment Business Act, 2010 (as amended) (the “**Act**”) of the British Virgin Islands and the Shares may therefore only be issued to professional investors, as defined below, and the minimum investment of all investors, other than exempted investors as defined below, must not be less than US\$100,000. A professional investor for the purposes of the Act is:

- a.) a person whose ordinary business involves, whether for its own account or the account of others, the acquisition or disposal of property of the same kind as the property or a substantial part of the property of the fund; or
- b.) a person who has signed a declaration that he has net worth (whether individually or jointly with his spouse) in excess of US\$1,000,000 or its foreign currency equivalent, and that he consents to being treated as a professional investor.

Exempted investors under the Mutual Funds Regulations, 2010 are:

- a.) the manager, administrator, promoter or underwriter of the fund; and
- b.) any employee of the manager or promoter of the fund.

The Company is a feeder fund in a master/feeder structure. The Master Fund is a “Private Fund” within the meaning of the Act and accordingly the issue and/or offering of its shares is restricted in the manner described in the Memorandum of Association of the Master Fund.

As a Professional Fund, the Company is required to be and is recognized under the Act and is required to pay an annual recognition fee of US\$1,000. As a Private Fund, the Master Fund is required to be and is recognized under the Act, and is required to pay an annual recognition fee of US\$1,000.

As entities regulated under the Act, the Company and the Master Fund will be subject to the supervision of the Financial Services Commission in the British Virgin Islands, which is authorized by the Act to direct the Company and the Master Fund to furnish information or provide access to any records, books or other documents which it deems necessary to ascertain compliance with the Act or any regulations made under the Act.

The Act provides that the Company’s and the Master Fund’s respective Certificates of Recognition may be cancelled or made subject to conditions if, inter alia, the Company or the Master Fund has breached the Act or any subsidiary legislation or conditions of its certificate, has been convicted of an offence, is carrying on business in a manner detrimental to its investors or to the public interest, or is declared bankrupt or is being wound-up or dissolved.

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries to whose jurisdiction they may be subject for the acquisition, holding or disposal of Shares and any foreign exchange restrictions which may be relevant to them. Shares which are acquired by persons not entitled to hold them in accordance with the provisions contained herein may be compulsorily redeemed. See the section entitled “Transfer of Shares” below for restrictions on transfers of Shares.

**THE DISTRIBUTION OF THIS MEMORANDUM MAY BE RESTRICTED BY LAW IN CERTAIN COUNTRIES. PERSONS TO WHOSE ATTENTION THIS MEMORANDUM MAY COME ARE REQUIRED TO INFORM THEMSELVES OF AND TO OBSERVE ANY SUCH RESTRICTIONS. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORISED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.**

### **Within the EU**

It is not the intention of the Directors to advertise or market the Shares to the public in any European Union member state. The laws and regulations for private placements of open-ended non-UCITS funds have not been harmonised within the European Union. The Directors have, however, taken the view not to offer the Class B, Class B1-N, Class B2-N, Class C, Class C1-N, Class C2-N, Class D, Class D1-N, Class D2-N, Class E, Class E1-N and Class E2-N Shares of the Company within the European Union to investors who cannot be classified as “qualified investors” as defined in the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 titled “on the prospectus to be published when securities are offered to the public or admitted to trading”. This requirement supplements any individual European member state regulatory requirement that may also be applicable to an investment.

### **Within France**

The Company is an unrecognized foreign fund for the purposes of the French Monetary and Financial Code. Consequently the offering of the Shares in France is prohibited.

### **Within the United Kingdom**

The Company is an unrecognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom (the “**FSMA**”). The promotion of the Company and the distribution of this Memorandum in the United Kingdom is accordingly restricted by law. This Memorandum is being issued in the United Kingdom by the Company to, and/or is directed at, persons to whom it may lawfully be issued or directed at under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 including persons who are authorised under the FSMA (“authorised persons”), certain persons having professional experience in matters relating to investments, high net worth companies, high net worth unincorporated associations or partnerships, trustees of high value trusts and persons who qualify as certified sophisticated investors. The shares of the Company are only available to such persons in the United Kingdom and this Memorandum must not be relied or acted upon by any other persons in the United Kingdom. In order to qualify as a certified sophisticated investor a person must a) have a certificate in writing or other legible form signed by an authorised person to the effect that he is sufficiently knowledgeable to understand the risks associated with a particular type of investment and b) have signed, within the last 12 months, a statement in a prescribed form declaring, amongst other things, that he qualifies as a sophisticated investor in relation to such investments. This Memorandum is exempt from the general restriction in Section 21 of the Act on the communication of invitations or inducements to engage in investment activity on the grounds that it is being issued to and/or directed at only the types of person referred to above. The content of this Memorandum has not been approved by an authorised person and such approval is, save where this Prospectus is directed at or issued to the types of person referred to above, required by Section 21 of the FSMA.

The Company is not regulated by the FSA and investors will not have the benefit of the financial services compensation scheme and other protections afforded by the FSMA or any of the rules and regulations made thereunder.

### **Within Switzerland**

The Company has not been approved by the Swiss Financial Market Supervisory Authority (“**FINMA**”) as a foreign collective investment scheme pursuant to Article 120 of the Swiss Collective Investment Schemes Act of 23 June 2006 (the “**CISA**”). Accordingly, the Shares may not be offered to the public in or from Switzerland and neither this Memorandum nor any other offering materials relating to the Shares may be made available through a public offering in or from Switzerland. The Shares may only be offered and this Memorandum may only be distributed in or from Switzerland to “qualified investors” (as defined in the CISA and its implementing ordinance).

### **Within the United States of America**

The Shares offered herein have not been registered under the United States Securities Act of 1933 as amended, nor under any US state securities laws and therefore may not be sold to any US persons, except by any transaction which does not violate United States securities laws. The Directors of the Company have determined that, at their sole discretion and subject to certain exceptions with respect to eligible US tax-exempt persons, the Shares offered hereby may not be offered, sold or transferred directly or indirectly in the United

States or for the benefit of any US Persons, or to any person purchasing such securities for re-offer, re-sale or transfer in the United States or for the benefit of any US Persons.

The Shares have not been approved or disapproved by the Securities and Exchange Commission or any State securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Memorandum. Any representation to the contrary is a criminal offence within the United States.

### **Within Japan**

The Shares have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law no. 25 of 1948, as amended) and, accordingly, neither the Shares nor any interest in them may be offered or sold, directly or indirectly, in Japan or to, or for the benefit, of any Japanese person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For this purpose, “Japanese person” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### **Suitability Standards for Prospective Investors and other Matters**

No person has been authorized to give any information or to make any representation in connection with the offering of the Shares other than those contained in this Memorandum and, if given or made, such information or representations must not be relied on as having been authorized by the Company, the Directors, the Investment Manager, the Counterparties, or the Administrator. This Memorandum supersedes any written or verbal information relating to any offering of Shares issued prior to the date of this Memorandum.

Prospective investors are not to construe the contents of this Memorandum as legal or investment advice. Each investor should consult his own attorneys, accountants and/or other advisers regarding this investment.

Prospective purchasers and their representatives, if any, are invited to ask questions of and to obtain additional information from the Administrator concerning the investment, the terms and conditions of the Memorandum and other matters (including additional information to verify the accuracy of the information in this Memorandum). Such information will be supplied to the extent that the Administrator possesses or can acquire it without unreasonable effort or expense.

Investment in the Company involves a degree of risk and is considered only appropriate for sophisticated investors who can afford the risks associated with futures, securities, currencies and derivatives trading. The sophisticated investor must have such knowledge and experience in financial and business matters that he is capable of evaluating such merits and risks. The investor’s financial condition must be such that he is capable of losing his entire investment in the Company without a material adverse effect on his standard of living or that of his family. Prospective investors should be aware that the value of investments as reflected in the net asset value per share can go down as well as up and the attention of investors is drawn to Risk Factors set out herein.

## DEFINITIONS

“ADMINISTRATION AGREEMENTS”:	The agreement dated 1 November 2007 (as amended) between the Company and the Administrator and the agreement dated 1 November 2007 (as amended) between the Master Fund and the Administrator, respectively.
“ADMINISTRATOR”:	HSBC Securities Services (Ireland) Limited.
“AMF”:	Autorité des Marchés Financiers.
“ARTICLES”:	The Memorandum and Articles of Association of the Company or the Master Fund as the context requires.
“BENCHMARK RATE”:	A rate of return allocated to each Share Class pro rata to NAV as determined by the Directors of the Master Fund and the Company. Currently the Benchmark Rate is the higher of zero and 1 Month USD Libor – ¼% for USD Shares and the higher of zero and Euribor 1M – ¼% for Euro Shares.
“BANKERS”:	The Master Fund has opened deposit accounts with BNP Paribas, JP Morgan Chase NA. The Company and the Master Fund has opened deposit accounts with HSBC Bank plc and may open deposit accounts with other Counterparties as may from time to time be determined by the Directors of the Company or the Master Fund.
“BOARD”:	Board of Directors of the Company or the Master Fund as the context requires.
“BROKER AGREEMENTS”:	The agreements between the Master Fund and each of the Prime Brokers.
“BUSINESS DAY”:	Any normal business day, except any day that is a national holiday or bank holiday in the Republic of Ireland or New York, New York, USA.
“BVI”:	The British Virgin Islands.
“BVI FSC”:	The BVI Financial Services Commission established under section 3 of the Financial Services Commission Act, 2001.
“CFM”:	Capital Fund Management S.A.
“CFTC”:	Commodity Futures Trading Commission of the USA.
“COMPANY”:	Discus Feeder Limited.
“COUNTERPARTIES”:	The Prime Brokers, Futures Clearers, Bankers and brokers of the Master Fund, and other counterparties of the Company or the Master Fund as determined from time to time by the Directors.
“DEALING DAY”:	The first day in each month in each year that is not a Saturday or Sunday following the initial issuance of shares and/or such other days as may from time to time be determined by the Directors for purposes of the issue and the redemption of shares.

“DESIGNATED INVESTMENTS”:	Investments held by the Fund or Master Fund designated as such by the Directors because, in the opinion of the Investment Manager, they are long-term, illiquid and/or without a readily ascertainable market value. Each Designated Investment will be held in a separate account in the books of the Fund and/or Master Fund and linked to a separate Class or series of a Class of Shares.
“DIRECTOR”:	A director of the Company or the Master Fund as the context requires.
“DOUBLE LEVERAGE”:	The C, C1-N, C2-N, E, E1-N and E2-N Class Shares whose Leveraged Equity is equal to twice their NAV.
“ELIGIBLE TAX-EXEMPT INVESTOR”:	US Persons who are exempt from US federal income taxation and who meet the eligibility standards set forth in the Subscription Documents.
“EURO”/“EUR”/“€”:	The legal currency of the participating Member States of the European Union.
“EURO SHARE CLASSES”/“EURO SHARES”:	The D, D1-N, D2-N, E, E1-N and E2-N Share Classes of the Company and the E share class of the Master Fund, which are respectively denominated in Euros.
“FINRA”:	U.S. Financial Industry Regulatory Authority.
“FUNCTIONARY”:	Means an administrator, investment manager, custodian, trustee, prime broker or a person undertaking such other function with respect to the Company as may be specified in the BVI Mutual Fund Regulations.
“FUND”:	The Company and the Master Fund, unless the context otherwise requires.
“FUTURES CLEARERS”:	The Master Fund has entered into agreements with each of Barclays Capital, Inc and Deutsche Bank Securities, Inc and may enter into agreements with other such companies as may from time to time be determined by the Directors of the Company or the Master Fund.
“INITIAL CHARGE”:	Such percentage (not exceeding 3%) of the subscription monies, as the Board may from time to time determine, which may be deducted from the aggregate requested subscription amount requested on any subscription application and paid to any sales agent.
“INVESTMENT MANAGEMENT AGREEMENT”:	The Investment Advisory Agreement, dated 25 July 2011, between the Investment Manager and the Company and dated 1 June 2009, between the Investment Manager and the Master Fund, respectively.
“INVESTMENT MANAGER”:	Capital Fund Management S.A..
“LEVERAGED EQUITY”:	For Standard Leverage Share Classes, the NAV, and for Double Leverage Share Classes, twice the NAV.
“LEVERAGED NET ASSET VALUE”:	The aggregate Leveraged Equity of all Shares of the Company or the Master Fund, as applicable.

“MARKETS”:	The markets on which the Company trades, which include, but are not limited to, the global futures, currency, securities, options and other derivative markets, and which may include unregulated over-the-counter as well as regulated exchange traded markets.
“MASTER FUND”:	Discus Holdings Limited, a BVI limited company.
“MEMORANDUM”:	All constituent parts of this document, including the exhibits.
“NAV”:	Net asset value of the Company, of the Master Fund or of any Share Class, as appropriate.
“NAV PER SHARE”:	NAV of the relevant Share Class divided by the number of issued and outstanding Shares of that Share Class rounded to the nearest cent in US\$ or Euro cent, as applicable.
“NON-US PERSONS”:	Persons who are not US Persons.
“NON-VOTING SHARES”:	Unless otherwise stated, collectively the Class B, B1-N, B2-N, C, C1-N, C2-N, D, D1-N, D2-N, E, E1-N and E2-N Shares of the Company or the Class B and B1 Shares of the Master Fund and such other non-voting Share Classes as may be established by the Company or the Master Fund from time to time.
“PRIME BROKER”:	The Master Fund has entered into agreements with each of Barclays Capital Securities Limited and Deutsche Bank AG and may enter into agreements with other such companies as may from time to time be determined by the Directors of the Company or the Master Fund.
“PROGRAM”:	The Discus investment program designed by the Investment Manager pursuant to which the Master Fund invests its assets.
“REDEMPTION NOTICE”:	The form of notice required to redeem Shares.
“REDEMPTION PRICE”:	The NAV per Share on the effective date of redemption.
“REGISTRAR”:	HSBC Securities Services (Ireland) Limited.
“REMITTING BANK/ FINANCIAL INSTITUTION”:	The bank or financial institution from which a Subscriber’s subscription monies are sent to the Company.
“SEC”:	The United States Securities and Exchange Commission.
“SHAREHOLDERS”:	The holders of the Shares of the Company.
“SHARE CLASS”:	The Share Classes of the Company or where the context requires, the share classes of the Master Fund.
“SHARES”:	The Non-Voting Shares of the Company or when the context requires, the non-voting shares of the Master Fund.
“STANDARD LEVERAGE”:	The B, B1-N, B2-N, D, D1-N and the D2-N Class Shares whose Leveraged Equity is equal to their NAV per Share.
“SUBSCRIPTION DOCUMENTS”:	The Subscription Agreement and Application for the time being adopted by the Company pursuant to which persons may subscribe for Shares. The current form of Subscription Documents is attached hereto as <u>Exhibit S</u> .

“SUBSCRIPTION PRICE”:	The price at which Shares may be purchased on any Dealing Day which will initially be US\$1,000 in respect of the B, B1-N, B2-N, C, C1-N and C2-N Shares in the Company and €1,000 in respect of the D, D1-N, D2-N, E, E1-N, and E2-N Shares in the Company and thereafter the NAV per Share, rounded to the nearest whole US cent or Euro cent, as applicable.
“UK”:	United Kingdom of Great Britain and Northern Ireland.
“US”/“USA”/“United States”:	United States of America, its states, territories or possessions, or an enclave of the United States government, its agencies or instrumentalities.
“USD”/“US\$”:	United States Dollars.
“USD SHARE CLASSES”/“USD SHARES”	The B, B1-N, B2-N, C, C1-N and C2-N Share Classes of the Company and the B, B1, C, D and F share classes of the Master Fund, which are respectively denominated in US\$.
“US PERSONS”:	US persons as defined in the Subscription Documents.
“VALUATION DAY”:	The day before a Dealing Day that is not a Saturday or a Sunday.
“VOTING SHARES”:	The Class A Ordinary Voting Shares of the Company or the Class A ordinary voting shares of the Master Fund as the context requires.

For the purpose of this Memorandum any references to the male gender with regard to prospective investors in, or subscribers to, the Company shall include the female gender or any corporate entity as may be appropriate. Potential investors should note that the above definitions are used for convenience only and that the Company, inter alia, has the right, under the terms of the relevant agreements, to terminate the appointment of various participants and to appoint other persons in their stead.



## **THE COMPANY**

The Company was incorporated under the laws of the BVI on 14 September 2007 as an open-ended investment company limited by shares, registration number 1431690. The registered office of the Company is at Craigmuir Chambers, PO Box 71, Road Town, Tortola, British Virgin Islands. This Memorandum relates to an offering of up to 100,000,000 shares divided into Class B, Class B1-N, Class B2-N, Class C, Class C1-N, Class C2-N, Class D, Class D1-N, Class D2-N, Class E, Class E1-N and Class E2-N Shares in such proportions as the Board may determine. The B1-N, B2-N, C1-N, C2-N, D1-N, D2-N, E1-N and E2-N Share Classes mean Share Classes labeled with an integer N which may vary from 1 to 100. In this Memorandum a reference to the Classes “B1-N”, “B2-N”, “C1-N”, “C2-N”, “D1-N”, “D2-N”, “E1-N” or “E2-N”, without specifying the integer N, shall mean a combined reference to all the associated Classes where N is varied between 1 and 100.

The Shares will be issued pursuant to a resolution of the Directors, and in accordance with the authority granted to the Directors by the Articles. The Company has also issued Class A Shares which are not being offered hereby and may issue Designated Shares in certain circumstances. The Company commenced operations on 1 December 2007.

The Company and the Master Fund are collectively referred to as the “**Fund**” unless the context otherwise requires.

## **THE MASTER FUND**

The Company will invest substantially all its assets in Discus Holdings Limited (the “**Master Fund**”), which will undertake all trading activity, cash management and currency hedging. The Master Fund was incorporated under the laws of the BVI on 12 September 2007 as an open ended investment company limited by shares, registration number 1431651. The registered office of the Company is also the registered office of the Master Fund. Other feeder funds following the Program and managed by the Investment Manager may also invests in the Master Fund. The Master Fund commenced operations on 1 November 2007.

## **INVESTMENT OBJECTIVE**

The investment objective and policy of the Company is to achieve substantial capital appreciation through investment in the Master Fund, which trades in a variety of futures, currency, securities and derivative markets pursuant to the Investment Manager’s proprietary trading program.

The investment objective of the Master Fund is the same as that of the Company.

## **INVESTMENT STRATEGY**

Substantially all of the assets of the Company are invested in the Master Fund and traded pursuant to the Investment Manager’s proprietary quantitative models, which the Investment Manager refers to as the Discus Program (the “**Program**”). The Investment Manager may invest the assets of the Fund in exchange traded futures contracts on medium and long-term bonds, short-term interest rates, stock indices, currencies and commodities, and may also trade fixed income and equity securities and spot foreign exchange. The Fund may also trade derivatives on all of the above.

All futures, securities and derivatives trading decisions will be made in accordance with the Program, and implemented through a computer-based proprietary trading and risk management program developed by the Investment Manager. Trade execution is electronic in all asset classes and is based upon execution models that take advantage of short-term market information.

The Program is fully statistical and systematic in nature. The system is fed with historical price and econometric time series data. The strategy may be based on momentum or mean reversion with patterns ranging from a few minutes to several months.

The Program seeks to be diversified within the asset classes traded. The portfolio is exposed to the financial markets on a global basis in markets that provide sufficient liquidity and supporting infra-structure. Trading may be extended to new markets when liquidity and market infra-structure allows.

The Master Fund may hold free cash not immediately needed for collateral in relation to outstanding market positions on deposit or as investments in a variety of cash and money market instruments. Such investments may be managed directly by the Investment Manager or indirectly via appropriate money market funds.

The directional trading strategy actively trades derivatives, securities and currencies seeking to provide absolute long-term returns that are uncorrelated with traditional asset classes. A value at risk-based allocation process allows a pro-active risk control of the portfolio.

## **RISK MANAGEMENT**

The computer-based proprietary technology implementing the Program includes an integrated risk management system which monitors the risk of the Master Fund's portfolio on a continuous basis. In addition, the Investment Manager employs an independent risk team which monitors the market risk of the Master Fund using independently developed market risk models. The independent risk team also monitors operational risks in relation to the trading activity of the Program. The Investment Manager maintains a number of risk targets and limits for the Program based mainly on volatility, VAR and maximum exposures. The volatility target of the Program based on annualized daily returns is at between 10% and 15% pa. The exact target volatility of the Program is set by the Investment Committee of the Investment Manager.

## **TRADING POLICIES AND RESTRICTIONS**

### **Use of Proceeds and Cash at Company Level**

The Company will invest substantially all of its assets in respect of all Share Classes of the Company in class B shares of the Master Fund, which will be registered in the name of the Company by book entry in the records of the Master Fund. All redemptions are paid out to Shareholders as soon as practicable following receipt of proceeds from the Master Fund and all subscriptions are transferred to the Master Fund as soon as practicable following receipt. The Company holds a limited amount of cash in its account at HSBC Bank plc as the Directors deem appropriate for the purpose of paying the Company's fees and expenses. Monies received by the Company from subscriptions will be held in an account of the Company until the monies can be invested in the Master Fund, and redemption proceeds from the Master Fund will also be held in such account until paid to a client account of the Administrator for payment to the redeeming investor.

### **Borrowing and Lending**

Each of the Company and the Master Fund is authorized to borrow in order to enhance its investment leverage or to fund redemption payments. There are no restrictions on the Company's or Master Fund's borrowing capacity other than limitations imposed by lenders and any applicable credit regulations. Loans generally may be obtained from Counterparties or from other financial institutions; such loans are generally secured by securities or other assets of the Company or the Master Fund pledged to such lenders, as applicable. The collateralisation of such lending facilities generally involve haircuts and the reuse of collateral by lenders which may expose the Fund to credit risk.

### **Market Manipulation**

The Investment Manager has a policy not to develop trading systems that can be deemed to manipulate markets.

