

**WERMUTH QUANT EASTERN EUROPE STRATEGY IC**

*An incorporated cell of Wermuth Quant Long/Short Equities Fund ICC incorporated in Jersey, Channel Islands*

**PRIVATE PLACEMENT MEMORANDUM**

**dated [●] 2011**

## PRIVATE PLACEMENT MEMORANDUM

### WERMUTH QUANT EASTERN EUROPE STRATEGY IC

Wermuth Quant Eastern Europe Strategy IC (the "**Fund**") was incorporated in Jersey, Channel Islands on [●] 2011 and is an incorporated cell of Wermuth Quant Long/Short Equities Fund ICC (the "**Company**"), which is an incorporated cell company incorporated in Jersey, Channel Islands on 2 August 2011.

THIS PRIVATE PLACEMENT MEMORANDUM (THE "**MEMORANDUM**") IS ISSUED IN RESPECT OF AN INCORPORATED CELL OF A JERSEY CELL COMPANY WHICH IS A SPECIALISED CORPORATE VEHICLE. IT IS THEREFORE RECOMMENDED, IF YOU ARE UNFAMILIAR WITH THE NATURE OF JERSEY CELL COMPANIES THAT YOU DISCUSS THIS ASPECT OF ANY PROPOSED INVESTMENT WITH YOUR USUAL ADVISER.

The consent of the Jersey Financial Services Commission (the "**Commission**") under the Control of Borrowing (Jersey) Order 1958 (as amended) has been obtained for the issue of an unlimited number of shares in the Fund. In giving its consent, the Commission takes no responsibility for the financial soundness of the Fund or for the correctness of any statements made, or opinions expressed, with regard to it. The Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that law. The Secretary is registered by the Commission pursuant to the Financial Services (Jersey) Law 1998 (as amended), to carry out its functions to the Company and the Fund.

The Fund been established in Jersey as an unregulated eligible investor fund and is only open to eligible investors (within the meaning of Schedule 1 to the Collective Investment Funds (Unregulated Funds) (Jersey) Order 2008, as amended (the "**Order**") details of which are set out in Schedule 1 hereto).

The Fund has not been approved or authorised by the Commission. The Fund is not regulated by the Commission and is only suitable for professional or experienced investors, or those who have taken appropriate professional advice. Regulatory requirements, which may be seen as necessary for the protection of retail or non-expert investors, do not apply to unregulated funds.

By declaring that you have received this warning and understood and accepted its terms you are expressly agreeing that you are an eligible investor within the meaning of Schedule 1 to the Order. You are also expressly agreeing that you accept the risks in the investment accordingly.

If you are an investment manager acquiring Participating Shares in the Fund as an investment that is, directly or indirectly, for or on behalf of persons who are not eligible (within the meaning of Schedule 1 to the Order), by additionally declaring that you are satisfied that the investment is suitable for those investors and that they are able to bear the economic consequences of the investment, including the possibility of the loss of the entire investment, you are declaring that you have sufficient information in order to be satisfied as to the truth of that statement.

You are wholly responsible for ensuring that all aspects of this investment are acceptable to you (and to any persons referred to in the preceding paragraph). Investment in an unregulated fund may involve special risks that could lead to a loss of all or a substantial portion of that investment. Unless you (and those persons, if any) fully understand and accept the nature of this investment and the risks inherent in investing in the Fund you should not invest in the Fund.

The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein, whether of fact or opinion. The Directors accept responsibility accordingly.

No person is authorised to give any information or to make any representation in connection with the issue of shares of any class which is not contained or referred to in this Memorandum and, if given or made, such information or representations may not be relied upon as having been authorised by the Fund or the

Directors.

This Memorandum does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

No public or other market is expected to develop for the Participating Shares. The Participating Shares offered hereby may be sold, transferred, hypothecated or otherwise disposed of only upon the terms set out in this Memorandum and the Articles of Association which include the requirement to obtain the prior written consent of the Directors of the Fund.

An investment in the Fund involves special risks, and purchase of the Participating Shares should be considered only by persons who can bear the economic risk of their investment for an indefinite period and who can afford a total loss of their investment (see Risk Factors below).

The Directors reserve the right to modify, withdraw or cancel any offering made pursuant to this Memorandum at any time prior to consummation of the offering and to reject any subscription, in whole or in part, in their sole discretion.

No offering materials will or may be employed in the offering of Participating Shares except for this Memorandum (including schedules, appendices, exhibits, amendments and supplements hereto) and the documents summarised herein. No person has been authorised to make representations or give any information with respect to the Fund or Participating Shares except for the information contained herein. Investors should place no reliance on information not contained in this Memorandum or the documents summarised herein.

This Memorandum is intended solely for use on a confidential basis by those persons to whom it is transmitted by the Fund in connection with the contemplated private placement of the Participating Shares. Recipients, by their acceptance and retention of this Memorandum, acknowledge and agree to preserve the confidentiality of the contents of this Memorandum and all accompanying documents and to return this Memorandum and all such documents to the Fund or the Administrator if the recipient does not purchase any Participating Shares. Neither this Memorandum nor any of the accompanying documents may be reproduced in whole or in part, nor may they be used for any purpose other than that for which they have been submitted, without the prior written consent of the Fund.