**THERE IS NO ASSURANCE THAT THE COMPANY WILL BE SUCCESSFUL OR WILL ACHIEVE ITS INVESTMENT OBJECTIVES.**

## **RISK FACTORS**

Prospective investors should carefully consider the following risks, before investing. Investors should therefore carefully consider whether such type of investment is suitable for them in light of their financial condition. The trading strategy of the Company is achieved through an investment in the Master Fund. The Risk Factors presented below apply also to the Master Fund and can thus generally be read interchanging Company for Master Fund, as appropriate.

### **No Guarantee of Profit**

There is no assurance that the Company will provide an acceptable return to investors or not incur substantial losses.

### **Speculative Nature of the Investment Program**

The Company's investment program is speculative and involves a high degree of risk. There is no assurance that the technical and risk management techniques utilized by the Investment Manager, as well as the investment decisions made by the Investment Manager, will not expose the Company to risk of significant losses. In addition, the analytical techniques used by the Investment Manager cannot provide any assurance that the Company will not be exposed to the risk of significant trading losses if the underlying patterns of market behavior studied by the Investment Manager and which provide the basis for its statistical models change in ways not anticipated by the Investment Manager.

### **Reliance on Technical Trading Systems**

Trading decisions made by the Investment Manager in connection with its trading methodology in respect of the Company are based chiefly on the statistical modeling and technical analysis which forms the trading program. The calculations which underlie the Investment Manager's trading systems, methods and strategies involve the extensive use of computers and related information technology. The Investment Manager directs the purchase or sale of investments for the Company in accordance with computer generated trading signals. The use of computers in processing information or in developing and operating a trading strategy does not assure the success of the strategy as computers merely perform a mechanical aid in processing trade information. Accordingly, no assurance is given that the computer generated trading decisions will produce profits for the Company.

### **Use of Leverage**

The Company uses leverage as part of its investment strategy. This may result in the Company controlling substantially more assets than its equity. Leverage increases the Company's returns if it earns a greater return on investments purchased with borrowed funds than the Company's cost of borrowing. However, the use of leverage exposes the Company to additional risks, including (i) greater losses from investments that would otherwise have been the case had the Company not borrowed to make investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions, and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Company's cost of borrowing. In the event of a sudden, precipitous drop in the value of the Company's assets, the Company might not be able to liquidate assets quickly enough to repay borrowings, further magnifying losses.

### **Physical Delivery of Underlying in certain Derivatives Markets**

The Company may engage in trading in various derivatives contracts in the commodities markets. Such contracts may involve special terms such as physical delivery of the underlying at the maturity of the contract. The Company and its Investment Adviser have invested significant resources in designing trading systems that aim at rolling or closing maturing positions in commodities contracts in advance of any physical delivery date. Any failure to roll or close such positions may lead to the Company taking possession of a significant amount of physical inventory, which may need to be stored, transported and/or liquidated. A physical delivery of a commodity position may involve significant costs and may have a materially negative effect on the value of the Shares.

### **Settlement of certain Forward Contracts**

The Company may invest in derivatives contracts such as certain forward contracts in the commodities markets that do not provide for a daily settlement, but where the profit or loss of the contract settles at maturity. The cash-flows of such contracts are thus subject to credit risk. Such forward contracts even when cleared against a central counterparty thus introduce additional risks to the Company in terms of novation, credit risk as well as liquidity matching. The realisation of such risks may adversely affect the value and liquidity of the Shares.

### **Non-US Derivatives**

The Company may invest in derivatives contracts in markets outside the U.S., including in non-U.S. futures on securities and security indices, which products are regulated in the U.S. by both the SEC and the CFTC. Further, U.S. regulations prohibit U.S. persons from trading in such non-U.S. security futures unless the particular contract has been approved by the SEC and the CFTC, subject to certain exceptions. Based on SEC guidance and CFTC rules, the Company and the Master Fund has determined that it is not a "U.S. Person" who is prohibited from investing in foreign futures and options products and that it is an Eligible Contract Participant who is free to trade foreign security futures by CFTC rules. The Fund will allocate the profits and losses arising from trading in such foreign security futures and options to all investors in the same manner as it allocates its

general profits and losses. Investors should be aware that the Fund may have to allocate profits and losses in a different manner if there is a change in the law, regulations or interpretations thereof that would make the current allocation method incorrect or impermissible. Any such change could have a materially negative effect on the value of the Shares.

### **Multiple Jurisdictions**

Investing in securities of multiple jurisdictions involves additional risks. These include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, potentially illiquid markets and limited availability of information, higher transaction costs, foreign governmental restrictions, varying levels of government supervision (if any) of banks, exchanges, clearing houses, brokers and issuers, greater risks associated with identifying performing and credit worthy counterparties, difficulty in enforcing contractual obligations, lack of uniform legal framework for holding of assets and establishing trading, settlement, custody, security, pledging and reuse of assets and lack of uniform accounting, taxation and auditing standards and greater price volatility.

### **Futures Trading can be Highly Volatile**

Futures contracts can fluctuate widely in price due to a diverse set of factors, including but not limited to domestic and international economic and political events, fluctuations in domestic and international interest rates, changing supply and demand issues, natural catastrophes, fiscal and monetary controls and unpredictable changes in investor sentiment.

### **Futures Trading Employs a High Degree of Leverage**

Because the margin deposits required for futures trading are normally low, a small price movement in a futures contract may result in immediate and substantial loss to the Fund.

### **Derivative Contracts May be Illiquid**

The Company will endeavour to trade in recognized regulated markets and with readily realisable futures and options contracts. However, it is not always possible to execute a buy or sell order in a future or option at the desired price due to a lack of liquidity in the markets. Illiquidity may be caused by intrinsic market conditions (e.g., lack of demand) or extrinsic factors (e.g., changes in monetary policies or exchange-imposed limits on daily permitted increase or decrease in the price of traded instruments). In such instances, the Investment Manager could be prevented from promptly liquidating unfavorable positions and could thereby expose the Company to losses.

Many futures exchanges limit daily price fluctuations in futures and options contracts, in which case no trades may be executed at a price beyond the daily limit. Once the price of a particular futures or options contract has increased or decreased to its daily limit, positions in the affected futures or options contract can be neither initiated nor liquidated unless traders are willing to execute trades at or within the limit. Futures and/or options prices have occasionally hit their daily limit for several consecutive days with little or no trading. Similar occurrences in the future might prevent prompt liquidation of unfavorable positions and result in substantial losses, which could exceed the margin initially committed to such positions. Even in the absence of a limit price movement, it may occasionally not be possible to execute futures and options trades at favorable prices if little trading in contracts is taking place. It is also possible that an exchange or a regulator may suspend or limit trading in a particular contract, order immediate settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

### **Speculative Position Limits**

Certain regulators and commodity exchanges have established several limits, referred to as “**Speculative Position Limits**”, on the maximum net long or short position which any person may hold or control in particular futures contracts or complex of contracts. In addition, all positions held in the individual accounts managed by the Investment Manager, including the Fund’s accounts, may be aggregated for the purposes of determining compliance with such limits. In certain instances, the positions held by the Master Fund may also be limited due to a counterparty holding positions for other clients. Regulators and exchanges may change such limits at their sole discretion. It is thus fully possible that the positions held by the Master Fund may have to be adjusted or liquidated in order to avoid exceeding such Speculative Position Limits. The positions of the Master Fund may thus be impacted by Speculative Position Limits which may be affected by the positions of

other unrelated accounts. Any modification or liquidation of the Master Fund's positions due to Speculative Position Limits could adversely affect the Fund.

### **Currency Forward Trading**

The Company may enter into forward contracts on currencies. The market for trading of forward contracts on currencies is a private market and not regulated. Such forward contracts therefore differ substantially from exchange traded futures and options contracts. Forward contracts on currencies have no speculative position limit. Banks and dealers may thus limit trading at their discretion with an account on the basis of their commercial interests and credit exposure. Furthermore, there are usually no limitations on the daily price movements of forward contracts on currencies. Such forward transactions are subject to credit risk as explained in the section "Counterparty Risks".

### **Short Sales**

The Company may effect short sales of securities as part of their hedging strategy in a given investment or in those instances when the Company is of the belief that a given security is over-priced. Short sales are transactions in which the Company sells a security which it does not own (by borrowing such security), in anticipation of a decline in the market value of the security. Although the gain is limited by the price at which it sold the security short, losses from short sales may be unlimited if the price of the security sold short continues to appreciate. Additionally, even though the Company takes measures to secure a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Company to purchase the security at the then prevailing market price which may be higher than the price at which such security was originally sold short by the Company. There are additional regulatory requirements in respect of short sales that may adversely affect the performance of the Company. Several jurisdictions are implementing regulations which require short sellers to disclose short positions publicly or which limit the possibility to sell short in certain market conditions. Such short selling rules may limit the capacity of the Company to sell short and to achieve its investment objectives. Such regulations may also limit the Company's ability to go long due to the lack of liquidity.

### **Investment in Fixed-Income Instruments**

The value of fixed-income securities in which the Company invests will change in response to fluctuations in interest rates; except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of fixed-income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline.

### **Currency Exposure**

The Shares of the Company are denominated in Euro and US\$ and Shares will be issued and redeemed in those currencies. However, the Company and the Master Fund will use the US\$ as its base currency and will trade non-US\$ and non-Euro denominated instruments as well as US\$ and Euro denominated instruments. Accordingly, the value of the Shares may be affected favourably or unfavourably by fluctuations in currency rates of underlying investments of the Company. Although the Investment Manager will undertake a currency hedging policy which seeks to protect the Company against foreign exchange risk, there is no guarantee that such a policy will be successful, in whole or in part, and the costs of operating such policy will be borne by all Shareholders irrespective of whether they hold US\$ or Euro denominated Shares.

### **Money Market Funds**

Excess cash may be invested in money market funds. Money market funds generally are considered to be low risk, and, because by definition they are short-term securities, highly liquid. Nonetheless, these financial instruments are subject to risk, including default risk, depreciation risk and liquidity risk. For example, commercial paper is not backed by collateral. Issuers of commercial paper are required to have high credit ratings and defaults have been rare but they have nonetheless occurred. Money market funds are generally not insured or guaranteed. As a result, they are subject to a risk of loss.

### **Income**

An investment in the Company is not suitable for an investor seeking current income from such investment.

## **Past Performance**

Past performance of the Investment Manager is not necessarily indicative of future results attributable to the Shares. The Program is based on statistical methods for determining position weights in futures contracts, securities, currencies and derivatives. No assurances can be made that the Company will generate returns also in the future and that the methods of the Investment Manager will perform also in future market conditions. Historical returns are not a guarantee for future performance.

## **Concentration of Investments**

Although the Company will endeavour to diversify its portfolio, the Company may hold a few, relatively large futures, securities, derivatives or currency positions in relation to the capital of the Company. Consequently, a loss in any such position could result in significant losses to the Company and consequently to the Company and a proportionately higher reduction in the Net Asset Value of the Company than if the Company's capital had been spread among a wider number of positions.

## **Trading Costs**

The Company may engage in a high rate of trading activity resulting in correspondingly high brokerage costs, exchange fees, regulatory fees, clearing costs or other trading related costs being incurred.

## **Computer Systems Failures**

The trading strategy operated by the Investment Manager is based on computer generated trading signals. In addition, certain components of the trading strategy may generate high volume of trades that can only be processed using a fully automated trading infrastructure. Such strategies are thus highly dependent on the proper functioning of the IT systems and processes of the Investment Manager, the Counterparties, the Administrator, electronic trading platforms, exchanges, data providers, service providers and market infrastructure. In addition, such strategies are highly dependent on establishing reliable electronic communication links between the above parties.

Accordingly, any IT or communication systems degradation or failure at any of the above parties or their respective contractors could lead to errors, delays or disruptions in the trading process. Any such errors, consequential errors, delays or inability to trade (even for a short period), could, in certain market conditions cause an investment in the Company to experience significant losses or to miss significant trading opportunities. The Company will assume such losses in full.

In addition, any IT or communication systems degradation or failure could lead to materially detrimental consequences for the Company including holding erroneous positions, experiencing significant trading losses, failing to comply with trading limits and regulations as well as failing to comply with risk limits which may adversely impact the performance of an investment in the Company.

Many of the IT services utilised by the Company or the Investment Adviser are utilised on an as is basis and the service providers are frequently indemnified for any error or disruption in the service except in the case of gross negligence or wilful default.

## **Interpretation and Changes of Law and Regulations**

The offering and holding of the Shares and the business of the Company, the Master Fund, the Investment Adviser, the Administrator and the Counterparties as well as other service providers of the Fund is subject to numerous laws and regulations in multiple jurisdictions that may be difficult to interpret and that may be subject to change. Any change or change in the interpretation of existing laws and regulations may have a materially adverse effect on an investment in the Company. In particular the European Union is in the process of enacting several new regulations in relation to alternative investments and trading in financial instruments which may materially impact the Company's ability to achieve its investment objective or which may limit its ability to do business in the EU. It is recommended that an investor seek advice from his adviser before making an investment in the Company as to the legal and regulatory issues affecting an investment in the Company.

## **Tax and Regulatory Change**

The tax consequences to the Company or the Master Fund and their Shareholders, the ability of the Company or the Master Fund to repatriate its assets including any income and profit earned on those assets and other operations of the Company or the Master Fund are based on existing laws and regulations, which are subject to

change through legislative, judicial or administrative action in the various jurisdictions in which the Company, the Master Fund or the Investment Manager operate. It is recommended that an investor seek advice from his tax adviser before making an investment in the Company as to the potential tax consequences of any investment.

### **Accounting for Uncertainty in Income Taxes**

In June 2006, the Financial Accounting Standards Board in the US (“FASB”) released final Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48” or “ASC 740-10-25”), to provide consistent guidance on the recognition of uncertain tax positions. ASC 740-10-25 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes. ASC 740-10-25 prescribes the minimum recognition threshold that a tax position is required to meet before being recognised in an entity’s financial statements. It also provides guidance on derecognition, measurement, classification and interest and penalties with respect to tax positions. Although the Directors are not aware of such liabilities at the date of this Memorandum, a prospective investor should be aware that, among other things, ASC 740-10-25 could have a material adverse effect on the periodic calculations of the Net Asset Value of the Company and the Master Fund, including reducing the Net Asset Value of the Company and the Master Fund to reflect reserves for income taxes that may be payable in respect of prior periods by the Company and the Master Fund. This could cause benefits or detriments to certain Shareholders, depending upon the timing of their entry and exit from the Company.

### **Counterparty Risks**

The Company and the Master Fund may be party to banking, custody, execution, brokerage, prime brokerage, settlement, clearing, margining, stock lending, financing, repurchase, ISDA, netting agreements and may in the future enter into other agreements and transactions with banks, custodians, brokers, prime brokers, clearers, exchanges, clearing houses and other counterparties (collectively “Counterparties”). The foregoing are collectively referred to as “Counterparty Arrangements”. The default of any Counterparty on any obligation to the Company or the Master Fund could have a material adverse effect on the Company. While the Investment Manager selects Counterparties that it believes are creditworthy, the Investment Manager is not in a position to perform extensive credit analyses on its Counterparties. Furthermore, any misconduct on behalf of a Counterparty, including, without limitation, operational errors, faulty set-ups or fraudulent activities, may impact the Fund’s possible risk exposure (and thus affect the Company). Some of the markets in which the Fund effects transactions are “over-the-counter” or “interdealer” markets. For example, foreign exchange, swaps, forwards, OTC options, repurchase and other custom instruments may subject to the risk of non-performance by the foreign exchange, swap, clearing or repo counterparty in relation to any outstanding payments. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Fund to the risk that a Counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. In addition, the Fund is also subject to the risk of the failure of any of the exchanges on which security, derivative or foreign exchange trades or of the related clearinghouses.

In addition, the Counterparties may provide financing services to the Fund, whereby any shortfall in financing of the Fund’s assets is provided by a Counterparty. Any such financing is usually collateralised from the assets of the Fund. However, unlike other borrowing situations, a Counterparty may take physical delivery of the Fund’s assets and may be permitted to deal with them for their own account and not hold them in segregated client accounts. The Fund’s cash and assets may therefore be treated as being indistinguishable from the assets of the Counterparties and may not be segregated as client monies or assets. In the event of the insolvency of a Counterparty, the assets of the Fund, held by the Prime Brokers or other Counterparties, may therefore be in a position of general creditor to the Counterparty and consequently exposed to the Counterparty’s balance sheet including other creditors.

Because the performance of forward contracts on currencies is not usually guaranteed by an exchange or clearinghouse, forward trading may be subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the principal or agents through which the Investment Manager may trade. The Fund will enter into forward contracts on the interbank markets with the Counterparties. In the event of the bankruptcy of a Counterparty, the Fund may be treated as a general creditor of the Counterparty and may not be

able to recover any of its assets held as collateral by the Counterparty, or any unrealized gains on open contracts.

### **Failure of Counterparties and Other Service Providers**

The Counterparties and other service providers to the Fund may not be required to segregate client assets from their own assets, or from other client assets. In the event of the bankruptcy of a Counterparty or a service provider, the Company or Master Fund may not recover the entirety of its property.

### **Effect of Substantial Redemptions**

Substantial subscriptions/redemptions of Shares in the Company or any other vehicle holding shares of the Master Fund could require the Master Fund to adjust its positions in the markets more rapidly than would otherwise be desirable, which could adversely affect also the value of the Shares in the Company. Substantial redemptions might also cause the liquidation of the relevant Share Class.

### **Lack of custodian to the Company**

Although the Company intends to invest substantially all of its assets in the ordinary shares of the Master Fund, the Company may hold a share of the Net Asset Value of the Company in cash from subscriptions and to make provision for, inter alia, investment management and/or performance fees, foreign exchange hedging transactions and redemptions. Such cash will be held by the Company at banks and a separate custodian will not be appointed in respect thereof. The money will be held in the Company's bank account(s) and will therefore be subject to the credit risk of the bank with which the Company holds such account(s).

### **Limited Ability to Redeem**

Although Shareholders may require the Company to redeem any or all of their Shares in a Share Class on any Dealing Day at the prevailing Redemption Price, certain restrictions apply in certain circumstances (see the Section "Suspension of Issue and Redemption of Shares").

### **Reserve for Contingent Liabilities**

Under certain circumstances, the Company may find it necessary to establish a reserve for contingent liabilities or withhold a portion of a Shareholder's proceeds at the time of redemption from the Company, in which case the reserved portion would remain at the risk of the Company's and the Master Fund's activities.

### **Master-Feeder Fund Structure**

The Company realises its investment strategy through an investment in the Master Fund. The Company's investment in the Master Fund may be affected by an investment by other investors in the same Master Fund. In the event of substantial subscriptions/redemptions in the Master Fund by the Company or other investors, the Master Fund may incur additional costs mainly from adjusting position sizes. Such subscriptions/redemptions could also result in the Master Fund's portfolio being less diversified or liquid. Further, because all expenses of the Master Fund are shared pro-rata among its investors, if other investors in a Master Fund adjust their interests, then the possibility exists that the Company will bear the burden of an increased share of such Master Fund's expenses. Changes in governmental regulation, political structure, local economies and tax laws in jurisdictions where the Master Fund is domiciled or trade may also adversely impact the Company. The share classes of the Master Fund do not directly correspond to the Share Classes of the Company.

### **Cross Liability**

The Articles of the Company and the Master Fund empower the Directors to amend the Articles of the relevant company so as to create different classes of shares from time to time. The assets of the Company attributable to all Share Classes will be held as a pooled investment and invested in a single class of the Master Fund. Furthermore, the assets and liabilities of the Master Fund are also pooled, and held in the sole name of the Master Fund.

Profits and losses as well as income and expenses incurred by the Company will be allocated to the different Share Classes in the ratio of the Leveraged Equity of each Share Class to the total Leveraged Net Asset Value of the Company (as detailed in the Section "Net Asset Value of the Company"). Similarly, profits and losses as well as income and expenses incurred by the Master Fund, will be allocated to its different share classes in the ratio of the Leveraged Equity of each share class to the total Leveraged Net Asset Value of the Master Fund (as



detailed in the Section “Net Asset Value of the Master Fund”). Therefore, investors in Double Leverage Share Classes will bear approximately twice the risk and be entitled to approximately twice the return from the trading portfolio as investors in Standard Leverage Share Classes.

Notwithstanding this allocation of profits and losses to each Share Class, investors should be aware that in the event the Company or the Master Fund incurs losses, creditors of the Master Fund including the Counterparties will have access to all of the assets of the Master Fund (and thus of the Company) in satisfaction of their claims. In addition, in the event of insolvency of the Company or the Master Fund, the assets of any of the Share Classes shall be indistinguishable from each other.

In particular, the total leverage risk to which the Standard Leverage Share Classes will be exposed may exceed the leverage risk that would be applicable if the Standard Leverage Share Classes were operated as separate pools of assets from the Double Leverage Share Classes. See “Effect of Leverage Share Class Structure” below.

### **Potential Conflicts of Interest**

Jacques Saulière is a principal of the Investment Manager and a Director of the Company and the Master Fund. Mr. Saulière may, when acting as Director, have a conflict of interest with regard to decisions of the Board relating to transactions and agreements with, including remuneration paid to, the Investment Manager.

The Investment Manager will not be devoting its time exclusively to the management of the Company or Master Fund. In addition, the Investment Manager will perform similar or different services for other clients and may sponsor or establish other investment funds during the same period that it acts as the investment manager to the Company or the Master Fund. The Investment Manager, therefore, will have conflicts of interest in allocating management time, services and functions between the Company and the Master Fund and such other clients for which it provides services. The Investment Manager will, however, endeavour to achieve a fair allocation of its management time, services, functions and investment opportunities between the Company and Master Fund and any other such clients.

The Investment Manager may have conflicts of interest when allocating investment opportunities among the Company, Master Fund and its other clients. However, when making investments where a conflict of interest may arise, the Investment Manager will endeavour to act in a fair and equitable manner among the Company, Master Fund and the Investment Manager’s other clients. Specifically, when several clients of the Investment Manager seek to purchase or sell the same futures or options, the Investment Manager will allocate such transactions in compliance with CFTC rules. The Investment Manager has included trade allocation functions in the design of its automated trading systems which seek to fairly allocate trades across all of its clients participating in the same investment program.

In addition, purchase and sale transactions (including swaps) may be effected among the Company, Master Fund and other entities or accounts also advised by the Investment Manager subject to the following guidelines: (i) such transactions shall be effected for cash consideration at the current market price of the particular securities, and (ii) no additional brokerage commissions or fees (i.e., except for customary transfer fees or commissions) or other remuneration shall be paid in connection with any such transaction.

The Counterparties, the Administrator and other service providers to the Company or the Master Fund are all being retained on a non-exclusive basis. Other clients of the service providers (which may be affiliated or not with such providers) may thus be receiving similar services, as well as competing for the same resources as the Company or the Master Fund. Although, the Company and the Master Fund seek to retain reputable high quality service providers, no assurance can be made that the Company or the Master Fund will be treated in an equitable manner in relation to other clients of the service providers who may be larger or represent a more significant business interest than the Company or the Master Fund. Some of the service providers to the Company or the Master Fund or their employees or affiliates have expressed interest in investing in the Company and may have invested in funds managed by the Investment Manager. Such investment or potential investment, however, was not a factor in the Company’s or the Master Fund’s decisions to retain any service provider.

The Directors and the service providers may have conflicts of interest in relation to their duties to the Company. However, each shall, at all times, pay regard to its obligation to act in the best interests of the Company and the Directors shall ensure that all such potential conflicts of interest are resolved in a reasonably fair manner and in the interests of shareholders. When allocating investment opportunities, the Investment Manager will seek to ensure that all such investments will be allocated in a reasonably fair and equitable manner.

### **Risks Associated with Incentive Fees**

The compensation arrangements provide for a substantial Incentive Fee to be paid to the Investment Manager. See “Fee Structure” in the Memorandum. The existence of the Investment Manager’s Incentive Fee may create an incentive for the Investment Manager to make more speculative investments on behalf of the Fund than it would otherwise make in the absence of such performance-based compensation. The Incentive Fee is calculated per Share Class based on the Trading Profit of the Company allocated to each Share Class (as described in “Net Asset Value of the Company’s Share Classes”) and not on a per share basis. Due to the effect of dilution/adjustment of carry forward losses and carry forward profits at subscriptions/redemptions, Shareholders may bear a proportionately greater or lesser Incentive Fee depending on the timing of their subscriptions/redemptions in the Company.

### **Reliance on the Investment Manager**

The Company and the Master Fund each relies on the Investment Manager for the management of the Fund’s investment portfolio. There could be adverse consequences in the event that the Investment Manager and its principals cease to be available to devote their services to the Company or the Master Fund. In addition, the Investment Manager’s past experience is no guarantee of future results.

The Investment Manager operates an independent risk control team, which monitors operational and market risk of the traded portfolios. The independent risk control team does not cover the task of independently verifying the trading models developed by the Investment Manager’s research team.

### **Lack of Control**

Shareholders will have no right to participate in the management or control of the Company and/or the Master Fund. Accordingly, no person should purchase any Shares in the Company unless he is willing to entrust all aspects of management of the Company and the Master Fund to the Directors.

### **Possible Indemnification Obligations**

The Company and the Master Fund are each generally obligated to indemnify their Directors, the Investment Manager, the Administrator, the Prime Brokers and banks, brokers and dealers (as applicable) under the various agreements entered into with such persons against certain liabilities they or their respective affiliates may incur in connection with their relationship with the Company or the Master Fund. The Company and the Master Fund are each authorized to purchase insurance in respect of these indemnification obligations.

## **THE INVESTMENT MANAGER**

Pursuant to the Investment Management Agreements between the Investment Manager and each of the Company, the Master Fund, the Master Fund and the Company are managed by the Investment Manager. The Investment Manager also advises other funds and managed accounts engaging in the same Program as the Company and the Master Fund and other investment programs.

### **Business Background of the Investment Manager**

The Investment Manager, Capital Fund Management S.A. (“CFM”), was initially organized as a French partnership in January 1991 and was subsequently incorporated in 1993. The Investment Manager trades futures, foreign exchange, securities and derivatives in international leading financial centres. The Investment Manager was registered with the CFTC as a Commodity Trading Advisor on 5 May 1992, and subsequently on 25 July 1995, the Investment Manager filed for a 4.7 exemption. The Investment Manager was registered with the Commission des Opérations de Bourse (the predecessor to the Autorité des Marchés Financiers) on 6 July 1993 and with the SEC as a registered investment adviser on 7 April 2003. The Investment Manager is also a member of the National Futures Association. (The registration of the Investment Manager with any above-mentioned regulatory body does not imply or mean that this regulatory body has approved or are otherwise responsible for the Investment Manager or the information contained herein.) As of 1 June 2011, the Investment Manager was trading US\$3.6billion of notional equity on behalf of clients.

### **Management of the Investment Manager**

There are five principals of the Investment Manager.

**Jean-Philippe Bouchaud, Chairman & Chief Scientist.** Dr. Jean-Philippe Bouchaud was appointed Chairman and Chief Scientist of CFM in October 2001. At CFM, Dr. Bouchaud supervises, together with Dr. Potters, the research team of CFM, and contributes by maintaining strong links between CFM's research and the academic world.

After studying at the French Lycée in London, Dr. Bouchaud graduated from the École Normale Supérieure in Paris, France, where he obtained his Ph.D. in theoretical physics. He was then appointed as a researcher by the Centre National de la Recherche Scientifique ("CNRS") until 1992. After a year at the Cavendish Laboratory in Cambridge (UK), he joined the Service de Physique de l'État Condensé at the Commissariat à l'Energie Atomique ("CEA") at Saclay (France). Dr. Bouchaud became interested in theoretical and empirical finance in 1991. His research in quantitative finance led him to founding the research company S&F in 1994. S&F merged with CFM in July 2000.

Dr. Bouchaud is today a well-known authority within the field of Econophysics. His work, summarized in the book *Theory of Financial Risks and Derivative Pricing* (Cambridge University Press), includes new statistical models of returns and correlations, extreme risk control and option pricing beyond Black-Scholes. Dr. Bouchaud was awarded the IBM Young Scientist prize and the CNRS Silver Medal. He is also the Editor-in-Chief of Quantitative Finance.

**Marc Potters, Co-Chief Executive Officer.** Dr. Marc Potters joined CFM in October 1995 as a researcher in quantitative finance. Today he acts as Co-CEO of CFM.

Marc Potters holds a Ph.D. in physics from Princeton University (USA). Prior to joining CFM, he was a post-doctoral fellow at the University of Rome La Sapienza (Italy). Dr. Potters is the author, with Mr. Bouchaud, of the book *Theory of Financial Risk and Derivative Pricing* (Cambridge University Press).

**Jacques Saulière, Co-Chief Executive Officer.** Mr. Jacques Saulière joined CFM in October 2001. Today he acts as Co-CEO of CFM. Prior to joining CFM, Mr. Saulière worked, since February 1993, as Head of Sales at Ubitrade SA (today part of the SunGuard group). Mr. Saulière has thus in-depth knowledge in the development of state of the art software solutions for risk management within the financial industry. From 1988 to 1992, Mr. Saulière worked as a research consultant for major aerospace groups of the defense sector in France.

Mr. Saulière graduated from the École Centrale of Paris (France) in 1985. He also holds a M.Sc. in Electrical Engineering from the University of Southern California (USA) and an MBA from INSEAD at Fontainebleau (France).

Mr. Saulière serves as a director of the Company and the Master Fund as well as a director of other private investment funds managed by CFM.

**Philippe Jordan, President of CFMI.** Mr. Jordan joined CFM in 2005. Today he acts as President of CFM International Inc and a member of the board of directors of CFM S.A. He is responsible for CFM's global investor relations and counterparty management.

Prior to joining CFM, Mr. Jordan was a founding member of Indeman Capital Management, LLC ("IDM") a start-up focused on hedge fund incubation. Mr. Jordan joined IDM from Credit Suisse First Boston ("CSFB") where he was a director and the Global Head of Capital Introduction in the Prime Banking Group. He also worked in CSFB's Hedge Fund Development Group where he was the Head of hedge fund Origination and Distribution for the Americas. Prior to this, Mr. Jordan was a Senior Vice President in Hedge Fund Coverage and later the Co-Head of Alternative Investments at Daiwa Securities, America and a Senior Vice President in International Sales at Oppenheimer & Co. Mr. Jordan began his career as an Account Executive at Refco Group Limited in London. He served on the Board of Directors of FINEX from 1993 to 1999.

**Alphane S.A.:** Alphane S.A. (ex C.F.M. Holding S.A.) is a shareholder in CFM and is owned by the estate of Jean-Pierre Aguilar.

## **DIRECTORS OF THE COMPANY AND THE MASTER FUND**

The Directors of each of the Company and the Master Fund are set forth below.

The address of the Directors, for the purposes of the Company, is the registered office of the Company. All Directors act in a non-executive capacity.

**Jacques Saulière.** Details of Mr. Saulière appear under the Section "The Investment Manager".

**Allan D. Marshall.** Allan D. Marshall began his career in 1978 at the Bank of Bermuda Ltd., and in 1991 joined Chevron International as Corporate Secretary and Portfolio Manager. In 1992 he founded Bermuda's first bottled water company Pure Water and in September 1997 founded ClearWater Systems, a water treatment specialist company. He was appointed to the Bermuda Senate in 1997 and in November 1998 was elected to the House of Parliament in Bermuda where he served as a Member until 2003. In 1999 Mr. Marshall was appointed Director of Marketing for Argent Financial Group (Bermuda) Ltd and its various investment funds and in January 2009 was appointed as an independent director of the firm's successor entity, Centaur Financial Group (Bermuda) Ltd and its funds. In April 2008 Mr. Marshall joined the Board of Somers Real Estate Opportunity Fund and from February 2009 has been serving as a Marketing Consultant to the Fund. Mr. Marshall graduated from Princeton University in 1978 with a BA in Economics and Political Science.

**Humphry Leue.** Humphry Leue is the President and CEO of Alpha Consulting Services Inc. a business consultancy that he founded in Tortola, BVI in 2006. From April 2004 to July 2007 he served as Chief Operating Officer of the BVI International Finance Centre where he was responsible for executing the promotion and publicity programme for the Territory's financial services sector on behalf of the BVI Government. Prior to that, Mr. Leue spent 13 years in the offshore financial services industry in various management positions, first with the Citco Group from 1991 to 1999, followed by PricewaterhouseCoopers & Abacus Trust from 1999 to 2001 and then with the Amicorp Group from 2001 to 2004. Mr. Leue is a full member of STEP – the Society for Trust and Estate Practitioners, a former member of the Council of BVI Association of Registered Agents, a former director and vice-president of the BVI Chamber of Commerce and Hotel Association, and a former president, vice-president and director of the Rotary Club of Tortola. He qualified in 1988 with a B.Sc. in Accounting from the University of South Florida. Mr. Leue serves on the board of directors of several Business Companies and Mutual/Hedge Funds, both private and listed, and has chaired various Government and NGO Committees.

## **STRUCTURE OF THE COMPANY - CLASSES OF SHARES**

The Articles of the Company empower the Directors to create different classes of shares from time to time, implementing different fees, leverage levels, redemption terms or other terms as the Directors may determine. The Company is, as of the date of this Memorandum, authorised to issue up to 100,000,100 shares represented by: 100 Class A non-participating non-redeemable Voting Shares and 100,000,000 participating redeemable Non-Voting Shares divided into Class B, B1-N, B2-N, C, C1-N, C2-N, D, D1-N, D2-N, E, E1-N and E2-N Non-Voting Shares in such proportions as the Directors may determine. The Shares of the Company do not have any associated par value. The B1-N, B2-N, C1-N, C2-N, D1-N, D2-N, E1-N and E2-N Share Classes mean Share Classes labeled with an integer N which may vary from 1 to 100. In this Memorandum a reference to the Classes "B1-N", "B2-N", "C1-N", "C2-N", "D1-N", "D2-N", "E1-N" or "E2-N", without specifying the integer N, shall mean a combined reference to all the associated Classes where N is varied between 1 and 100. Each new investor in a B1-N, B2-N, C1-N, C2-N, D1-N, D2-N, E1-N or E2-N Share Class will thus be attributed a dedicated share class with an individual number, N. Additional subscriptions of an existing investor in such Share Class will be added to its investments in its dedicated Share Class.

As at the date of this Memorandum the Directors intend to issue up to 100,000,000 Non-Voting Shares divided into Class B, B1-N, B2-N, C, C1-N, C2-N, D, D1-N, D2-N, E, E1-N and E2-N Shares by way of the offering which is the subject of this Memorandum.

All 100 Class A Shares have been issued in registered form to Lawrie Limited, which is holding them in trust for certain Directors, on whose behalf Lawrie Limited has given to the Board a form of proxy executed in favour of the chairman of any Shareholder meeting. Lawrie Limited is owned by HWR Services Limited, the holder of a General Trust Licence issued by the Government of the BVI.

Class A Shares do not carry the right to participate in the assets of the Company on a winding up (other than return of paid up amounts on the Class A Shares (being US\$100) after payment of all other amounts due to other classes of shares) nor in any dividends or other distributions of the Company. The holder of each Class A Share is entitled to one vote per share on all matters which may arise for consideration by the holders of the issued and outstanding voting shares of the Company.

Holders of Non-Voting Shares are entitled to receive both dividends and other distributions as declared and to a pro-rata share of the NAV of the relevant Share Class on a winding up. The Shares are redeemable at the Redemption Price. Save as provided in the Articles of the Company, Non-Voting Shares carry no rights to vote.

When issued, all Non-Voting Shares will be fully paid and non-assessable. No Non-Voting Shares shall have preference, pre-emptive, conversion or exchange rights save that the rights of holders of Class A Shares to

return of paid-up amounts are deferred to those of other Shareholders as specified above and the Non-Voting Shares may be converted or exchanged into a new class of Shares established to represent the Company's interest in any Designated Investment. There are no outstanding options or any special rights relating to any Non-Voting Shares or Class A Shares, nor has it been agreed conditionally or unconditionally to put Non-Voting Shares or Class A Shares under option.

The Non-Voting Shares of the Company being offered hereunder are referred to as "Standard Leverage" or "Double Leverage". Because the Fund uses derivatives or may finance its trading activities by lending arrangements with its Counterparties, all investors bear leverage risk and the notional market exposure may materially exceed the actual margin, premium, settlement amount paid or posted upon entering into such positions. Due to the use of leverage, the Company (and the Master Fund) refers to the notional trading amounts of the Shares as the "leveraged net asset value" of the Shares. "Standard Leverage" Class Shares have a "leveraged net asset value" equal to their NAV per Share. "Double Leverage" Class Shares have a "leveraged net asset value" equal to twice the NAV per Share. Trading Profits and losses will be allocated among the share classes on the basis of their Leveraged Equity as described below in the Section 'Net Asset Value of the Company's Share Classes'.

**Classes B, B1-N and B2-N (US\$ Standard Leverage):** The B, B1-N and B2-N Share Classes have a US\$ base currency and a Leveraged Equity equal to their respective NAV.

**Classes C, C1-N and C2-N (US\$ Double Leverage):** The C, C1-N and C2-N Share Classes have a US\$ base currency and a Leveraged Equity equal to twice their respective NAV.

**Classes D, D1-N and D2-N (Euro Standard Leverage):** The D, D1-N and D2-N Share Classes have a Euro base currency and a Leveraged Equity equal to their respective NAV.

**Classes E, E1-N and E2-N (Euro Double Leverage):** The E, E1-N and E2-N Share Classes have a Euro base currency and a Leveraged Equity equal to twice their respective NAV.

## **Designated Investments**

In order to protect Shareholders and assure the liquidity of the Shares of the Company, the Directors of the Master Fund have the right to designate assets of the Master Fund as "**Designated Investments**" if a material amount of the Master Fund's assets are, in the judgment of the Directors, long-term, illiquid and/or without a readily ascertainable market value. The investment policy of the Master Fund is to invest in trading strategies that are highly liquid, Designated Investments may, however, arise in exceptional circumstances due to for example an instrument being delisted, a credit event in relation to an issuer or Counterparty, a general market dysfunction where either an issuer, counterparty, exchange, regulator or government renders an asset or a class of assets illiquid. The participation of the Company in investments that are not liquid is thus not an intentional part of the Company's or the Master Fund's trading program.

Upon designation as a Designated Investment by the Directors of the Master Fund, a portion of the Master Fund's shares may be converted or exchanged by way of redemption of a portion of the each shareholder's shares and a simultaneous subscription for a new class of participating shares of the Master Fund representing the interest in such Designated Investment (each, a "**Designated Share**"). The number of Designated Shares issued to each shareholder of the Master Fund as consideration for the shares redeemed in the Master Fund shall be calculated pro rata based on the Leveraged Equity of each shareholder in the Master Fund at the time of designation. This redemption and subscription may be affected without prior notice to the Shareholders. Each Designated Investment shall be represented by a different class and accounted for separately from other classes of Designated Shares.

Upon receipt of Designated Shares, the Directors of the Company may similarly establish a new class of participating shares of the Company representing the interest in such Master Fund Designated Shares and exchange a portion of the outstanding Shares by way of redemption of a portion of each Shareholder's Shares and simultaneous subscription for a new class of Shares of the Company in such manner as the Directors determine to be most equitable, which the Company expects will be on the basis of Leveraged Equity. The creation, redemption and subscription of a Designated Share in the Company or in the Master Fund may be effected without prior notice to the Shareholders.

Upon disposition of a Designated Investment or a determination by the Directors that such investment is no longer illiquid, the Directors may convert or exchange the Designated Shares participating in such Designated Investment back into the class of Non-Voting Shares held by the relevant Shareholder or distribute disposition proceeds in redemption of such Designated Shares as they may determine. For any Shareholder that had

previously requested a redemption of its Shares in full and is only holding Designated Shares, at the time of disposition the Directors will distribute disposition proceeds in redemption of Designated Shares and will not convert or exchange them into another Share Class unless requested to do so by the affected Shareholder.

If a Shareholder after the designation of a Designated Investment, requests a complete or partial redemption of its interest in the Company, the Company may either (i) satisfy the redemption request with respect to the portion of the Company's assets represented by Designated Investments only after the disposition of those Designated Investments, or (ii) satisfy the redemption request with an in-kind distribution of Designated Shares or Designated Investments.

Designated Investments will be valued on the books at fair value in accordance with US generally accepted accounting principles ("US GAAP") until their disposition. A "**disposition**" shall include a complete or partial sale of a Designated Investment with proceeds in US Dollars or freely convertible to US Dollars.

Shares acquired after the Company's creation and exchange or conversion of shares for Designated Shares are not entitled to participate in the gain, loss or income of the Designated Investment underlying any such previously created Designated Share. Such shares will, however, be entitled to receive their pro rata share of any additional Designated Shares created by the Company following their becoming a Shareholder.

The value of any Designated Investment will be estimated by the Directors and will be taken into account for purposes of determining any Management Fee or Incentive Fee payable to the Investment Manager and any allocation of Trading Profit or losses for the corresponding Classes of Shares offered in the Memorandum.

### **Pooling of Assets of Company's Share Classes**

The assets and liabilities of the Company are pooled in the name of the Company and are held in the name of the Company, and, except as described under Designated Investments, are not specifically allocated to any Share Class. The assets of the Company consist predominantly of class B shares in the Master Fund. Furthermore, as described below, the assets and liabilities of the Master Fund are also pooled, and held in the name of the Master Fund or a Counterparty and not in the name of any of its share classes. Profits and losses as well as income and expenses incurred by the Company will be allocated to the different Share Classes in the ratio of the Leveraged Equity of each Share Class to the total Leveraged Net Asset Value of the Company (as detailed in the Section "Net Asset Value of the Company").

## **STRUCTURE OF THE MASTER FUND – CLASSES OF SHARES**

The Company is a feeder fund in a master/feeder structure.

The investment activity of each of the Share Classes of the Company will be carried out by investing in the Master Fund. Substantially all of the proceeds from the issuance of Non-Voting Shares of the Company will be used to purchase class B shares in the Master Fund.

The Master Fund is, on the date of this Memorandum, authorised to issue up to: 100 class A Ordinary Voting Shares and 100,000,000 non-voting shares divided into class B, class B1, class C, class D, class E and Class F non-voting shares in such proportion as the Directors of the Master Fund may determine. Voting and non-voting shares will be issued in registered book entry form. The shares of the Master Fund do not have any associated par value. All shares of the Master Fund will be issued in registered form.

The class A shares of the Master Fund are held by the Company. Class A shares in the Master Fund do not carry the right to participate in the assets of the Master Fund on a winding up (other than return of paid-up capital after payment of all other amounts due to other classes of shares) nor in any dividends or other distributions of the Master Fund. The holder of each class A share in the Master Fund is entitled to one vote per share on all matters which may arise for consideration by the holders of the issued and outstanding voting shares of the Master Fund.

Holders of non-voting shares in the Master Fund (which will include the Company) are entitled to receive both dividends and other distributions as declared and to a pro-rata share of the NAV of the relevant share class on a winding up. The non-voting shares in the Master Fund are redeemable at the redemption price, save as provided in the Memorandum of Association of the Master Fund. Non-voting shares in the Master Fund carry no rights to vote.

When issued, all non-voting shares in the Master Fund will be fully paid and non-assessable. No non-voting shares in the Master Fund shall have preference, pre-emptive, conversion or exchange rights save that (i) the rights of holders of class A shares in the Master Fund to return of paid-up capital are deferred to those of other

shareholders of the Master Fund and (ii) the non-voting shares of the Master Fund may be converted or exchanged into a new class of shares established to represent any Designated Investment, each as specified above. There are no outstanding options or any special rights relating to any shares in the Master Fund, nor has it been agreed conditionally or unconditionally to put any shares in the Master Fund under option.