Neither the Fund nor the Administrator is making any representation to any offeree or investor in the Fund regarding the legality of investment by such offeree or investor under applicable investment or similar laws.

The distribution of this Memorandum and the offer and sale of the shares in certain jurisdictions may be restricted by law. Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of Participating Shares, and any foreign exchange restrictions that may be relevant thereto.

This Memorandum is based on the law and practice currently in force in Jersey and is subject to changes therein. This Memorandum should be read in conjunction with the Articles of Association.

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## 1 DIRECTORY

### **The Company**

Wermuth Quant Long/Short Equities Fund ICC

### **The Fund**

Wermuth Quant Eastern Europe Strategy IC

### **Registered Office**

Kleinwort Benson House  
PO Box 76  
West's Centre  
St Helier  
Jersey  
JE4 8PQ  
Channel Islands

### **Board of Directors of the Fund**

Ms Kerry Sunter  
Ms Natalie Sullivan  
Mr Andrew Wignall

### **Investment Adviser**

Wermuth Asset Management GmbH  
Langgasse 38-40, 65183 Wiesbaden Amtsgericht  
Wiesbaden HRB 24805  
Germany

### **Sponsor**

Green Shoots Limited  
16 Kyriakou Matsi Avenue Eagle House 10th Floor  
Agioi Omologites, PC  
1082 Nicosia  
Cyprus

### **Auditors**

KPMG Limited  
14, Esperidon Street  
1087 Nicosia  
PO Box 21121  
1502 Nicosia  
Cyprus

### **Secretary**

Kleinwort Benson (Channel Islands) Corporate  
Services Limited  
Kleinwort Benson House  
PO Box 76  
West's Centre  
St Helier  
Jersey  
JE4 8PQ  
Channel Islands

### **Administrator and Registrar**

Apex Fund Services Ltd.  
3 Burnaby Street  
T.J. Pearman Building  
Hamilton HM12  
Bermuda

### **Sub-Administrator and Sub-Registrar**

Apex Fund Services (Ireland) Limited  
Enterprise House  
Watersedge  
Midleton  
Co. Cork  
Ireland

### **Prime Broker**

Renaissance Securities (Cyprus) Limited  
9th Floor, Capital Centre  
2-4 Archbishop Makarios III Avenue  
1505 Nicosia  
Cyprus

### **Legal Adviser as to Jersey Law**

Bedell Cristin  
PO Box 75  
26 New Street  
St Helier  
Jersey  
JE2 3RA  
Channel Islands

## 2 DEFINITIONS

The following definitions will apply throughout this Memorandum unless the context otherwise requires:

<b>Accounting Date</b>	31 December;
<b>Administration Agreement</b>	means the agreement entered into between the Administrator and the Fund;
<b>Administrator</b>	Apex Fund Services Ltd. or such other person appointed from time to time;
<b>Application Form</b>	the application form for Participating Shares of the Fund available from the Administrator;
<b>Articles of Association</b>	the Memorandum and Articles of Association of the Fund, as amended, substituted or supplemented from time to time;
<b>Associated Company</b>	a company that is related to another entity if (i) one of the two has control of the other or (ii) both are under the control of the same person or persons;
<b>Auditors</b>	the auditors for the time being of the Fund;
<b>Base Currency</b>	U.S. Dollars;
<b>Business Day</b>	any day that is a normal business day and not a national or bank holiday in Jersey, Russia or Ireland;
<b>Companies Law</b>	the Companies (Jersey) Law 1991 (as amended);
<b>Company</b>	Wermuth Quant Long/Short Equities Fund ICC;
<b>Dealing Day</b>	the first day in each calendar month or such other day or days as may be determined by the Directors from time to time (each being a " <b>Special Dealing Day</b> ") either generally or in any particular case;
<b>Delta Adjusted Notional Amount</b>	in relation to a Derivative Contract which is referenced to securities, the underlying notional value of such securities to which the Derivative Contract is referenced, adjusted by the applicable delta factor to reflect the relationship between price changes in the Derivative Contract and price changes in the underlying securities;
<b>Derivative Contract</b>	a cash-settled or physically-settled financial instrument, traded on an exchange or over-the-counter, the value of which is derived from the value of one or more underlying securities, equity indices, debt instruments, currencies, interest rates, commodities, other derivative instruments, assets, factors or any agreed upon pricing index or arrangement;
<b>Directors</b>	the Directors of the Fund for the time being, or as the case may be, the Directors assembled as a board or as a committee thereof and " <b>Board of Directors</b> " shall have a corresponding meaning;
<b>Eligible Investor</b>	the person who at the time of making in relation to the Fund of a subscription, purchase, or exchange, or an acquisition of Participating Shares satisfies the definition of an eligible investor

within the meaning of Schedule 1 to the Collective Investment Funds (Unregulated Funds) (Jersey) Order 2008, (as amended), details of which are set out in Schedule 1 hereto;

**Emerging Market Country**

any country not included in the former "Group of Seven (G-7)", i.e. any country other than Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States of America;