As at the date of this Memorandum the Directors of the Master Fund intend to issue up to 100,000,000 non-voting shares divided into class B and class B1 Shares in the Master Fund in such proportion as the Directors of the Master Fund may determine.

Class B shares in the Master Fund are expected to be offered solely to the Company. Class B1 shares in the Master Fund are expected to be offered solely to Discus Fund Limited, a feeder fund with a similar investment policy and objective as that of the Company.

The Directors of the Master Fund may create Designated Shares in the Master Fund as described above under "Structure of the Company -- Classes of Shares."

### **Pooling of Assets of Master Fund**

The assets and liabilities of the Master Fund will be held pooled in the name of the Master Fund, a Prime Broker, Futures Clearer or Counterparty of the Master Fund and not in the name of any of its share classes. In particular all accounts with the counterparties of the Master Fund such as Prime Brokers, Futures Clearers, Counterparties and the Administrator will be opened in the name of the Master Fund (and not a class). Profits and losses as well as income and expenses incurred by the Master Fund will be allocated to the different share classes in the ratio of the Leveraged Equity of each share class to the total Leveraged Net Asset Value of the Master Fund (as detailed in the Section "Net Asset Value of the Master Fund").

### **Effect of Leverage Share Class Structure**

Under normal trading situations, because of the structure of the allocations of Trading Profits (and losses) to the share classes of the Master Fund and the Share Classes of the Company, investors in Double Leverage Share Classes will receive approximately twice the return (before allocation of the Benchmark Rate) for a particular investment size compared to investors in Standard Leverage Share Classes and will bear approximately twice the risk of loss. The total return of the Double Leverage Share Classes will normally be slightly less than twice the total return of the Standard Leverage Share Classes because an amount equal to the Benchmark Rate times the NAV of a Share Class will be allocated to all Share Classes pro rata to their NAV rather than their Leveraged Equities. If losses were so significant that they exceed the entire NAV of the Double Leverage Share Classes issued at the level of the Master Fund, the NAV of the Standard Leverage Share Classes would be further reduced by the amount of such excess loss. As a result, the total leverage risk to which the Standard Leverage Share Classes will be exposed in extreme circumstances may exceed the risk that would be applicable if the Standard Leverage Share Classes were operated as separate pools of assets in a separate vehicle from the Double Leverage Share Classes or if there were no classes with a higher level of leverage at the level of the Master Fund.

### **CURRENCY HEDGING**

The Master Fund seeks to neutralise the foreign exchange ("FX") exposure of the Company by entering into currency transactions or hedges at the level of the Master Fund. For the Company to be hedged against FX variations, the Master Fund seeks to equal, the foreign exchange exposures of the Company's Euro Share Classes and USD Share Classes with the corresponding currency exposures of the Company's net assets.

### **COUNTERPARTY ARRANGEMENTS**

Counterparties to the Company and the Master Fund are selected by the Directors based on the recommendations of the Investment Manager. The Investment Manager continuously evaluates existing as well as new counterparties with the aim of achieving the best overall terms for the trading activities of the Company and the Master Fund. When considering counterparties, the Investment Manager considers leading financial institutions and evaluates a variety of factors, including market share, quality of market access, the capability to perform the straight through processing, quality of technology, level of commissions and fees, conditions for posting and holding of collateral, conditions for financing, quality of documentation and the financial strength, creditworthiness, regulatory status and reputation of the counterparty. This does not, however, constitute a representation by the Directors, the Company, the Master Fund or the Investment Manager as to the performance of any Counterparty.

The allocation of assets between the Counterparties will be determined by the nature and type of transaction and with a view to diversifying counterparty risk when practical. The status of the assets held by Counterparties in relation to credit risk may vary from general creditor to trust status depending on several factors including the rules of the markets traded, applicable laws and regulations, the regulatory status and operational procedures of the Counterparty, the contractual arrangements between the Counterparty and the Company or the Master Fund, the status of a trade in the trade cycle and the existence of any errors in the processing of trades or holding of positions. The assets held by each Counterparty will be held at the sole responsibility of each and no responsibility shall be taken by any Counterparty for the assets of the Company or the Master Fund held by other Counterparties or parties save as may be expressively agreed with a Counterparty.

The Company and the Master Fund reserve the right to change the Counterparty arrangements described below by agreement with the Counterparties and/or in its discretion, to appoint additional or alternative Counterparties and to remove Counterparties.

The Counterparties have not passed upon the adequacy or accuracy of this Memorandum. The Counterparties will act neither in any supervisory capacity with respect to the Company or the Master Fund nor participate in the management or the investment decision-making process of the Company or the Master Fund. Therefore, prospective investors should not rely on the Counterparties in deciding whether or not to invest in the Company.

The information below with respect to the Counterparties was provided by the relevant Counterparty and has not been independently verified by the Directors or the Investment Manager.

### **Soft Dollars**

The Investment Advisor has a policy not to accept any soft commissions that are outside the U.S. SEC 28(e) safe-harbour except when such arrangements are designed to enhance the quality of the service to clients and do not impair the Investment Advisor's ability to act in the best interest of its clients.

### **Execution Venues**

Although the Investment Manager generally trades on regulated markets, the Company and Master Fund have consented to the Investment Manager effecting transactions on the behalf of the Company or the Master Fund also outside a regulated market or multilateral trading facility.

The Investment Manager is obliged to inform its regulators about certain positions as well as transactions where the Investment Manager trades on the behalf of the Company or Master Fund as a member of an exchange based in the EU. Consequently, the Company and the Master Fund have agreed to waive any duty of confidentiality attaching to the information which the Investment Manager is required to disclose to its regulators.

### **PRIME BROKERS AND FUTURES CLEARERS**

Substantially all of the assets of the Company are invested in the Master Fund as soon as practicable after receipt into subscription accounts at the Administrator other than a small amount of cash to cover certain Company expenses, which cash is held in an account in the name of the Company at HSBC Bank plc. The Counterparties are responsible for substantially all assets of the Master Fund.

The Master Fund executes and clears its transactions through a variety of brokers and clearing firms, including Barclays Capital Securities Limited and Deutsche Bank AG and their affiliates (together with other prime brokers which may be used in the future, the "**Prime Brokers**"), which currently serve as the Master Fund's Prime Brokers. In addition, the Master Fund enters into a variety of OTC derivatives with the Prime Brokers and other counterparties. The assets of the Master Fund which are held by the Master Fund's Prime Brokers are to be held in accordance with the rules of the regulatory authorities supervising such Prime Brokers.

Prime brokerage services in relation to securities or foreign exchange may be provided by the Prime Brokers both under prime brokerage agreements (and related annexes) ("cash prime brokerage") or under ISDAs and related Annexes ("synthetic prime brokerage"). Certain securities held at Prime Brokers may also be financed through repurchase agreements. In addition, the Master Fund may enter into a variety of OTC derivatives with the Prime Brokers and other Counterparties.

The Master Fund also has futures and options clearing agreements with Barclays Bank plc, Barclays Capital, Inc and Deutsche Bank Securities, Inc (together with other futures clearers and clearing firms which may be used in the future, the "**Futures Clearers**"), which currently serve as Futures Clearers to the Master Fund.



The assets of the Master Fund which are held by the Master Fund's Prime Brokers and Futures Clearers are to be held in accordance with individual agreements and the laws and regulations applicable to each respective Counterparty.

The Prime Brokers and Futures Clearers are responsible for holding all assets of the Master Fund deposited with them. Cash, collateral and margin and securities held in accounts with a Prime Broker, Futures Clearer or other broker need not be segregated and may be available to the creditors of the respective Counterparties in the event of a default. Prime Brokers and Futures Clearers may have the right to reuse the assets of the Master Fund thus exposing the Master Fund to the creditworthiness of the Counterparty. Depending on the regulatory status of a particular derivative as well as that of a Futures Clearer, certain derivatives contracts and the related collateral may be required to be held on a segregated basis. The Prime Brokers and Futures Clearers are generally not liable in respect of any act or omission of any sub-custodian nor for any losses directly or indirectly suffered by the Master Fund as a result of the liquidation, bankruptcy or insolvency of a sub-custodian, which losses would be borne by the Master Fund.

The Prime Brokers and Futures Clearers will be entitled to financing charges for financing of long or short positions and trade processing fees which vary according to the volume of trading as well as instruments and markets traded. The Prime Brokers and Futures Clearers may act as executing and/or clearing brokers for the Master Fund and as such are paid commissions for executing and clearing trades on behalf of the Master Fund.

The agreements entered into with the Prime Brokers and Futures Clearers contain indemnities in favor of the Counterparties. Please see "Material Contracts" section below for a description of these indemnities.

### **Barclays Capital Securities Limited**

The Directors of the Master Fund have appointed Barclays Bank plc ("**Barclays**") as interbank FX counterparty and Futures Clearer to the Master Fund and Barclays Capital Securities Limited ("**BCSL**") as Prime Broker to the Master Fund thus performing the function of general netting counterparty for the trading of futures, options, foreign exchange spot and forward transactions.

BCSL will also provide a custody service for all of the Master Fund's investments held on the books of BCSL as part of its prime brokerage function in accordance with the terms of the Prime Brokerage Agreement and the rules of the FSA. BCSL may appoint sub-custodians, provided that the BCSL shall exercise reasonable skill, care and diligence in the selection of a suitable sub-custodian and shall be responsible to the Master Fund for the duration of the sub-custody agreement for satisfying itself as to the ongoing suitability of the sub-custodians to provide custodial services to the Master Fund. BCSL will also maintain an appropriate level of supervision over the sub-custodians and will make appropriate inquiries periodically to confirm that the obligations of the sub-custodians continue to be competently discharged.

The Master Fund's investments may be borrowed, lent or otherwise used by BCSL for its own purposes without notice to the Master Fund, whereupon such investments will become the property of BCSL and the Master Fund shall have a right against BCSL for the return of equivalent assets (including the market value in cash of such investments). The Master Fund will rank as an unsecured creditor in relation thereto and, in the event of the insolvency of BCSL, the Master Fund may not be able to recover such equivalent assets in full.

BCSL is a limited liability, wholly-owned subsidiary of Barclays which is regulated by the FSA.

Barclays will act as a counterparty to the FX spot and FX forward trading of the Master Fund in accordance with the terms of the ISDA Master Agreement. Barclays may also act as broker and clearer of futures on all major futures exchanges in accordance with the Futures Execution and Clearing and Exchange Traded Commodities Transactions Agreement.

Barclays is a public limited company registered in England under number 1026167. The liability of the members of Barclays is limited. Barclays was incorporated on August 7, 1925, under the Colonial Bank Act 1925 and on October 4, 1971, was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on January 1, 1985, Barclays was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank plc".

Barclays and its subsidiary undertakings (taken together, the "**Group**") is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays is beneficially owned by Barclays plc, which is the ultimate holding company of the Group and one of the largest financial

services companies in the world by market capitalisation. Barclays is authorised and regulated for the conduct of investment business in the United Kingdom by the FSA.

### **Barclays Capital, Inc**

Barclays Capital Inc. ("BCI") has been appointed as a Prime Broker to the Master Fund pursuant to a futures clearing agreement effective 23 August 2008 and supplemental documents. BCI is regulated in the conduct of its investment business by the United States Securities and Exchange Commission ("SEC"). In its capacity as a Prime Broker, BCI will execute purchase and sale orders for the Company, and clear and settle such orders and orders executed by other brokers.

### **Deutsche Bank AG**

The Master Fund has appointed Deutsche Bank AG ("DB") acting through its London and New York branches to provide foreign exchange prime brokerage services to the Master Fund. The assets of the Master Fund will be held at DB pursuant to the Foreign Exchange Prime Broker Agreement, the ISDA Agreement, the Deposit Agreement and, in some cases, other product-specific supplemental documents with DB ("DB FX Prime Broker Agreements"). The foreign exchange prime brokerage services provided by DB include executing, clearing and settling transactions and extending loans to the Master Fund.

Under the terms of the DB FX Prime Broker Agreements, the Master Fund and Deutsche Bank AG may enter into OTC derivative transactions. The Master Fund will be required to post collateral in respect of such transactions and Deutsche Bank AG is not required to post collateral. The ISDA Master Agreement and the Foreign Exchange Prime Brokerage Agreement entered into with Deutsche Bank AG contain indemnities in favor of the bank for losses arising as a result of breach of representation by the Master Fund and in the event of any early termination of all transactions under the ISDA or the Foreign Exchange Prime Brokerage Agreement as a result of the Master Fund's default.

The Master Fund will grant to DB a right of set-off, general lien and continuing first security interest over the interests and rights in relation to the assets of the Master Fund held by DB to secure all obligations, contracts and liabilities of the Master Fund to DB. The Master Fund's cash including foreign exchange held at DB may not be segregated from DB's own cash and may be used by DB in the course of its investment business, and the Company in respect of the cash will therefore rank as one of DB's general creditors.

All transactions and arrangements contemplated by the DB FX Prime Broker Agreements may be terminated by the DB in accordance with the terms of the DB FX Prime Broker Agreements. The Master Fund reserves the right, in its discretion, to change the prime brokerage and custodian arrangements described above.

Deutsche Bank AG is a Credit Institution regulated principally in Germany by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). The primary regulator in the U.S. of Deutsche Bank AG, New York Branch is the Federal Reserve Bank and the State of New York Banking Department. Deutsche Bank AG, London operates under the passporting provisions of the EU Second Banking Directive and additionally (in respect of activities not so passported) under authorization from FSA under the Financial Services and Markets Act 2000.

DB will not provide investment advisory or discretionary management services to the Company nor the Master Fund. DB may from time to time introduce potential investors to the Company. Since an increase in the size of the Company would likely result in additional compensation to the prime broker and to the Investment Manager, DB and the Investment Manager may receive a benefit from the introduction of investors to the Company.

### **Deutsche Bank Securities, Inc**

Deutsche Bank Securities, Inc ("DBSI") has been appointed as a Futures Clearer to the Master Fund pursuant to futures and options account agreement. In its capacity as Futures Clearer, DBSI will execute purchase and sale listed derivatives orders for the Master Fund, and clear and settle such orders and orders executed by other brokers. Pursuant to the futures and options agreement, the Master Fund's derivatives contracts and related collateral are to be held by DBSI as a futures clearer which under U.S. regulations includes segregation of certain derivatives contracts and related collateral. DBSI is regulated in the conduct of its investment business by the SEC.

## **BANKERS**

### **BNP Paribas**

The Master Fund and BNP Paribas London branch ("BNPP") have entered into a prime brokerage agreement that has been limited in scope to cover solely the opening and operation of cash accounts. BNPP is regulated in the conduct of its investment business by the Financial Services Authority ("FSA") of the United Kingdom.

Any cash held or received for the Master Fund by or on behalf of BNPP will not be treated as client money by BNPP and will not be subject to the client money protections conferred by the FSA Client Money Rules. Accordingly, the Master Fund's cash will not be segregated from the cash of BNPP and such cash may be used by BNPP in the course of its investment business and the Master Fund will rank as a general creditor of BNPP in the event of BNPP's insolvency. BNPP may appoint sub-custodians for the holding of cash.

BNPP will receive fees for its services at normal commercial rates as may agreed from time to time. BNPP acts solely as a service provider and does not participate in the Company's investment decision-making process.

The Company and the Master Fund each have agreed to indemnify BNPP and certain of its affiliates from and against any and all losses, liabilities and costs incurred by BNPP as a result of a material breach by the Company or the Master Fund of the relevant prime brokerage agreement.

Either party to the prime brokerage agreement shall be entitled to terminate the prime brokerage agreement at any time by giving 14 days written notice, save that termination of the prime brokerage agreement shall not affect any contractual provision intended to survive termination or any transaction or obligation outstanding at the termination date.

### **HSBC Bank plc**

The Company and the Master Fund have both opened bank accounts with HSBC Bank plc ("HSBC Bank") to act as banker in relation to certain of their excess cash not held with other Counterparties. HSBC Bank provides services under normal commercial terms. HSBC Bank plc is and is a wholly-owned subsidiary of HSBC Holdings plc. HSBC Bank plc is regulated by the Financial Services Authority under registration number 114216.

HSBC Bank will provide services under normal commercial terms to the Company and Master Fund. It is the responsibility of the Company and Master Fund (and not HSBC Bank) to ensure that cash of the Company and Master Fund is deposited with HSBC Bank. It is also the responsibility of the Company and Master Fund to monitor its cash position at HSBC Bank.

### **JP Morgan Chase Bank, NA**

The Master Fund has appointed JP Morgan Chase Bank, National Association ("JP Morgan") to act as banker in relation to certain of the Master Fund's cash not allocated with prime brokers, custodians or other banks. JP Morgan will provide services under normal commercial terms.

The JP Morgan is a wholly owned subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency. As at 30 June 2009, the Bank had total assets of US\$1,664billion, total net loans of US\$575.4billion, total deposits of US\$974.5billion, and total stockholder's equity of US\$132.1billion. These figures are extracted from JP Morgan's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at 30 June 2009, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at [www.fdic.gov](http://www.fdic.gov). It is the responsibility of the Master Fund as the case may be (and not JP Morgan) to manage cash and to monitor cash position at JP Morgan.

## **SEPARATE RESPONSIBILITIES OF COUNTERPARTIES**

The allocation of assets between Prime Brokers, Futures Clearers, Bankers and any other Counterparties will be determined by the nature and type of transaction and with a view to diversifying counterparty risk when practical. The assets held by the each of the Prime Brokers, Futures Clearers, or any other Counterparty will be

held at the sole responsibility of each and no responsibility shall be taken by any Counterparty for any of the assets of the Master Fund held by the other Counterparties or parties.

## **THE ADMINISTRATOR, REGISTRAR AND TRANSFER AGENT**

The Directors have appointed HSBC Securities Services (Ireland) Limited to act as administrator for the Company and the Master Fund pursuant to the Administration Agreements. The Administrator will have the responsibility for the administration of the Company's and the Master Fund's affairs including the calculation of the NAV of each and preparation of the accounts, subject to the overall supervision of the Directors.

The Directors have also appointed the Administrator as registrar and transfer agent for the Company and the Master Fund. The services provided by the Administrator, in the context of acting as Registrar, include the maintenance of a copy of the Register representing the Master Fund and the Company's records relating to Shares; processing of subscription applications; anti-money laundering procedures; receipt of requests for redemption; authorization of redemption payments; authorization of disbursements of management and incentive fees, commissions and other charges; and other services as agreed on by the parties. A copy of the share register of the Company and the Master Fund will be maintained at their respective Registered Offices in the BVI.

The Administrator was incorporated in Ireland as a limited liability company on 29 November 1991 and is an indirect wholly-owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales. As at 31 December 2010, HSBC Holdings plc had consolidated gross assets of approximately US\$2,455 billion.

The Administration Agreements provide that the appointment of the Administrator will continue in force unless and until terminated by either party giving to the other not less than 12 months written notice although in certain circumstances the Administration Agreements may be terminated forthwith by notice in writing by either party to the other. The Administration Agreements contain indemnities in favor of the Administrator other than matters arising by reason of its fraud, negligence or willful default in the performance of its duties and obligations, and provisions regarding the Administrator's responsibilities.

The Administrator is not involved directly or indirectly with the business affairs, organisation, sponsorship or management of the assets of the Company or the Master Fund and is not responsible for the preparation of this document other than the preparation of the above description and accepts no responsibility or liability for any information contained in this document except disclosure relating to it.

## **FEES, COMPENSATION AND EXPENSES**

The Master Fund will be liable to pay all expenses of the Master Fund and has agreed with the Company and Discus Fund Limited to pay all expenses of such companies as well.

The Master Fund will pay brokerage commissions and transactions charges and management and incentive fees of the Investment Manager, which are calculated and charged against the NAV of the Share Classes as set forth below.

The Master Fund will also pay all other fees, costs and expenses including, but not limited to, the fees of the Administrator, the fees of the Directors, the expenses incurred in connection with the organisation of the Company and the Master Fund, operating expenses incurred by the Company, Discus Fund Limited, the Master Fund including legal, auditing, registration, company secretarial, licensing, stock exchange listing fees, governmental filing fees, and printing costs. The Investment Manager may pay the organizational expenses of the Company, which are expected to be approximately US\$100,000, in which case it may invoice the Master Fund for reimbursement of such costs over such period as the Investment Manager may determine.

### **Brokerage Expenses, Transaction Charges and Financing**

The Prime Brokers and other Counterparties will receive such fees, rates and commissions as may be agreed with the Fund or the Master Fund, as applicable, from time to time and will be paid at normal commercial rates. It is not possible to predict accurately the total amount of brokerage commission, exchange fees, regulatory charges, clearing fees, other transaction charges or the cost of financing which will be paid by the Master Fund, since such costs are dependent on the volume of trading and the nature of the financed positions and the prevailing rates.

## **Initial Charges**

An Initial Charge of up to 3% of the amount of any requested subscription may be charged at the discretion of the Directors and paid to sales agent for the Company. If charged, such Initial Charges will reduce the number of shares issued to the Subscriber.

## **Service Providers' Fees**

The Directors' fees are US\$5,000 per year per Director and are subject to adjustment. The Administrator receives a fee for all services performed by for the Fund at a rate, of 0.125% to 0.05% per annum of the Leveraged Net Asset Value of the Master Fund, subject to a monthly minimum fee of US\$3,500 per month.

## **The Investment Manager's Fees**

The Investment Manager will receive a management fee, calculated on each Valuation Day and paid monthly in arrears, in the amount of 2% per annum of the NAV (prior to any reductions in respect of Management or Incentive Fees accrued on the Valuation Date) of the B and D Share Classes of the Company.

The Investment Manager will receive a management fee, calculated on each Valuation Day and paid monthly in arrears, in the amount of 1.5% per annum of the NAV (prior to any reductions in respect of Management or Incentive Fees accrued on the Valuation Date) of the B1-N and D1-N Share Classes of the Company.

The Investment Manager will receive a management fee, calculated on each Valuation Day and paid monthly in arrears, in the amount of 1% per annum of the NAV (prior to any reductions in respect of Management or Incentive Fees accrued on the Valuation Date) of the B2-N and D2-N Share Classes of the Company.

The Investment Manager will charge a management fee of 4% per annum of the NAV (prior to any reductions in respect of Management or Incentive Fees accrued on the Valuation Date) of the C and E Share Classes of the Company.

The Investment Manager will charge a management fee of 3% per annum of the NAV (prior to any reductions in respect of Management or Incentive Fees accrued on the Valuation Date) of the C1-N and E1-N Share Classes of the Company.

The Investment Manager will charge a management fee of 2% per annum of the NAV (prior to any reductions in respect of Management or Incentive Fees accrued on the Valuation Date) of the C2-N and E2-N Share Classes of the Company.

In addition, the Investment Manager will be paid an incentive fee (the "**Incentive Fee**") quarterly of 25% of the Trading Profits (see below) of each of the B, C, D and E Share Classes, 22.5% of the Trading Profits of each of the B1-N, C1-N, D1-N and E1-N Share Classes and 20% of the Trading Profits of the B2-N, C2-N, D2-N and E2-N Share Classes of the Company as described below.

### *Trading Profits*

"Trading Profits" for each Share Class over any period means the sum of:

- a.) the increase of the NAV of that Share Class over such period net of commissions and other expenses (except incentive fees for such period) and after taking into account all subscriptions, redemptions, dividends and distributions since the inception of the Share Class; minus
- b.) the Carry Forward Loss (see below), if any as at the preceding period end as set forth below; plus
- c.) the amount of any Carry Forward Loss Adjustment (see below) determined as set forth below; minus
- d.) the amount of any Carry Forward Profit Adjustment (see below) determined as set forth below.

### *Carry Forward Loss*

If Trading Profits as of any date since the last quarter end for which an incentive fee was payable is negative, the amount thereof shall be the Share Class' "Carry Forward Loss".

### *Carry Forward Loss Adjustment*

In the event of a redemption at a time when the Share Class has a Carry Forward Loss in effect, the amount thereof shall be reduced by an amount determined by multiplying (x) the Carry Forward Loss by a fraction, (y) the numerator of which shall be the number of shares redeemed and (z) the denominator of which shall be the

number of the shares of the Share Class prior to the redemption. This reduction shall be the Carry Forward Loss Adjustment.

#### *Carry Forward Profit*

If Trading Profits as of any date since the last quarter end for which an incentive fee was payable is positive, the amount thereof shall be the Share Class' "Carry Forward Profit".

#### *Carry Forward Profit Adjustment*

In the event of a redemption at a time when the Share Class has a Carry Forward Profit in effect, the amount thereof shall be reduced by an amount determined by multiplying (x) the Carry Forward Profit by a fraction, (y) the numerator of which shall be the number of shares redeemed and (z) the denominator of which shall be the number of the shares of the Share Class prior to the redemption. This reduction shall be the Carry Forward Profit Adjustment.

The Incentive Fee will be calculated on each Valuation Day, accrued monthly and will be paid quarterly in arrears.

In the event of redemption at a time when the Share Class has a Carry Forward Profit in effect, an incentive fee will be payable to the Investment Manager in an amount equal to the Incentive Fee of the Share Class multiplied by the Carry Forward Profit Adjustment determined as set forth above.

The Investment Manager will also be reimbursed for approved out of pocket expenses.

### **NET ASSET VALUE**

#### **Net Asset Value of the Master Fund**

The NAV and the NAV per Share of the Master Fund will be determined by the Administrator on each Valuation Day, on the basis of the prevailing prices at the close of business of the respective markets on the relevant Valuation Day.

The NAV of the Master Fund means total assets less total liabilities of the Master Fund, determined according to the following principles and on the basis of accounting principles generally accepted in the United States ("US GAAP"), consistently applied. The NAV of the Master Fund shall include all cash and cash equivalents, accrued income, the market value of open positions and other assets maintained by the Master Fund, less all other liabilities of the Master Fund (including accrued fees and expenses, if any, but excluding any amounts paid up on the issued share capital of the Master Fund) determined in accordance with the principles as specified below.

Assets will be valued in accordance with the following principles:

- Shares or units in open-ended funds will be valued at the last available net asset value for such shares or units on the relevant Valuation Day, failing which they shall be valued at the last available net asset value whether estimated or actual which is calculated at or prior to such Valuation Day, provided that if events have occurred which may have resulted in a material change in the net asset value of such shares or units since the date on which the last net asset value was calculated, the value of such shares or units may be adjusted in order to reflect, in the reasonable opinion of the Directors, such change;
- Any security which is listed or quoted on a securities exchange or similar electronic system and regularly traded thereon will be valued at its last closing price on the relevant Valuation Day or, if no trades occurred on such day, at the last available closing price, and as adjusted in such manner as the Directors, in their sole discretion, think fit, having regard to the size of the holding, and where prices are available on more than one exchange for a particular security the Directors will in their sole discretion determine which of those prices shall apply;
- Any security which is not listed or quoted on any securities exchange or similar electronic system or, if being so listed or quoted, is not regularly traded thereon or in respect of which no prices as described above are available will be valued at its fair value as determined by the Directors having regard to its cost price, the price at which any recent transaction in the security may have been effected, the size of the holding having regard to the total amount of such security in issue, and such other factors as the Directors in their sole discretion deem relevant in considering a positive or negative adjustment to the valuation;

- Any options contract traded on an exchange, or through a clearing firm of an exchange or through a financial institution (including off-exchange contracts) shall be valued at the most recent available closing mid quotation on such exchange, clearing firm or financial institution where possible or at the last traded, bid or ask price. Options for which no closing prices are available are valued at the price indicated by the prime broker or a price calculated by an independent valuator as reasonably chosen by the Administrator. Where such investments are dealt in or traded on more than one exchange, the Directors at their discretion may determine which exchange shall prevail for this purpose;
- Any futures contract traded on an exchange, or through a clearing firm of an exchange or through a financial institution (including off-exchange contracts) shall be valued at the most recent available closing quotation (settlement prices) on such exchange, clearing firm or financial institution. Where such investments are dealt in or traded on more than one exchange, the Directors at their discretion may determine which exchange shall prevail for this purpose;
- Deposits will be valued at their cost and money market instruments at their face value, plus accrued interest;
- Designated Investments will be valued by the Directors in their sole discretion at their fair value in accordance with US GAAP;
- The Directors and the Administrator may seek confirmations from the Counterparties or the Administrator and their respective affiliates as well as external experts to assist in determining the value of the assets held by Counterparties for the Master Fund's account;
- The income and expenses of the Master Fund will be determined on an accrual basis;
- The net asset valuations will comply with US GAAP.

#### **Net Asset Value of the Master Fund's Share Classes**

NAV per Share means the NAV of a share class divided by the number of issued shares of the relevant share class outstanding, and will be expressed in USD or Euro, as applicable, rounded to the nearest whole US cent or Euro cent, as applicable.

The NAV of each share class of the Master Fund will be computed on each Valuation Day. The monthly variation of the NAV of the Master Fund (profits or losses) will be allocated among the Share Classes of the Master Fund according to the following rules:

- Let  $N_{Master}(M-1)$  be the NAV of the Master Fund at the Previous Valuation Day,  $M-1$ , converted to USD at that day's conversion rates;
- Let  $N_{Master}(M)$  be the NAV of the Master Fund at the Valuation Day,  $M$ , before accounting for management and incentive fee of month  $M$ ;
- Let  $X$  be the variation from the previous Valuation Day to the next  $X = N_{Master}(M) - N_{Master}(M-1)$ ;
- Let  $Y$  be equal to the sum of the previous Valuation Day's value of the Euro Share Classes of the Company times the variation of the EUR/USD exchange rate;
- Let  $Y'$  be the equal to the sum of previous Valuation Day's value of the Euro Share Classes of the holder of the B1 shares times the variation of the EUR/USD exchange rate;
- Let  $Y''$  be the previous Valuation Day's value of the E share class of the Master Fund times the variation of the EUR/USD exchange rate;
- Let  $Y'''$  be the Benchmark Rate applied to the previous Valuation Day's value of each Share Class of the Company plus the Benchmark Rate applied to the previous Valuation Day's value of each Share Class of the holder of the B1 shares plus the Benchmark Rate applied to the previous Valuation Day's value of the C, D, E, and F share classes of the Master Fund;
- Let  $Y''''$  be the part of the Master Fund's NAV variation  $X$  due to non CFTC-approved futures contracts;
- Let  $Z$  be equal to  $X$  minus  $Y$  minus  $Y'$  minus  $Y''$  minus  $Y'''$  minus  $Y''''$ .  $Z$  will be distributed among the Master Fund's outstanding share classes other than any Designated Share Class (class B, B1, C, D, E, and F) proportionally to their Leveraged Net Asset Values, as defined hereunder, at end of month  $M-1$ .  $Y$  will be fully allocated to class B.  $Y'$  will be fully allocated to class B1.  $Y''''$  will be distributed among the

share classes B, B1, D and E proportionally to their Leveraged Net Asset Values, as defined hereunder. The Leveraged Net Asset Values of class B is defined as the Leveraged Net Asset Value of the Company. The Leveraged Net Asset Values of class B1 is defined as the Leveraged Net Asset Value of the holder of the B1 shares. The Leveraged Net Asset Values of class D, Class E and Class F is defined as twice the Net Asset Values of each share class;

- j.) Each of the B, B1, C, D, E and F share classes will be credited its corresponding share of Y'''. The Master Fund Class B shares will be credited the Benchmark Rate applied to the previous Valuation Day's value of each Share Class of the Company. The Master Fund Class B1 shares will be credited the Benchmark Rate applied to the previous Valuation Day's value of each share class of the holder of the B1 shares. Each of the C, D, E and F share class will be credited the Benchmark Rate applied to the previous Valuation Day's value of each such share class of the Master Fund;
- k.) Each share class will provide for management and incentive fees independently (see "Fees, Compensation and Expenses" above); and
- l.) For Euro share classes, these amounts will be converted to EUR.

The Administrator will, subject to the discretion of the Directors as described above, at all times retain responsibility for the calculation of the NAV.

The Directors may determine to allocate to the share classes extraordinary items, taxes not previously taken into account and similar items on such basis as they determine to be equitable consistent with the general allocation principles set forth above.

In the event that any Designated Shares are created, their NAV will be calculated separately, which may impact the above formulas.

### **Net Asset Value of the Company**

The NAV of the Company and the NAV per Share will be determined by the Administrator on each Valuation Day on the basis of the prevailing prices at the close of business of the respective markets on the relevant Valuation Day.

The NAV of the Company means total assets less total liabilities of the Company, determined according to the following principles and on the basis of US GAAP, consistently applied.

The NAV of the Company shall include all cash and cash equivalents, accrued income, the market value of open positions and other assets maintained by the Company, less all liabilities (including accrued fees and expenses, if any, but excluding any amounts paid up on the issued share capital of the Company) determined in accordance with the principles as specified below.

Assets will be valued in accordance with the following principles:

- Shares in the Master Fund will be valued at the last available net asset value for such shares or units on the relevant Valuation Day, failing which they shall be valued at the last available net asset value whether estimated or actual which is calculated at or prior to such Valuation Day, provided that if events have occurred which may have resulted in a material change in the net asset value of such shares or units since the date on which the last net asset value was calculated, the value of such shares or units may be adjusted in order to reflect, in the reasonable opinion of the Directors, such change;
- Any security which is listed or quoted on a securities exchange or similar electronic system and regularly traded thereon will be valued at its last closing price on the relevant Valuation Day or, if no trades occurred on such day, at the last available closing price, and as adjusted in such manner as the Directors, in their sole discretion, think fit, having regard to the size of the holding, and where prices are available on more than one exchange for a particular security the Directors will in their sole discretion determine which of those prices shall apply;
- Any security which is not listed or quoted on any securities exchange or similar electronic system or, if being so listed or quoted, is not regularly traded thereon or in respect of which no prices as described above are available will be valued at its fair value as determined by the Directors having regard to its cost price, the price at which any recent transaction in the security may have been effected, the size of the holding having regard to the total amount of such security in issue, and such other factors as the Directors in their sole discretion deem relevant in considering a positive or negative adjustment to the valuation;



- Any options contract traded on an exchange, or through a clearing firm of an exchange or through a financial institution (including off-exchange contracts) shall be valued at the most recent available closing mid quotation on such exchange, clearing firm or financial institution. Options for which no closing prices are available are valued at the price indicated by the prime broker or a price calculated by an independent valuator as reasonably chosen by the Administrator. Where such investments are dealt in or traded on more than one exchange, the Directors at their discretion may determine which exchange shall prevail for this purpose;
- Any futures contract traded on an exchange, or through a clearing firm of an exchange or through a financial institution (including off-exchange contracts) shall be valued at the most recent available closing quotation (settlement prices) on such exchange, clearing firm or financial institution. Where such investments are dealt in or traded on more than one exchange, the Directors at their discretion may determine which exchange shall prevail for this purpose;
- Deposits will be valued at their cost and money market instruments at their face value, plus accrued interest;
- Designated Investments will be valued by the Directors in their sole discretion at their fair value in accordance with generally accepted accounting principles in the US;
- The Directors and the Administrator may seek confirmations from the Counterparties or the Administrator and their respective affiliates as well as external experts to assist in determining the value of the assets held by Counterparties for the Company's account;
- The income and expenses of the Company will be determined on an accrual basis;
- The net asset valuations will comply with generally accepted accounting principles in the US GAAP.

#### **Net Asset Value of the Company's Share Classes**

The NAV of each Share Class will be computed on each Valuation Day. The monthly variation of the NAV of the Company (profits or losses) will be allocated among its Share Classes according to the following rules:

- a.) Let  $N_{Company}(M-1)$  be the NAV of the Company at the previous Valuation Day, M-1, converted to USD at that day's rates;
- b.) Let  $N_{Company}(M)$  be the NAV of the Company at the Valuation Day, M, before accounting for management and incentive fees of month M;
- c.) Let  $X$  be the variation from the previous Valuation Day to the next  $X = N_{Company}(M) - N_{Company}(M-1)$ ;
- d.) Let  $Y$  be equal to  $X$  minus the sum of the previous Valuation Day's value of the EUR Share Classes times the variation of the EUR/USD exchange rate;
- e.) Let  $Z$  be equal to  $Y$  minus the Benchmark Rate applied to the previous Valuation Day's value of each Share Class;
- f.)  $Z$  will be distributed among the Share Classes proportionally to their Leveraged Equity on the previous Valuation Day;
- g.) For Euro Share Classes, these amounts will be converted to EUR;
- h.) Each Share Class will also be credited the Benchmark Rate applied to its previous Valuation Day's value; and
- i.) Each Share Class will provide for management and incentive fees independently.

The Administrator will, subject to the discretion of the Directors as described above, at all times retain responsibility for the calculation of the NAV.

The Directors may determine to allocate to the Share Classes extraordinary items, taxes not previously taken into account and similar items on such basis as they determine to be equitable consistent with the general allocation principles set forth above.

In the event that any Designated Shares are created, their NAV will be calculated separately, which may impact the above formulas.

## **Net Asset Value Per Share**

NAV per Share means the NAV of a Share Class divided by the number of issued Shares of the relevant Share Class outstanding, and will be expressed in USD or Euros, as applicable, rounded to the nearest whole US cent or Euro cent, as applicable.

## **Suspension of Net Asset Value and the Issue and Redemption of Shares**

The Directors may, at any time, suspend the determination of NAV, and the issue and redemption of Shares of any Class, for the whole or any part of any period:

- a.) during which any market on which a significant portion of the investments of the Company are quoted or traded in is closed other than for customary holidays and weekends, or during which dealings thereon are restricted or suspended;
- b.) during the existence of any state of affairs which, in the opinion of the Directors, renders a disposition by the Company of a significant portion of investments owned by the Company to be not reasonably practicable or to be seriously prejudicial to the interests of the Shareholders of the Company;
- c.) during any breakdown in the means of communication normally employed in determining the price or value of any of the investments owned by the Company or current prices in any market as aforesaid or when, for any other reason, the prices or values of any such investments cannot reasonably be promptly and accurately ascertained;
- d.) when, in the opinion of the Directors, the Company is unable to liquidate investment positions in an orderly manner; or
- e.) when, in the opinion of the Directors, it is in the best interest of the Company to do so (including, without limitation, the Master Fund experiencing circumstances similar to those outlined above).

Where possible the Directors and/or the Investment Manager will take all reasonable steps to bring any period of suspension to an end as soon as possible.

In the event of a suspension of the determination of NAV, a Shareholder may withdraw his request for subscription or redemption of Shares, provided such a withdrawal is actually received before the termination of the period of suspension.

## **REDEMPTIONS**

### **Redemptions of Company Shares**

Subject to the right of the Directors to suspend redemptions a Shareholder may cause any or all of his Shares to be redeemed by the Company at the prevailing Redemption Price which will be the NAV per Share of the relevant Share Class on the Valuation Day immediately preceding any Dealing Day, provided written notice (including facsimile) in a form acceptable to the Company (see “Redemption Notice” attached in Exhibit S) is received by the Administrator on or before the 15<sup>th</sup> day of the month preceding the relevant Dealing Day.

The Directors have full discretion to shorten this notice period and accept redemption requests to the Company, notwithstanding the redemption notice is received by the Administrator after the required notice period as set out above, provided always such discretion will only be exercised for redemptions received no later than the close of US markets on the Valuation Day and will be subject to appropriate authorizations.

### **Redemption Notice**

A request for redemption from the Company must, at a minimum, contain the information set out in the “Redemption Notice” (attached in Exhibit S), i.e., the number of Shares to be redeemed, representations and warranties that the redeeming Shareholder is the lawful and beneficial owner of the Shares to be redeemed and that such Shares are not subject to any pledge or otherwise encumbered in any fashion. Redemption payments will not be made until the original redemption notice and all other required information including any information required for anti-money laundry purposes has been received by the Administrator. The Company and the Administrator are entitled to require additional documents, such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator and certificates of corporate authority prior to making any payment in respect of redemptions.

## **Payment of Redemptions**

Payment in cash by the Company will be made by bank transfer (with charges for the account of the recipient), in accordance with the instructions of the Shareholder given in the Redemption Notice. Redemption payments will only be made to the account of the Shareholder at the Remitting Bank/Financial Institution. In order to honour requests for redemption received in the proper form, the Company may redeem its investment in the Master Fund or the Company may borrow to the extent necessary to discharge its liabilities from redemptions.

Payment in kind may be effected at the discretion of the Directors by dividing in specie the whole or any part of the assets of the Company on the basis of NAV per Share or Leveraged Net Asset Value per Share as the Directors deem appropriate and distributing such assets in satisfaction of all or part of the Redemption Price. Any such distributions in specie will not materially prejudice the interests of the remaining Shareholders.

Except in extraordinary circumstances, payment of redemption proceeds will be made within a reasonable time, not exceeding fifteen (15) Business Days after the relevant Dealing Day.

## **Compulsory Redemptions and Transfers**

The Company reserves the right, in the absolute discretion of the Directors, to redeem compulsorily (i.e., without the consent of the Shareholder) all or a portion of the Shares of any Shareholder. Shares are transferable with the prior consent of the Company, which consent will not be withheld provided that the proposed transferee has provided the Company with such documents and information as are required to be provided by a subscriber for Shares, including, without limitation, identity verification documentation and that such transfer will not result in regulatory, pecuniary, legal, taxation or material administrative disadvantage for the Company or its Shareholders as a whole, or where such transfer would result in a shareholder falling below the specified minimum holding. Shares also will not be subject to compulsory redemption save where the holding of such shares may result in regulatory, pecuniary, legal, taxation or material administrative disadvantage for the Company or its Shareholders as a whole or where such redemption may be required to give effect to the issue of Designated Shares by the Company, see “Transfer of Shares” for applicable restrictions.

## **Redemptions of Master Fund Shares**

Subject to the right of the Directors of the Master Fund to suspend redemptions, shares in the Master Fund may be redeemed on the next Dealing Day by the Company for cash or in kind at the prevailing NAV per Share, provided written notice in a form acceptable to the Master Fund is received by the Administrator no later than the close of US markets on the Valuation Day immediately preceding such Dealing Day. In order to honour requests for redemption received in the proper form, the Master Fund’s trading positions may be liquidated or the Master Fund may borrow to the extent necessary to discharge its liabilities from redemptions. The Master Fund may also pay redemption proceeds in kind when the Directors deem it to be necessary or appropriate.

## **TAXATION**

The tax discussions below are based on the facts set forth in this Memorandum as of the date hereof. However, these disclosures are for the purpose of providing general assistance only, are not intended to be a substitute for the advice of an investor’s own tax and legal advisors, and should not be interpreted as legal or tax advice. **Investors must consult their own tax advisors and counsel with respect to their particular tax position before subscribing for Shares. No advance tax ruling has been sought in connection with the operations of the Company or the investment in Shares of the Company and there is no assurance that any tax authority will agree with the statements described herein.**

### **British Virgin Islands**

The Company and the Master Fund are exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. All dividends and amounts paid by the Company and the Master Fund to Investors (including redemption proceeds) and capital gains realised by Investors with respect to any Shares or other securities of the Company or Master Fund are exempt from the payment of income tax under the Income Tax Ordinance. The Company and Master Fund have no liability to British Virgin Islands payroll taxes as they have no employees in the British Virgin Islands. There are no estate, inheritance, succession or gift taxes payable in the British Virgin Islands with respect to any Shares in the Company or the Master Fund.

## Ireland

Under current Irish law and practice, on the basis that the business of the Company and the Master Fund will not be carried on in Ireland and that no Shares would be held by persons who are resident for taxation purposes in Ireland,

- a.) the Company and the Master Fund will not be liable to Irish income tax, corporation tax or capital gains tax on any income earned or capital gain earned;
- b.) no Irish withholding tax will be applicable to distributions or payments made to Shareholders; and
- c.) no liability in respect of Irish capital duty or stamp duty will arise in respect of the issue, redemption, sale, conversion or re-issue of Shares in the Company or the Master Fund.

Potential investors should consult their own professional advisor on the possible tax implications of buying, holding, transferring or selling any of the shares under the laws of their countries of citizenship, residence and domicile.

No warranty is given or implied regarding the applicability or interpretation of the tax laws in any jurisdiction.

## European Union Taxation of Savings Income Directive

The British Virgin Islands has introduced legislation relating to the European Union Savings Tax Directive (the “EUSD”). In common with the EUSD, the British Virgin Islands legislation will apply to “interest payments” made by a “paying agent” to an individual resident in the European Union. Payments subject to the EUSD are subject to a withholding tax or, with the consent of the individual, automatic exchange of information. Under the British Virgin Islands legislation, “interest payment” includes income paid (as a distribution or on redemption) by or on behalf of certain undertakings for collective investment (“UCITS”) or “equivalent undertakings for collective investment established in the British Virgin Islands” (a “UCITS equivalent”).

The Company is recognized as a professional fund and the Master Fund is recognized as a private fund under the Securities and Investment Business Act, 2010 (as amended) (the “Act”). Guidelines published by the British Virgin Islands Government state that a professional fund or a private fund recognized under the Act will not be an UCITS equivalent. As the Company nor the Master Fund are neither UCITS nor UCITS equivalent, the Company and the Master Fund are out of scope of the British Virgin Islands legislation. Investors resident in the European Union or territories affected by the EUSD should seek tax advice based on their particular circumstances from an independent tax advisor.

Pursuant to Irish legislation, the Company and the Master Fund do not fall within the scope of the Directive and the Company’s and Master Fund’s Administrator, as a paying agent in Ireland, shall not be required to exchange information or withhold tax in respect of payments of “interest” (including income or gains realized upon sale or redemption) derived from the Company or the Master Fund.

The European Commission has recently adopted a proposal to amend the EUSD. These changes broadly relate to the scope of and mechanisms implemented by the Directive. If the proposed changes are implemented, the position of Shareholders in relation to the EUSD could be different to that set out above.

## United States

**THIS DISCUSSION IS NOT INTENDED TO BE AND CANNOT BE USED FOR THE PURPOSE OF AVOIDING PENALTIES. THIS DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SHARES. INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The Company’s investment gains generally are not anticipated to be subject to US federal income or branch profits taxes because the Company expects to structure its investments (generally through the Master Fund) in a manner that it will not be treated as being engaged in a US “trade or business” for US federal income tax purposes, however, as discussed further below, there is no guarantee that it will be able to do so. Subject to the Company (or the Master Fund) not being treated as being engaged in a US “trade or business”, it is anticipated that the Company will not be subject to US federal income tax (at marginal rates as high as 35%) or branch profits tax (at a rate of 30% on after-tax income) on gains, interest or dividends earned by the Company. However, the Company may earn US source dividends, certain types of interest income and, possibly, payments under certain derivative investments that could be subject to US federal withholding taxes at a rate of 30%.

The Company expects that it will not be subject to state and local taxes in the US on its income or capital. Because of the absence of full guidance under state and local law, however, this result is not entirely clear.

Shareholders who are not otherwise subject to United States income tax should not be subject to US income or withholding tax on dividends or liquidating distributions received by them from the Company or on capital gains realized by them with respect to their Shares in the Company. A Shareholder who at the time of its death is not a citizen or resident of the US should not be subject to United States estate tax with respect to its Shares in the Company.

Different rules may apply to a non-US Shareholder who is subject to special treatment under US federal income tax laws, including, without limitation, if the Shareholder (i) has an office or fixed place of business in the US or is otherwise carrying on a US trade or business to which a distribution on or gain in respect of its Shares is attributable, (ii) is an individual who is present in the US for 183 or more days in a taxable year, or (iii) is a former citizen or resident of the US, a controlled foreign corporation, a foreign insurance company that holds Shares in connection with its US trade or business or a corporation that accumulates earnings to avoid US federal income tax. If the Shareholder is such a person, the Shareholder is urged to consult its US tax advisors regarding the tax consequences of investing in the Company.

The foregoing conclusions are based on the US Internal Revenue Code, as amended (the “**Code**”) and existing laws, judicial decisions and administrative regulations, rulings and practice in the United States, all of which are subject to change.

### **Trade or Business**

The Company will be treated as a corporation for US federal income tax purposes. Section 864(b)(2) of the Code provides a safe harbor (the “**Safe Harbor**”) applicable to non-US corporations (other than a dealer in securities) that engages in the US in trading securities (including contracts or options to buy or sell securities) for its own account pursuant to which such non-US corporation will not be deemed to be engaged in a US trade or business. The Safe Harbor also provides that a non-US corporation (other than a dealer in commodities) that engages in the US in trading commodities for its own account is not deemed to be engaged in a US trade or business if “the commodities are of a kind customarily dealt in on an organized commodity exchange and if the transaction is of a kind customarily consummated at such place.” Pursuant to proposed regulations, a non-US taxpayer (other than a dealer in stocks, securities or derivatives) that effects transactions in the United States in derivatives (including (i) derivatives based upon stocks, securities, and certain commodities, and (ii) certain notional principals contracts based upon an interest rate, equity, or certain commodities and currencies) for its own account is not deemed to be engaged in a US trade or business.

The Investment Manager intends to conduct the operations and investments of the Company and the Master Fund to the maximum extent practicable in a manner so as to meet the requirements of the Safe Harbor, and believes that the transactions under its investment program generally should qualify for the Safe Harbor. There can be no assurance, however, that the US Internal Revenue Service will agree that each of the Company’s and/or the Master Fund’s investments qualifies for the Safe Harbor. In the event that either the Company or the Master Fund generates income from a US trade or business, the Company would be subject to US income tax (at rates up to 35%) and branch profits taxes (at a rate of 30% on after-tax income) on its income and gain from those activities and relate activities, if any, and the Company (but not the investors in the Company) would be required to file US income tax returns. The Company may file “protective” US tax returns or other US tax filings in order to minimize its US tax exposure should the Company or the Master Fund be determined to be engaged in a US trade or business.

If the Company were to have to file a US federal income tax return, it may be required to file tax returns and may be subject to taxation in one or more state or local jurisdictions in the United States.

### **General US Tax Considerations for US Tax-Exempt Investors**

A US Tax-Exempt Investor, although generally exempt from US federal income taxation, is taxable on its “unrelated business taxable income” (“UBTI”) in excess of \$1,000 for the taxable year. The tax on a US Tax-Exempt Investor’s UBTI generally is imposed at the rates that would apply to such investor if it were not tax-exempt. UBTI is generally the excess of gross income from any unrelated trade or business conducted by a tax-exempt entity over the deductions attributable to such trade or business, with certain modifications. These modifications provide that UBTI generally does not include interest, dividends or gains from the sale of securities not held as either inventory or primarily for sale to customers in the ordinary course of business, except to the extent that any such item of income is derived from or attributable to “debt-financed property”

within the meaning of Section 514(b) of the Code. Accordingly, except in the unusual case where the Shares held by a US Tax-Exempt Investor constitute “debt-financed property,” distributions received in respect of the Shares or gains realized upon a disposition of such Shares generally will not be subject to US federal income tax, nor will they be subject to the US tax regime relating to an investment in a passive foreign investment company (a “PFIC”).

In addition to the UBTI rules, certain US Tax-Exempt Investors may be subject to special set-aside requirements and excise taxes as to which they should consult their own tax advisors.

### **PFIC Status**

The Company expects to be classified as a PFIC for United States federal income tax purposes. However, a US Tax-Exempt Investor will not be subject to the PFIC tax rules unless a “dividend” from such PFIC would be taxable as income from debt-financed property under the rules described above.

US Tax-Exempt Investors should confirm with their own tax advisors that the Shares acquired pursuant to this offering or otherwise will not constitute “debt-financed property,” and if they will, whether the US Tax-Exempt Investor should make an investment in the Company, because the Company is not committing to provide the information necessary to enable such US Tax-Exempt Investor to make a so-called “qualified electing fund” (“QEF”) election with respect to such Shares to mitigate certain of the negative tax consequences relating to investing in a PFIC.

A US Tax-Exempt Investor that is a charitable remainder trust is expressly advised that, while the PFIC tax rules should not affect its charitable beneficiaries (assuming that its Shares are not debt-financed), these rules may apply to its taxable income beneficiaries. A US Tax-Exempt Investor with any taxable US beneficiaries should consult with its own tax advisors concerning the potential application of the PFIC rules to its taxable beneficiaries and whether it should make an investment in the Company because the Company is not committing to provide the information necessary to enable such US Tax-Exempt Investor to make a QEF election with respect to its Shares to mitigate certain of the negative tax consequences relating to investing in a PFIC.

### **Reporting Requirements for US Tax-Exempt Investors**

This section assumes the investment is not “debt-financed property.” If the investment is debt-financed, consult your tax advisor for your reporting obligations. A US Tax-Exempt Investor which owns 10% or more (taking certain attribution rules into account) of the Shares in any given tax year may be required to file an information return, IRS Form 5471, with the IRS containing certain disclosure concerning itself, other shareholders and the Company. A US Tax-Exempt Investor should consult its tax adviser with respect to whether it is required to file IRS Form 926 in connection with its investment.

US Tax-Exempt Investors are urged to consult their own tax advisors concerning these and any other tax reporting requirements arising from an investment in the Company.

**US TAX-EXEMPT INVESTORS CONSIDERING THE PURCHASE OF SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS AND OF CHANGES IN APPLICABLE TAX LAWS.**

### **Other Jurisdictions**

The Company expects to invest and trade (through the Master Fund) in other jurisdictions. Although the Investment Manager will seek to minimize the tax imposed by such jurisdictions, the Company may be subject to foreign withholding or capital gains taxation on interest, dividends or capital gains derived from such investments. Such taxes will reduce an investor’s return on its investment in the Company.

**PROSPECTIVE SUBSCRIBERS SHOULD CONSULT THEIR PROFESSIONAL ADVISORS ON THE POSSIBLE TAX CONSEQUENCES OF SUBSCRIBING FOR, BUYING, HOLDING, SELLING, TRANSFERRING OR REDEEMING SHARES UNDER THE LAWS OF THEIR COUNTRY OF CITIZENSHIP, RESIDENCE OR DOMICILE.**

## **INDEMNITIES**

The Company and the Master Fund has agreed that it will indemnify the Directors, officers and liquidators if at any time they are party or threatened to be made party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative in their capacities as Directors, officers or liquidators against all expenses, including legal fees, and against all actions, proceedings, costs, charges, losses, damages, expenses and all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative, or investigative proceedings provided that the Director, officer or liquidator acted honestly and in good faith with a view to the best interest of the Company or the Master Fund, as the case may be, and in the case of criminal proceedings, had no reasonable cause to believe that his conduct was unlawful.

The Company and the Master Fund may purchase and maintain insurance in relation to the Directors against any liabilities asserted against them.

In addition, the Company and the Master Fund has granted indemnities to the Investment Manager, the Prime Brokers, the Futures Clearers, the Counterparties, and the Administrator in respect of actions brought against them in their respective capacities, in accordance with the terms of each of the respective material contracts.

## **THE OFFERING OF SHARES**

**Continuous Offering.** The Company is offering Class B, B1-N, B2-N, C, C1-N, C2-N, D, D1-N, D2-N, E, E1-N and E2-N Shares to eligible investors in a continuous offering of Shares. New investors are admitted as of each Dealing Day of the Company. The initial subscription price for each Share sold during the continuous offering is US\$1,000 or €1,000 per Share for each USD and Euro Class, respectively, on the initial closing and thereafter will be the NAV per Share as of the Valuation Day immediately preceding the relevant Dealing Day.

**Minimum Initial Investment.** The required minimum initial investment for new investors in the Company is US\$1 million or its equivalent in Euro or such lesser amount not below US\$100,000 or its equivalent in Euro as may be approved by the Directors. Existing investors may subscribe for additional Shares with a minimum additional subscription of US\$1,000,000 or its equivalent in Euros.

## **OTHER TERMS OF THE OFFERING**

**Use of Proceeds.** All funds received in connection with subscriptions are held by the Administrator in an omnibus account at the Administrator until turned over to the Company for investment purposes, or until returned to subscribers. No interest accrues on the monies pending subscription. Any interest realized on accepted subscription funds, if any, is for the benefit of the Company. All accepted subscribers will become holders of Class B, B1-N, B2-N, C, C1-N, C2-N, D, D1-N, D2-N, E, E1-N or E2-N Shares, as specified by the investor in its Subscription Application.

**Subscription Process.** Fully completed Subscription Documents and related information must be received by the Company at least 2 Business Days prior to the relevant Dealing Day, and cleared subscription funds must be received by close of business Dublin Time on the Business Day immediately preceding the relevant Dealing Day unless the Directors make an exception.

## **ELIGIBILITY AND OTHER REQUIREMENTS**

An investment in the Company can only be made by you if you:

- a.) are a “**non-US Person**” as defined in the Subscription Documents appearing as Exhibit S,
- b.) are a “**qualified investor**” (as defined in the Subscription Documents appearing as Exhibit S) when resident in a European Union member state,
- c.) have experience with investments,
- d.) have adequate means of providing for your current needs and personal contingencies,
- e.) have sufficient funds to afford a complete loss of principal,
- f.) (either alone or in conjunction with a financial or legal advisor) have carefully read and understand this Memorandum, and
- g.) are not a “Prohibited Investor” as defined in the Subscription Documents appearing as Exhibit S.

- h.) are or agree to be treated as a “professional investor” as defined in the Securities and Investment Business Act, 2010 of the BVI by virtue of Subscriber being a person whose ordinary business involves, whether for its own account or the account of others, the acquisition or disposal of property of the same kind as the property or a substantial part of the property of the Fund and/or by virtue of Subscriber hereby declaring that it has net worth (whether individually or, being a natural person, jointly with Subscriber’s spouse) in excess of US\$1,000,000 or currency equivalent.

US Persons who are exempt from US federal taxation may be eligible to invest in the Company in certain circumstances. Such investors should request and carefully review the Supplemental Disclosure for US Tax-Exempt Investors.

**Employee Benefit Plan Considerations.** Investment in the Company generally will be open to employee benefit plans and other funds subject to the US Employee Retirement Income Securities Act of 1974, as amended (“ERISA”) and/or Section 4975 of the US Internal Revenue Code (the “Code”).

The Directors, with the assistance of the Investment Manager and the Administrator, intend to use commercially reasonable efforts to cause employee benefit plans subject to ERISA and/or Section 4975 of the Code and other “benefit plan investors,” as defined in regulations of the US Department of Labor (the “**Plan Asset Regulation**”) and modified by the Pension Protection Act of 2006, in the aggregate to hold less than 25% of the Shares of each Share Class of the Company. The Directors, with the assistance of the Investment Manager and the Administrator, will use commercially reasonable efforts to restrict transfers or purchases of any equity interest in the Company so that ownership of each class of equity interests in the Company by benefit plan investors will remain below the 25% threshold contained in the Plan Asset Regulation. In this event, although there can be no assurance that such will be the case, the assets of the Company should not constitute “plan assets” for purposes of ERISA and Section 4975 of the Code. Prospective purchasers and subsequent transferees of Shares may be required to make certain representations regarding compliance with ERISA and Section 4975 of the Code.

If the assets of the Company were to become “plan assets” subject to ERISA and Section 4975 of the Code, certain investments made or to be made by the Company in the normal course of its operations might result in non-exempt prohibited transactions and might have to be rescinded. If at any time the Directors are made aware that assets of the Company may be deemed to be “plan assets” subject to ERISA and Section 4975 of the Code, the Directors, in consultation with the Investment Manager, may take certain actions it may determine to be necessary or appropriate, including requiring one or more investors to redeem or otherwise dispose of all or part of their Shares in the Company or terminating and liquidating the Company.

**EACH PROSPECTIVE INVESTOR THAT IS SUBJECT TO ERISA AND/OR SECTION 4975 OF THE CODE IS ADVISED TO CONSULT WITH ITS OWN LEGAL, TAX AND ERISA ADVISERS AS TO THE CONSEQUENCES OF AN INVESTMENT IN THE COMPANY.**

**Other Restrictions.** The Directors have the power to impose such additional restrictions as they may think necessary for the purpose of ensuring that no Shares are acquired or held by any person or persons in circumstances (whether directly or indirectly affecting such person or persons, connected or not appearing to the Directors to be relevant) which, in the opinion of the Directors, might result in the Company incurring any regulatory or other liability or suffering any pecuniary or other disadvantage which the Company might not otherwise have incurred or suffered.

Because the Company participates in profits and losses of the Master Fund attributable to trading in certain futures contracts that have not been approved by the CFTC for trading by US Persons, the Directors, in consultation with the Investment Manager and the Administrator, may require any investor who is a US Person to redeem or otherwise dispose of all or part of his Shares in the Company if the total ownership of the Company by US Persons is likely to exceed 10% of the issued and outstanding Shares.

**Ability to Decline Investors.** The Directors may decline to admit any person for any reason in their sole discretion, including, without limitation, if an investor seeks to make an initial minimum investment of less than the required USD\$1 million or its equivalent in Euros. Investors who do not comply with the Company’s anti-money laundering or other requirements will be rejected. In addition, the Directors will exercise the right of compulsory redemption of the Shares held by any person that, in their judgment, may have purchased, pledged, or transferred its Shares in contravention of the foregoing prohibitions.



**Form of Payment.** Contributions must be in cash. Cleared funds must be received by the Administrator and accepted by the Company before a subscriber will receive Shares of the requested Class or Classes as described above.

**Reports.** The Company and the Master Fund each keep their books on an accrual basis with a fiscal year ending 31 December. The first audited financial statements of the Company were prepared for the period from incorporation to 31 December 2008.

The financial statements of the Company and the Master Fund will be prepared in accordance with accounting principles generally accepted in the United States and will be audited annually by an independent firm of auditors appointed by the Directors.

A copy of the annual audited report and accounts will be sent to each Shareholder generally within 120 days of the end of the accounting period.

## **TRANSFERS OF SHARES**

The Shares are freely transferable by written instrument of transfer signed by the transferor and containing the name and address of the transferee, which shall be sent to the Company for registration. Notwithstanding the foregoing, transfers or assignments of the Shares may not be made without the prior approval of the Company, which approval will not be unreasonably withheld (see the Section “Refusal to Approve Transfer of Shares”). Any attempted transfer or assignment without such approval will be void and without effect. A Shareholder desiring to transfer his Shares must make available to the Administrator, a written instrument of transfer executed by the proposed transferor and transferee setting forth:

- a.) the names and addresses of the proposed transferor and transferee;
- b.) the number of Shares to be transferred;
- c.) the consideration to be paid for such Shares; and
- d.) such other information as the Company may require, including information necessary to satisfy the company that the proposed transfer complies with applicable laws.

In addition, the proposed transferee must, in the above-mentioned instruments of transfer, agree to take such Shares subject to the same conditions, warranties and restrictions pursuant to which the Shares were held by the transferor. The written instrument of transfer will be sent to the Company for registration.

### **Refusal to Approve Transfer of Shares**

The Board will decline to give effect to the proposed transfer of any Share if the manner, form or evidence of transfer is unacceptable, if the transferee is not an eligible investor as defined in the Subscription Documents, if the transfer results in either the transferor or the transferee holding Shares with a value less than US\$1,000,000 or its equivalent in Euros as applicable, if the transfer might violate applicable laws or when such transfer is deemed by the Directors in their absolute discretion to be contrary to the best interests of the Company by virtue of resulting in legal, pecuniary, regulatory, taxation or material administrative disadvantage to the Company.

## **CERTAIN BVI & INVESTORS NOTIFICATIONS**

According to the Securities and Investment Business Act, 2010, the BVI FSC shall be notified by the Company or its authorized representative within 14 days after:

- a.) the appointment of a director, authorised representative or auditor;
- b.) a director, authorised representative or auditor ceasing, for whatever reason, to hold office;
- c.) any change in the address of the Company’s or Master Fund’s place of business, whether in or outside the BVI;
- d.) any amendment to the constitutional documents of the Company or the Master Fund;
- e.) the issuance of an offering document not previously provided to the BVI FSC; and
- f.) the amendment of any offering document previously provided to the BVI FSC.

If a new Functionary is to be appointed by either the Company or the Master Fund, the BVI FSC must be provided with written notice at least seven days prior to such appointment.

If a Functionary ceases to act as Functionary for the Company or the Master Fund, the Company or Master Fund shall inform the BVI FSC by written notice including a statement of the reasons for the Functionary ceasing to act within seven days following the termination of the services of the Functionary.

After the BVI FSC has been notified according to the changes above, an updated Offering Memorandum will be sent to existing investors within the quarter following the BVI FSC notification.

## **GENERAL INFORMATION**

### **Objects of the Company**

Article 5.1 of the Memorandum of Association of each of the Company and the Master Fund provide that subject to the BVI Business Companies Act, 2004 (No. 16 of 2004) and any other BVI legislation, the Company and the Master Fund have irrespective of corporate benefit: (a) full capacity to carry on or undertake any business of activity, do any act or enter into any transaction; and (b) full rights, powers and privileges for such purposes. There are no limitations on the business that the Company or the Master Fund may carry on.

### **Repurchase of Shares**

Subject to certain conditions, the Company is permitted under BVI law to redeem, purchase or otherwise acquire its Shares. Repurchased Shares will be held as treasury shares or, at the option of the Directors, cancelled. All Redemptions, purchases or other acquisitions of Shares will be at the relevant Redemption Price.

### **New Share Classes**

The Directors have the power to amend the Articles to create new classes of shares for whatever purposes including creating new classes of Designated Shares to represent any Designated Investments, as well as to reflect different fees, leverage levels, redemption or other terms.

### **Variation of Class Rights**

The rights attaching to any class or series (unless otherwise provided by the terms of issue of the shares of that class or series) of Shares may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of not less than 50% of the issued shares of that class and of any other class or series of shares which may be affected by such variation. The creation and issue of any Designated Shares or any additional classes of participating shares having different fee levels, redemption notice periods or levels of leveraged equity shall not constitute a variation of such rights for the purposes of seeking Shareholder consent.

### **Fractional Shares**

Fractional Shares will be issued to accommodate subscriptions of specific round sums of money. The Administrator of the Company currently processes fractional shares amounts up to four decimal places.

### **Dividend Policy**

To enhance the realization of the investment objective of the Company and the Master Fund, it is not currently the intention of the Directors to declare dividends.

### **Litigation**

Neither the Company nor the Master Fund is or has been involved in any legal or arbitration proceedings nor, so far as any of the Directors is aware, are any such proceedings threatened or pending against the Company or the Master Fund.

### **Directors' and Others' Interests**

Neither the Directors nor any connected person has an interest, direct or indirect, in the capital of the Company. The Directors may subscribe for Shares at any time at the prevailing Subscription Price and on the same terms as other investors in the relevant Share Class.

None of the Directors has a service contract other than a contract to act as a Director to the Company, existing or proposed, with the Company.

None of the Directors has any interest in any transactions that are unusual in their nature or significant to the business of the Company, except as disclosed under the Section “Conflicts of Interest”.

No loan or guarantee has been granted or provided by the Company to any Director.

The Directors may vote on any transaction in which they have a material interest if they disclose the nature of their interest to the other Directors.

The Directors may fix the emoluments of Directors with respect to services to be rendered in any capacity to the Company.

The Directors may by resolution of Directors exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party, subject only to the trading policies and restrictions as defined in the Section “Trading Policies and Restrictions”.

There are no age restrictions with regard to Directors.

No Director has:

- a.) any unspent convictions in relation to indictable offences; or
- b.) been bankrupt or the subject of a voluntary arrangement, or has had a receiver appointed to any asset of such Director; or
- c.) been a director of any company which, while he was a director with an executive function or within 12 months after he ceased to be a director with an executive function, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangements, or made any composition or arrangements with its creditors generally or with any class of its creditors; or
- d.) been a partner of any partnership, which while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
- e.) had any public criticism by statutory or regulatory authorities (including recognized professional bodies); or
- f.) been disqualified by a court from acting as a director or from acting in the management or conduct of affairs of any company.

### **Representation of Counsel**

Katten Muchin Rosenman LLP (“**Katten**”) is U.S. counsel to the Investment Manager and its affiliates, and U.S. securities, commodities and tax counsel to the Fund, and may serve as counsel to certain of the investors in the Fund in matters not involving the Fund. Katten’s London office, Katten Muchin Rosenman Cornish LLP, also acts as counsel to the Company as to matters of English law. Consequently, one or more conflicts of interest could arise. In the event that a dispute which cannot be resolved amicably should ever arise between and among Katten’s various clients, Katten will have to consult with its clients at the time to determine the most appropriate course of action to follow under the circumstances, including the possibility of recusing itself entirely. Harney Westwood & Riegels (“**Harneys**”) is counsel to the Fund as to matters of BVI law and an affiliate called Craigmuir Authorised Representative Limited is appointed as authorised representative of the Company and the Master Fund, who act as liaison with the BVI FSC.

### **ADDITIONAL INFORMATION**

The Administrator will answer all enquiries from prospective investors concerning any matters relating to the Company and the Share Classes. Prospective investors will be afforded the opportunity to obtain any additional information (to the extent that the Administrator possesses such information or can acquire it without unreasonable effort or expense) necessary to verify the accuracy of any representation or information set forth in this document.

The Subscriber acknowledges and accepts that the Shares of the Company will be issued in registered form and no share certificates will generally be issued.

The Shareholder understands that its personal information will be handled by the Administrator (as Data Processor on behalf of the Company) in accordance with the Data Protection Acts 1988 to 2003 of Ireland.

The Shareholder's information will be processed for the purposes of carrying out the services of Administrator, registrar and transfer agent of the Company and to comply with legal obligations including legal obligations under company law and anti-money laundering legislation.

The Administrator or the Company will disclose your information to third parties where necessary or for legitimate business interests. This may include disclosure to third parties such as auditors, the Irish revenue authorities pursuant to the EU Savings Directive and the Irish Financial Services Regulatory Authority or agents of the Administrator who process the data for anti-money laundering purposes or for compliance with foreign regulatory requirements.

The Shareholder hereby consents to the processing of its information, which may include the recording of telephone calls with the Administrator for the purpose of confirming data, and the disclosure of its information as outlined above and to the Investment Manager or in the Company's or the Administrator's legitimate interests to any company in the Administrator's and/or the Investment Manager's group of companies or agents of the Administrator including companies situated in countries outside of the European Economic Area which may not have the same data protection laws as in Ireland.

### **MATERIAL CONTRACTS**

The following contracts have been entered into by the Company or the Master Fund (other than in the ordinary course of business) and are, or may be, material.

Under the terms of the Investment Management Agreements between the Company and the Investment Manager and between the Master Fund and the Investment Manager, dated 25 July 2011, and 1 June 2009, respectively, the Investment Manager agrees to act as investment advisor to the Master Fund and the Company. The agreements shall remain in force unless and until terminated by either party giving the other party not less than 90 days written notice (or such shorter notice as the other party may agree to accept), except that the agreements may be terminated immediately by either party if the other party shall commit any breach of its obligations under a agreement. The agreements contain indemnities in favour of the Investment Manager excluding matters arising by reason of its gross negligence, bad faith, reckless or intentional misconduct. The Investment Manager is entitled to Management Fees and Incentive Fees as described under "Fees, Compensation and Expenses" above.

Under the terms of the Administration Agreements dated November 1, 2007, the Administrator agrees to provide administrative and share registration services to each of the Company and the Master Fund. These agreements shall remain in force unless and until terminated by either party giving not less than 12 month written notice to the other party (or such shorter notice as the other party may agree to accept) provided that the agreement may be terminated immediately by notice in writing by either party in certain circumstances. The Administrator is to be paid for its services at such rates and at such times as the Company and Administrator agree upon from time to time. The Administrator may arrange for payment of its own remuneration and out-of-pocket expenses. See "The Administrator, Registrar and Transfer Agent" above for further information about the Administrator and the terms of the Administration Agreements.

Under the terms of the agreement dated 26 September 2007 entered into between UBS Securities LLC and the Master Fund, UBS Securities LLC agrees to act as a futures clearer to the Master Fund. This agreement shall remain in force until terminated by either party by giving written 30 days notice to the other party. The agreement may be terminated by a party with immediate effect if the other party commits a breach of its obligation under the agreement. The agreement contains indemnities in favour of UBS Securities LLC excluding matters arising by reason of its gross negligence or reckless or intentional misconduct in the performance of its duties and obligations. The Master Fund will be responsible to pay brokerage fees, regulatory fees, taxes, trading losses, debit balances or account deficiencies, and interest on outstanding debit balances or deficiencies. The facility is not in use on the date of this Memorandum.

Under the terms of a prime brokerage agreement with Barclays Capital Securities Limited dated 29 October 2007, a Master Agreement in the form published by the International Swaps and Derivatives Association ("ISDA") and related Schedule and Credit Support Annex ("CSA") dated 29 October 2007, the Futures Clearing Agreement dated 29 October 2007 and the related Global Netting Agreement dated 29 October 2007 entered into between Barclays Bank plc and certain of its affiliates and the Master Fund, Barclays Capital Securities Limited agrees to act as a Prime Broker and Barclays Bank plc agrees to act as a fx prime broker for the Master Fund. The agreements contain indemnities in favour of the Counterparties excluding matters arising

as a result of its bad faith, negligence or willful default. The Counterparties will be paid such fees at the rate notified to the Master Fund from time to time. The prime brokerage agreement will remain in full force and effect until terminated by either party by giving 30 days written notice to the other party. The futures clearing facility with Barclays Bank plc is not in use at the date of this Memorandum.

Pursuant to a futures clearing agreement with Barclays Capital Inc. ("BCI") effective 23 August 2008 and supplemental documents, BCI will execute purchase and sale orders for the Master Fund, and clear and settle such orders and orders executed by other brokers. The agreements contain indemnities in favour of BCI excluding matters arising as a result of its bad faith, negligence or willful default. BCI will be paid such fees at the rate notified to the Master Fund from time to time. The futures clearing agreement will remain in full force and effect until terminated by BCI giving 30 days written notice.

Under the terms of the ISDA Master Agreement and the Foreign Exchange Prime Brokerage Agreement dated 12 June 2008 and 8 October 2008, respectively, entered into between Deutsche Bank AG and the Master Fund, the Master Fund and Deutsche Bank AG may enter into OTC derivative transactions. The Master Fund will be required to post collateral in respect of such transactions and Deutsche Bank AG is not required to post collateral. The ISDA Master Agreement and the Foreign Exchange Prime Brokerage Agreement entered into with Deutsche Bank AG contain indemnities in favor of the bank for losses arising as a result of breach of representation by the Master Fund and in the event of any early termination of all transactions under the ISDA or the Foreign Exchange Prime Brokerage Agreement as a result of the Master Fund's default.

Under the terms of the Foreign Exchange Prime Brokerage Master Agreement in respect of Third Party Trading Platform Services dated 14 May 2008 entered into between the Royal Bank of Scotland plc and the Master Fund RBS acts as a Prime Broker to the Master Fund. RBS and the Master Fund also have in place a Margin Trading Letter dated 14 May 2008 and a number of product specific supplemental documents including an ISDA Master Agreement and a Security Agreement, also dated 14 May 2008. Under the agreements pursuant to which RBS provides foreign exchange prime brokerage services to the Master Fund, RBS excludes and limits its liability for any loss to the Master Fund in certain circumstances. In addition, RBS is indemnified against any loss, claim, damage or expense incurred or suffered by it arising out of any breach of the agreements. The facility with RBS is not in use at the date of this Memorandum.

Under the terms of the Prime Brokerage Agreement dated 1 October 2008 entered with BNP Paribas London Branch ("BNPP"), BNP will provide the Master Fund with a prime brokerage service which has been limited in scope to cover solely the opening and operation of cash accounts. Either party to the Prime Brokerage Agreement shall be entitled to terminate the agreement at any time by giving 14 days written notice, save that termination of the agreement shall not affect any contractual provision intended to survive termination or any transaction or obligation outstanding at the termination date. Under the agreement BNPP excludes and limits its liability for any loss to the Master Fund in certain circumstances.

Under the terms of the account opening documents between the JP Morgan Chase Bank, NA ("JP Morgan") and the Master Fund, JP Morgan will be responsible for holding as a banker of cash deposited by the Master Fund. The Master Fund has agreed to indemnify JP Morgan and its affiliates, officers, directors, employees and agents from and against any and all liabilities, costs and expenses incurred by JP Morgan as a result of any inaccuracy or breach of the Master Fund's representations, warranties, covenants and undertakings.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection by prospective investors or their representatives at the registered office of the Company or the offices of the Administrator:

- The Memorandum and Articles of Association and Certificate of Incorporation of the Company and the Master Fund;
- Certificate of recognition of the Company and the Master Fund;
- The Investment Management Agreements;
- The Administration Agreements;
- The latest audited accounts of the Company and the Master Fund; and
- The BVI Business Companies Act, 2004 (as amended);

## **HOW TO SUBSCRIBE**

- Subscribers investing in the Company for the first time must review, complete and return the appropriate Subscription Documents and requested information pursuant to the instructions set forth in Exhibit S.
- Existing Shareholders seeking to add to their investment should submit an Additional Subscription Request set forth in Exhibit SA.
- Subscription payments *must* be sent by wire transfer pursuant to the instructions provided by the Investment Manager. No other form of payment will be accepted.
- Fully completed Subscription Documents and related information must be received by the Company at least 2 Business Days prior to the relevant Dealing Day, and cleared subscription funds must be received by Close of Business Irish Time on the Business Day immediately preceding the relevant Dealing Day unless the Directors make an exception.
- With respect to subscriptions made on behalf of an undisclosed principal, the Company will not accept any such subscription without identification of the source of funds being used to make the investment and verification of the various representations and assurances set out in the Subscription Documents. The Company reserves the right to request such additional information as it considers to be necessary to verify an applicant's identity.
- Neither the Company, the Investment Manager nor the Administrator accepts any responsibility for errors in facsimile or other transmission of documents or subscription funds.

Each applicant for Shares acknowledges that the Administrator and the Company shall be held harmless against any loss arising as a result of a failure to process his/her application for Shares, transfer of Shares or redemption request, if such information and documentation as has been requested by the Administrator has not been provided by the applicant.



## **Capital Fund Management S.A.**

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**Effective as of: 31 March 2011**

**This brochure provides information about the qualifications and business practices of Capital Fund Management SA. If you have any questions about the contents of this brochure, please contact us at [cfm@cfm.fr](mailto:cfm@cfm.fr). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Capital Fund Management SA also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Please note that the registration of Capital Fund Management SA with the SEC does not imply or guarantee a certain level of skill or training.**

## Material Changes

Since this is the first time we are filing our brochure in this new required format, this question does not apply to us at this time. We will include a discussion of any material changes from the information in this brochure in our next annual update to be filed in 2012.

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### *Part 2B*



## Advisory Business

### *A. The Advisory Firm*

Capital Fund Management S.A. (the “Firm”) provides discretionary investment management services to U.S. and non-U.S. clients from its offices in Paris, France. Founded in 1991, we are today registered with the U.S. SEC as an investment adviser, with the U.S. CFTC as a commodities trading adviser and are a member of the National Futures Association (“NFA”) in such capacity. In France, we are regulated by the Autorité des Marchés Financiers (“AMF”) as a portfolio management company.

We currently have three wholly owned subsidiaries: Capital Fund Management International, Inc. (“CFMI”), CFM North America, Inc (“CFM NA”) and CFM Asia KK. CFMI and CFM NA are both Delaware, U.S.A. limited liability companies. CFM Asia KK is a Japanese kabushiki kaisha (stock company). CFMI has offices in New York and contracts with us to interface with investors and potential investors in investment funds we advise and maintains certain of our IT infrastructure we maintain in the U.S.. CFMI does not provide investment advice. CFM NA is the managing member of certain funds organized as Delaware limited liability companies and which we advise. CFM NA has delegated its powers and authority under the governing agreements to various service providers, including to us to act as investment adviser. We established CFM Asia KK with an office in Tokyo, Japan during 2010 to facilitate communications with investors and potential investors in funds we advise and to interface with clients and potential clients in Japan and Asia. Like CFMI, CFM Asia KK does not provide investment advice to our clients. CFM Asia KK is registered as a Type II Financial Instruments Firm with the Japanese Financial Services Agency (“JP FSA”).

The principal owners of the firm are Jean-Philippe Bouchaud, who is also Chairman, Philippe Jordan, Marc Potters (Co-CEO) and Jacques Sauliere (Co-CEO), all of whom are also board members and investment committee members. We are a privately owned company, majority owned by the board members and other staff. The family of the late founder, Jean-Pierre Aguilar, owns a minority stake in the Firm through its holding company Alphane SA. The Firm and its subsidiaries employ approximately 110 staff in Paris, New York and Tokyo, divided between Research, Data, Front Office-IT, Operations-IT & Risk Control, IT-Infrastructure, Operations, Compliance, Administration and Investor Relations.

The clients to whom we give securities investment advice are all private investment funds. We also manage separate accounts on a discretionary basis for institutional clients that do not consist of securities portfolios, but rather can be classified as managed futures accounts.

### *B. Advisory Services*

We offer discretionary securities investment advice solely to private funds. We use a systematic/quantitative approach to trading the financial markets. All of our strategies fall within what is often called “alternative investments” and the funds we manage are often referred to as “hedge funds”. Our investment styles include managed futures, statistical equity arbitrage and statistical volatility arbitrage.

The Firm primarily trades futures, foreign exchange, securities (equities, fixed income and exchange traded funds) and options in leading financial centers in the U.S. and internationally. Our strategies focus on trading in liquid instruments on exchanges or electronic platforms. Such instruments are generally easy to value. The investment strategies of, and other material information about, each private fund are set forth in each private fund’s offering documents provided to investors in such fund at or prior to their investment.

We have invested significant resources in developing our proprietary technology platform for trading decisions, execution, post-trade processing and risk management. We carry out all our trading electronically either through direct market access through brokers or through exchange memberships. Our systems support straight-through processing of all post-trade activity. Our own in-house IT engineers develop and maintain all core software we use to operate our business and trading.

### *C. Tailoring of Advisory Services*

We currently offer two trading programs, Discus and Stratus. Discus is a managed futures program focusing on Directional Trading in most liquid asset classes. Discus trades futures, foreign exchange and sovereign debt. Stratus is a quantitative trading program providing exposure to our Directional Trading strategy as well as our Statistical Equity Arbitrage and Statistical Volatility Arbitrage trading strategies. Through the Stratus program, we trade futures, foreign exchange and sovereign debt as well as equities and listed options.

We generally implement our trading programs in a similar manner for all clients. For Stratus there are private feeder funds available for U.S. and non-U.S. investors. For Discus there are only private feeder funds available for non-U.S. investors. Most feeder funds of Stratus and Discus offer both US\$ and EUR share classes in order to allow investors to choose base currency. We currently only manage separate accounts according to the Discus managed futures trading

program, which uses cash and cash equivalents securities only incidentally to futures trading. We do not advise any separately managed accounts that actively trade securities portfolios.

#### *D. Wrap fee programs*

We do not participate in any wrap fee programs.

#### *E. Assets Under Management*

As of 31 December 2010, we managed in private funds that we advised, a total leveraged equity (“AUM”) of US\$2,453.9m corresponding to a total net asset value of US\$2,136.9m, the overwhelming majority of which was invested in the Stratus trading program. We managed all of this AUM on a discretionary basis. Because a large portion of the trading in our strategies involves the use of options, futures and other derivatives that may include embedded leverage, our funds may offer different classes of shares with different inherent leverage. Currently funds advised by us are generally structured to include “1x”, “1.5x” and “2x” classes of shares, where the coefficient represents the applied “leverage”. Leverage can be understood as a level of risk applied, where for instance the 2x shares generally return approximately twice that of the 1x shares and where the risk of the 2x shares is approximately double that of the 1x shares. We currently have a policy only to offer 1x and 1.5x shares to investors and the 2x share classes are closed to external investment. For purposes of reporting assets under management in Form ADV Part 1A, we have historically used the total net assets under management rather than leveraged equity which includes notional leverage.

## Fees and Compensation

#### *A. Compensation for Advisory Services*

Our fees are established by the Trading Advisory Agreements we enter into with each of our clients, which, in the case of clients who are private funds, is disclosed in the offering materials of each fund. We generally receive a management fee calculated at a rate per annum of net assets under management and performance-based compensation equal to a portion of the increase in net asset value of the client’s account adjusted for carry forward profit/loss. Our fees are generally non-negotiable but in limited instances we may vary our fees depending upon a variety of factors including the size of an account or the overall relationship with the client. This brochure is only being delivered to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act.

#### *B. Billing of Compensation for Advisory Services*

The administrator for each private fund client calculates our advisory services fee and we must agree to such fees before payment. After such agreement, we may instruct a custodian holding an account of the relevant private fund client to pay us our fee. We may agree to charge different fees to different classes of the fund. The private funds pay management fees monthly in arrears. Funds managed in accordance with our Stratus program generally pay monthly 1/6<sup>th</sup> of the accrued performance-based compensation. Funds and accounts managed in accordance with our Discus program generally pay crystallised performance-based compensation on a quarterly basis. Fees may differ for separately managed accounts and all fees will be included in the trading advisory agreement or in offering documents of the private funds.

#### *C. Other Expenses*

The offering documents of each private fund that we advise set forth other expenses charged to such funds. Generally, the private funds pay all their own ongoing fees, costs and expenses including, but not limited to, the fees of a third party administrator, the fees of the directors, operating expenses incurred, including legal, auditing, registration, company secretarial, licensing, stock exchange listing fees, brokerage commissions, stock loans, governmental filing fees, and printing costs. Further, clients that are feeder funds into a master fund will also bear their pro rata share of any expenses of the master fund in which they invest as these are included in the change in net assets of the respective master fund. The Firm generally pays the organizational expenses of the private funds that it advises and does not expect to recover such costs, other than approved out of pocket expenses.

The prime brokers, executing brokers, any custodians and other counterparties to our clients will receive such fees, rates and commissions as may be agreed with the clients from time to time. Our policies and practices with regard to selection of brokers is discussed below under “Brokerage Practices.”

In order to optimize the quality of execution, we have spent considerable resources on developing systems and technology for executing our clients’ trades directly on markets as an exchange member or direct market participant. No brokerage commission is payable on such trades that are passed to the markets directly without the use of a broker. In such markets, we may pass through to the client the cost of market connectivity and real-time price feeds either directly or indirectly as a reimbursement of out of the pocket expenses of the Firm.

Due to regulatory, tax as well as operational reasons, it has not been possible for us to apply for exchange memberships in certain equities and single stock options markets. Nevertheless, we use similar execution algorithms and technology for our trading on markets where we are not a direct member as when trading as a member. Private fund clients that benefit from this infrastructure may bear the cost of real-time price feeds required to achieve the same execution quality as when acting as an exchange member either directly or indirectly as a reimbursement of out of the pocket expenses.

#### *D. Advance payment of fees*

We do not collect any fees in advance. We charge fees monthly, quarterly or annually in arrears.

#### *E. Compensation for the sale of securities or other investment products*

We do not receive any compensation for the sale of any securities or other investment products to clients.

## Performance-Based Fees and Side-By-Side Management

Our fees generally include a performance-based fee, which may be charged monthly, quarterly or annually in arrears based on the realized and unrealized gains of the share classes of the respective funds. We may charge this performance fee at different rates to different classes of our private fund clients and managed accounts. A significant portion of our total compensation comes from performance-based fees, which may give us incentive to engage in higher risk investing to increase performance than would be the case without performance-based fees.

We advise certain private fund clients with overlapping strategies. In such instances, we may place block orders and allocate securities purchased or sold among the participating funds. Allocation of fixed income securities is made as an end-of day average price allocation between funds. All other securities trades are currently only carried out for *one* master fund. We receive similar performance-based compensation from all of our clients and therefore do not believe that differences in compensation are an incentive to allocate trades to any particular client.

## Types of Clients

The firm only provides securities investment advice to private funds open only to sophisticated institutional and high net worth investors. All U.S. investors in client funds must be accredited investors as defined in SEC Regulation D and qualified purchasers, as defined in the Investment Company Act of 1940. The investors in the client funds are generally institutional investors such as pension funds, funds of funds, private funds, insurance companies, private banks and other significant financial services providers. A small share of investors in client funds are family offices, high net worth individuals or other qualified individuals. Most individual investors are our employees.

We are not currently accepting any new managed accounts and only manage separate accounts at this time that trade in futures. Any client with such managed account must be a “qualified eligible person” as defined in CFTC Rule 4.7 and agree that we may operate such account under an exemption from CFTC registration as a CPO or CTA, or at a minimum, an exemption from many of the disclosure and recordkeeping requirements applicable to retail commodity.

## Methods of Analysis, Investment Strategies and Risk of Loss

### *A. Investment Strategies*

The Firm’s investment strategies are often categorized as “alternative investment” strategies and our clients as “hedge funds”. Our strategies originate from our global and quantitative approach to financial markets and rely on in-depth statistical analysis of large scale sets of financial data for asset allocation, trading decisions and order execution. We implement our investment strategies through automated trading programs operated on our own IT infra-structure, which includes data feeds, engines for decision making and risk control, order management, connectivity to markets as well as post-trade processing facilities and accounting. Our trading style can be characterized as “black box”, “algorithmic” or “quant” trading. Data inputs used in developing our strategies are mainly prices and public corporate information.

The overall investment strategies, risk management, implementation of new models and risk allocation decisions are made by our Investment Committee, comprised of our four board members, the head of each of our trading strategies, the head of execution and the responsible for independent risk monitoring (9 persons overall).

We employ a team of Ph.D.’s - former physicists from prestigious institutions - and IT and data specialists to conduct research in the statistical properties of financial instruments and to develop systematic trading strategies for use with our clients. The Research team’s mandate for continuous development of investment strategies helps the Firm capture new sources of value and adapt its trading strategies to the evolving markets.

We currently offer two trading programs, Discus and Stratus, to clients. Discus is mainly a managed futures program focusing on directional trading in the most liquid asset classes, but includes a component of active trading of fixed

income securities and U.S. government bonds when implemented for our fund clients. Stratus is a quantitative trading program providing exposure to our Directional Trading, Statistical Equity Arbitrage and Statistical Volatility Arbitrage strategies. Each trading strategy is based on a large number of individual trading models which focus on a specific type of trading opportunity. By combining a large number of such models, ideally un-correlated to each other, the Firm aims to achieve an attractive risk-reward relationship for the investment programs available to clients.

Our investment program are designed to be un-correlated to traditional asset classes in most market conditions. There is no assurance that these investment programs will provide an acceptable return to investors or the degree of correlation that any portfolio will actually experience. Investing in securities and other financial instruments such as those in our trading programs involves risk of loss that clients should be prepared to bear.

#### *B. Risk Factors*

Our trading strategies involve high-frequency, algorithmic trading, use of derivatives and heavy reliance on our IT systems. As with any investment program, clients and prospects should understand the risks involved with the underlying trading strategy. Each investor and potential investor in a private fund client will have received offering documents describing the features of that private fund and the risk factors applicable to the trading strategy. Prospective investors should carefully consider the following risks as well as other risks described in the offering documents for our private fund clients. Investors should carefully consider whether an investment in the Firm's investment programs is suitable for them in light of their sophistication, needs, risk appetite and financial condition.

*Reliance on Technical Trading Systems.* We base our trading decisions chiefly on statistical modeling and technical analysis. The calculations which underlie our trading systems, methods and strategies involve the extensive use of computers and related information technology and purchase and sale orders are placed in accordance with computer generated trading signals. The use of computers in processing information or in developing and operating a trading strategy does not assure the success of the strategy as computers merely perform a mechanical aid in processing trade information.

*Use of Leverage.* We may use leverage as part of our investment strategy. This may result in investment portfolios with market exposures that are significantly higher than the corresponding managed net assets. The use of leverage increases a client's returns if it earns a greater return on investments purchased with borrowed funds than the client's cost of borrowing. However, the use of leverage exposes the client to additional risks, including (i) greater losses from investments than would otherwise have been the case had the client not borrowed to make investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions, and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the client's cost of borrowing. In the event of a sudden, precipitous drop in the value of the client's assets, a client might not be able to liquidate assets quickly enough to repay borrowings, further magnifying losses.

*Short Sales.* We may sell securities short as a speculative position or as a part of a hedging strategy. Short sales are transactions in which the client sells a security, which it does not own (by borrowing such security) in anticipation of a decline in the market value of the security. Although the price at which a security short is limited to the price, losses from short sales may be unlimited if the price of the security sold short continues to appreciate. Additionally, even though the client takes measures to secure a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the client to purchase the security at the then prevailing market price which may be higher than the price at which such security was originally sold short by the client. Further, the cost to borrow stock may vary greatly from time to time depending on supply and demand in the market place. There are additional regulatory requirements in respect of short sales that need to be respected. Several jurisdictions are implementing regulations which require short sellers to disclose short positions publicly or which limit the possibility to sell short.

*Trading Costs.* Our trading strategies generally entail a high rate of trading activity resulting in correspondingly high brokerage costs, exchange fees, regulatory fees, clearing costs or other trading related costs being incurred. This frequent trading also causes a taxable event in the U.S. to occur each time a security is purchase and sold. These increased expenses and potential taxes could lower the overall investment performance of the fund.

*Income.* We generally only advise private fund clients that are structured to accumulate and reinvest profits, losses and income. An investment in such vehicles is not suitable for an investor seeking current income and distribution rather than longer term appreciation.

*Counterparty Risks.* Our investment strategies involve incurring exposure to the counterparty risk of issuers, exchanges, clearing houses, brokers, prime brokers, banks, futures clearers and other counterparties. The default of any counterparty on an obligation to one of our clients could lead to material losses to such client.

*Limited Ability to Redeem.* Investors in the private funds advised by the Firm usually may withdraw assets monthly on two months notice. However, the directors of the private funds may have authority to suspend redemptions in certain

circumstances and may also withhold consent to the transfer of shares. Investors should be prepared to hold their fund interests indefinitely.

*Risks Associated with Performance-based Compensation.* A substantial part of our compensation is comprised of a performance-based fee. This may create an incentive for us to make more speculative investments than it would otherwise make in the absence of such performance-based compensation.

Please carefully review the risks applicable to the specific strategy that we will use to provide investment advice contained in the offering documents for the relevant fund.

### *C. Risks of Securities Recommended*

Prospective investors should carefully consider the following trading-instrument-related risks as well as other risks described in the ‘Risk Factors’ section of each private fund’s offering documents. Investors should carefully consider whether an investment in a portfolio including such financial instruments is suitable for them in light of their sophistication, needs, risk appetite and financial condition.

*Derivative Contracts.* The Firm may recommend its clients to trade in derivative contracts such as futures, options, contracts for differences and forward contracts. Derivative contracts may involve additional risks such as sensitivity to additional risk factors, documentation risk, liquidity, short-exposures, embedded leverage, margin calls, position limits and counterparty risks.

## Disciplinary Information

### *A. Criminal or Civil Actions*

None.

### *B. Regulatory Actions*

None.

### *C. Self-Regulatory Proceedings*

None.

## Item 10, Other Financial Industry Activities and Affiliations

### *A. Broker-Dealer Activity*

None.

### *B. Futures Activity*

We trade futures, security futures, options (on broad based indices as well as commodities) and spot foreign exchange for our clients. The Firm is registered with the CFTC as a commodity trading advisor, although it operates all of its accounts pursuant to the exemption from certain disclosure and recordkeeping requirements of CFTC Rule 4.7 applicable to accounts of “qualified eligible persons”. We have filed notice of exemption from registration as a commodity pool operator for each private fund we managed based outside of the U.S. that accepts U.S. investors in reliance on CFTC Rule 4.13(a)(4). CFM NA has also filed notices of exemption from registration as a commodity pool operator for certain private funds. We are a member of the National Futures Association and Marc Potters, co-CEO and a member of our board of directors, is registered with the CFTC as an associated person.

### *C. Affiliations*

Jacques Sauliere, Co-CEO of the Firm, also acts as a director of certain of the private funds advised by the Firm. Similarly, Jacques Sauliere acts as a director of CFM NA, the managing member and the general partner of certain private funds advised by the Firm.

The Firm is registered as a Commodity Trading Advisor with the CFTC and it has claimed an exemption under Rule 4.7 to certain disclosure and record-keeping requirements. We have also filed a notice of exemption with respect to commodity pools we operate pursuant to Rule 4.13(a)(4). CFM NA is the commodity pool operator for certain private funds which we advise and has filed a notice of exemption from CPO registration in reliance on Section 4.13(a)(4).

As explained above, CFM NA acts as a managing member and/or general partner of certain private funds we advise.

#### *D. Selection of Investment Advisers*

Not applicable.

## Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

#### *A. Code of Ethics*

The Firm has adopted a Code of Ethics governing personal securities trading by employees for their own benefit and for their related persons. Employees are permitted to maintain personal securities accounts provided that such accounts are disclosed us and any personal trading is consistent with applicable law and the Code of Ethics. Subject to compliance with the Code of Ethics, employees may buy, sell or hold, for their own personal accounts, securities that we may also buy, sell or hold for our clients.

The Code of Ethics also contains policies and procedures that, among other things:

- prohibit employees from taking personal advantage of opportunities belonging to clients,
- place limitations on personal trading by employees and impose pre-clearance and reporting obligations with respect to trading, and
- require reports of securities holdings and transaction reports by employees.

The Firm's Code of Ethics is available upon request by contacting our Chief Compliance Officer, Martin Tornqvist, at [compliance@cfm.fr](mailto:compliance@cfm.fr).

#### *B. Recommendations to clients, or buys or sells for client accounts of securities in which the Firm or a related person has a material financial interest.*

As the sole trading adviser to the private funds we advise, we may participate in the offering of fund interests to potential investors in compliance with applicable law and regulations. This involvement could be construed as selling to a client a security in which we have a material financial interest. The Firm as well as staff of the Firm may also be invested in our private fund clients and, in fact, the Firm and its staff are invested on a pooled basis with external investors in certain private funds managed by us. We believe that this aligns the Firm's and its staff's interests with those of clients and view this as a beneficial arrangement.

#### *C. Investing in the same securities (or related securities, e.g., warrants, options or futures) that the Firm or a related person recommends to clients.*

Please see Item 11.B above. In addition, the Firm may perform certain currency hedging of its revenue, which is denominated in US\$ and Euro, using similar futures instruments as traded for clients. This hedging activity is performed using exchange traded futures contracts and is unrelated to the trading activities of our clients.

#### *D. Recommendation of securities to clients, or buys or sells securities for client accounts, at or about the same time that the Firm or a related person buys or sells the same securities for its own (or the related person's own) account.*

Please see Item 11.B and 11.C above. Any investment or redemption by the Firm or staff in a private fund is processed on the same dealing dates following the same procedure as the subscriptions or redemptions of external investors. The pre-clearance procedure required to be followed by employees when investing in non-exempt financial instruments provides transparency in relation to employees or related persons investing in the same securities as recommended, bought or sold for clients.

## Brokerage Practices

#### *A. Selecting broker-dealers and evaluating commission levels*

We only execute trades electronically over connectivity with brokers and exchanges. Bringing a new execution venue to this electronic infrastructure is a significant project and usually takes at least 6 months. The Firm maintains an Execution Policy for selecting brokers as well as directing order flow to brokers. The Execution Policy identifies several execution factors for selecting brokers, the most important of which are cost, latency, quality of processing and credit worthiness. In general, we choose the brokers used to trade for private fund clients based on the principle of obtaining best execution while also accommodating our electronic order transmittal and other requirements.

## 1. Soft Dollars

We do not maintain any soft dollar accounts with brokers. We may, however, from time to time receive research services and/or other services from brokers free of charge. In general, all services we receive from brokers that could be considered soft commissions are within the safe harbor of Securities Exchange Act Section 28(e) but according to our internal policies we may accept other services when they are for the benefit of clients. In 2010, the Firm received hosting and data processing services from an executing broker in relation to execution of trades in the Asian markets. The hosting and data processing services were for the sole benefit of clients and enables clients to benefit from significantly reduced latency and improved quality of execution in certain Asian markets.

## 2. Brokerage for Client Referrals.

Although we have at times received client referrals from brokers, this would not be a factor for selecting brokers.

## 3. Directed Brokerage.

We only execute trades through brokers with whom our clients have established accounts. Once the client has opened the required accounts and authorizes us to trade in such account on its behalf, we will execute trades only through those brokers who can accommodate our needs and investment style. A client who only processes trades through a sub-set of the available brokers or who appoints a third party broker for its execution or clearing activities may potentially receive less favorable terms than other clients that benefit from the volume discounts as well as processing technology based on the combined volume of our clients.

### *B. Bunched orders*

We may bunch orders in the futures, FX spot and fixed income markets in order to receive similar executions for all clients. The executed trades are allocated to clients using an enhanced CFTC “highest price to highest account number” type allocation algorithm or an end of day average price allocation. All trades in equity securities and options are currently allocated pre-trade.

## Review of Accounts

### *A. Account Reviews*

Our operations staff reconcile all client accounts on a daily basis. The Head of Operations reviews all client accounts on a monthly basis. In addition to continuous monitoring by the various research and production teams, the Investment Committee of the Firm formally reviews the performance all clients on a monthly basis.

### *C. Client Reports*

The Firm sends monthly and quarterly performance reports to all clients. The investors in the private funds receive monthly net asset statements as well as annual audited accounts processed by the funds’ administrator. Certain private funds that are listed on the Irish Stock Exchange also publish semi-annual unaudited financial statements.

## Client Referrals and Other Compensation

The Firm may compensate third parties for prospective advisory client referrals (or referrals of private fund investors) in accordance with applicable law. Written arrangements govern such compensation and are disclosed to referred clients or investors. Generally, such fees would be proportional to the amount invested by the referred advisory client or investor in a private fund during a pre-defined period of time.

As a result of a now discontinued arrangement with Altegris Investments, Inc. (“Altegris”) pursuant to which Altegris introduced prospective investors to certain private funds, Altegris has an ongoing right to receive compensation corresponding to 0.50% of the assets under management of such referred investors.

## Custody

We are deemed to have custody of certain client assets as a result of our authority to deduct advisory fees from certain private fund accounts and through our related person, CFM NA, acting as managing member or general partner of certain private funds. The Firm complies with the custody requirement of the SEC for all U.S. private funds by appointing third party qualified custodians to its private fund clients and sending audited financial statements prepared in accordance with US GAAP to all investors in private funds within 120 days of the year-end of the respective private fund. An independent PCAOB registered accountant audits the financial statements of all client private funds.

## Investment Discretion

We manage all of our client accounts on a discretionary basis pursuant to trading advisory agreements entered into with each client. The standard trading advisory agreement grants us discretionary authority to trade for a client's account in accordance with one of our trading programs (currently Stratus and Discus). Clients usually retain the authority to appoint counterparties and service providers (such as executing brokers, clearing brokers, custodians, administrators, etc). In the case of private funds, the directors of the funds may authorize certain named staff of the Firm to conduct cash transfers required to support the trading activity and the day to day operations of the fund.

We strongly prefer to treat similarly every client following a specific investment program. Due to tax, regulatory or other specific needs, we may agree with certain clients to exclude certain instruments or modify the program. Such adjustments are usually exclusions of instruments from the pool and would only account for a minor part of the trading universe.

## Voting Client Securities

Currently, we only advise on securities for private fund clients and generally we have an authority to vote securities for such private funds. However, due to the relatively high-frequency trading strategies operated by us, the time, effort and expense required to make voting decisions, we do not believe it is in the best interests of our clients to vote. Therefore, our policy is not to vote proxies. Clients do not generally direct us to vote any securities. The Firm has implemented a written policy regarding the voting of client securities in exceptional circumstances when it elects to do so. When voting client securities, we endeavor to vote in the client's best interest as determined on a case-by-case basis. Such written policy also addresses material conflicts of interest that may arise between the Firm and its clients with respect to voting of client securities. The Firm's portfolio managers and Chief Compliance Officer oversee and manage the process by which it votes client securities. The Firm's voting policy is available upon request. An advisory client also may obtain a record of the Firm's voting for such client by contacting our Chief Compliance Officer, Martin Tornqvist, at [compliance@cfm.fr](mailto:compliance@cfm.fr).

## Financial Information

### *A. Balance Sheet*

Not applicable.

### *B. Financial Condition.*

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

### *C. Bankruptcy Petitions*

Not applicable.

## Requirements for State-Registered Advisers

Not applicable.





## Marc Potters

### Co-CEO

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**Effective as of: 31 March 2011**

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### Educational Background and Business Experience

Marc Potters, born in 1969, is the Co-Chief Executive Officer (at the Firm since 1995) and holds a Ph.D. in Physics from Princeton University, where he studied non-linear signal processing and was a Post Doctorate Fellow at the University of Rome La Sapienza. He was appointed the Firm's Head of Research in 1998 and is the author, with Jean-Philippe Bouchaud, of the book "Theory of Financial Risks" – Cambridge University Press and has published numerous articles in the field of statistical finance.

### Disciplinary Information

None.

### Other Business Activities

None.

### Additional Compensation

None.

### Supervision

Marc Potters is the Co-CEO of the Firm and is subject to the supervision of the board. He must abide by the Firm's compliance policies and procedures and to the same extent as all other employees. Jean-Philippe Bouchard is the Chairman of the Board.

### Requirements for State-Registered Advisers

Not applicable.



## Philip Seager

### Head of Directional Trading

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### Item 2, Educational Background and Business Experience

Philip Seager, born in 1972, is the Head of Directional Trading. He holds a PhD in Experimental Particle Physics from Lancaster University. He worked on measuring the Michel parameters using the decays of tau leptons produced by the LEP electron-positron collider at CERN in Geneva, Switzerland. In 1998, he was granted a two-year European fellowship to work at the Service de Physique des Particules (CEA-Saclay) searching for charged Higgs bosons in the high energy phase of the LEP collider. He joined the Firm in August 2000.

### Disciplinary Information

None.

### Other Business Activities

None.

### Additional Compensation

None.

### Supervision

Philip Seager reports to the Co-CEO of the Firm, Marc Potters, and is subject to the supervision the Investment Committee. In addition, Philip Seager is subject to the same compliance rules as all other staff of the Firm.

### Requirements for State-Registered Advisers

Not applicable.



## Laurent Laloux

### Head of Statistical Equity Arbitrage

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### Educational Background and Business Experience

Laurent Laloux, born in 1969, is the Head of Statistical Arbitrage. He holds a PhD in Theoretical Physics from Laboratoire de Physique Théorique de l'École Normale Supérieure where he worked on strongly correlated fermionic systems and ageing properties in disordered systems. In 1995-96, he was a teaching assistant at Université Pierre et Marie Curie in the Laboratoire de Physique Théorique et des Hautes Énergies. He joined the Firm in February 1997.

### Disciplinary Information

None.

### Other Business Activities

None.

### Additional Compensation

None.

### Supervision

Laurent Laloux reports to the Co-CEO of the Firm, Marc Potters, and is subject to the supervision the Investment Committee. In addition Laurent Laloux is subject to the same compliance rules as all other staff of the Firm.

### Requirements for State-Registered Advisers

Not applicable.



## Stefano Ciliberti

### Head of Statistical Volatility Arbitrage

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### Educational Background and Business Experience

Stefano Ciliberti, born in 1976, is the Head of Volatility Arbitrage. Holds a PhD in Theoretical Physics from the University of Rome "La Sapienza", where he went on to obtain. In 2002-03, he was teaching assistant at the Universities of Rome 3. His research activity focused on various aspects of the statistical physics of disordered and glassy systems, with applications to information theory, biology, and economics. After two postdoctoral stays, at UCM in Madrid and at LPTMS in Paris-Orsay, he joined the Firm in 2006.

### Disciplinary Information

None.

### Other Business Activities

None.

### Additional Compensation

None.

### Supervision

Stefano Ciliberti reports to the Co-CEO of the Firm, Marc Potters, and is subject to the supervision the Investment Committee. In addition Stefano Ciliberti is subject to the same compliance rules as all other staff of the Firm.

### Requirements for State-Registered Advisers

Not applicable.



## Julien Kockelkoren

### Head of Execution

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### Educational Background and Business Experience

Julien Kockelkoren, born in 1975, is the Head of Execution. He holds a Ph.D. in Theoretical Physics from the Service de Physique de l'État Condensé (CEA - Saclay), where he worked on various subjects in the field of out-of equilibrium statistical physics. After a postdoctoral stay at the University of California San Diego, during which he worked on theoretical biophysics, he joined the Firm in September 2003.

### Disciplinary Information

None.

### Other Business Activities

None.

### Additional Compensation

None.

### Supervision

Julien Kockelkoren reports to the Co-CEO of the Firm, Marc Potters, and is subject to the supervision the Investment Committee. In addition Julien Kockelkoren is subject to the same compliance rules as all other staff of the Firm.

### Requirements for State-Registered Advisers

Not applicable.