**Emerging Market Investments**

any of the following, to the extent investment therein by the Fund (directly or through a subsidiary or agent) is permissible under the law of the relevant jurisdiction:

- (a) bonds, bills and other fixed income securities issued from time to time by the government of any Emerging Market Country or any political subdivision or Governmental Agency thereof or therein;
- (b) loans or other advances for borrowed money denominated in any currency made to the government of any Emerging Market Country or any political subdivision or Governmental Agency thereof or therein, as obligor or guarantor;
- (c) any other debt instruments or fixed income securities denominated in any currency issued or guaranteed by an Emerging Market Issuer;
- (d) equity securities issued by any Emerging Market Issuer and securities such as American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), which represent rights in such equity securities;
- (e) participations in or in respect of, and other contractual rights to payment under or in respect of, any Emerging Markets Investment listed above;
- (f) securities issued in respect of any Emerging Markets Investment listed above in connection with a rescheduling or reallocation of any payment due thereunder;
- (g) repurchase or reverse repurchase agreements relating to any Emerging Markets Investment listed above;
- (h) securities of issuers (including funds and other collective investment vehicles) a substantial portion of the business of which is investing in any Emerging Markets Investment described above;
- (i) any combination, composition or set of one or more debt or equity securities of Emerging Market Issuers or that bear risks relating to Emerging Market Countries;
- (j) forward contracts or other securities issued by Investment Grade institutions, or affiliates thereof, or pass-through entities, with or without convertibility options, on currencies of Emerging Market Countries;
- (k) other currency or interest rate derivatives of any Emerging Market Country;
- (l) non-listed shares in companies in an Emerging Market Country;
- (m) rights to property of various kind, including real estate and intellectual property in or from an Emerging Market Country;

- (n) securities by any issuer which derives a substantial portion of its business from an Emerging Market Country;
- (o) securities by ventures in Emerging Market Countries or involving Emerging Market Country companies, individuals or technologies, possibly also based outside of Emerging Market Countries in an effort to reduce risks and increase profitability through better control, management and global marketing; and
- (p) capital allocated to any short or other trading positions related to emerging markets;

**Emerging Market Issuer**

each of the following:

- (a) the government of any Emerging Market Country or any of its agencies or instrumentalities;
- (b) any region or other territorial or administrative subdivision of any Emerging Market Country and any of the agencies and instrumentalities of any such region or other subdivision;
- (c) any corporation, bank or other entity organized under the laws of any Emerging Market Country or any of its states or organized elsewhere but which derives 50%;
- (d) or more of its total revenue from goods produced, sales made or services performed in such Emerging Market Country, or a foreign subsidiary, branch or affiliate of any such corporation, bank or other entity;
- (e) a branch of a foreign bank or other entity that is located in or doing business in any Emerging Market Country; and
- (f) issuers (including funds and other collective investment vehicles) a substantial portion of the business of which is investing in securities issued by any of the kinds of Emerging Market Issuers listed above;

**Financial Resources Requirement**

in relation to a legal person, a requirement either that such person has €200 million in financial resources (or its equivalent in another currency) or has all of its obligations to the Fund irrevocably and unconditionally guaranteed by, or is an unlimited liability subsidiary of, an entity that has €200 million in financial resources (or its equivalent in another currency);

**Fund**

Wermuth Quant Eastern Europe Strategy IC, an incorporated cell of the Company established in accordance with the Companies Law and formed as an unregulated eligible investor fund pursuant to the Collective Investment Funds (Unregulated Funds) (Jersey) Order 2008 (as amended), managed in accordance with the investment objective and policy set out in this Memorandum;

**Gross Assets**

means the sum of absolute values of Notional Values for all positions in the Fund except for cash held in bank accounts and Derivative Contracts used for hedging purposes;

**Gross Exposure**

is calculated by dividing Gross Assets by NAV;

**High Water Mark or HWM**

The greater of:



	<p>(a) the highest Net Asset Value per Participating Share on the last day of any Performance Payment Period; and</p> <p>(b) the initial issue price of a class of Participating Shares;</p>
<b>Initial Offering Period</b>	one calendar month from the publication of this Memorandum or such other period determined at the discretion of the Directors (which period may for the avoidance of doubt be shortened or extended at any time at the absolute discretion of the Directors);
<b>Investment(s)</b>	any share, stock, bond, debenture, debenture stock, loan, debt, loan stock, unit or sub-unit of a unit trust scheme, option, warrant, certificate of deposit, promissory note, bill, contract for differences, bearer depository receipt, note, security or negotiable instrument or other instrument or obligation of any kind whatsoever issued, payable or repayable by, or any money in any currency or currencies including any money deposited or held on current or deposit account with, any person, body (whether or not incorporated), partnership, fund, trust, government, government department or agency of any country, state or territory in the world and any participation in a mutual fund or similar scheme, and any other property or assets including all forms of real and personal property and interests therein. Where any such Investment consists of the right to receive repayment of a loan or deposit, reference to purchasing or acquiring such Investment shall be taken to include the making of the loan or deposit or the taking of an assignment or otherwise acquiring the right to receive repayment thereof and references to disposing of or realising such Investment shall be taken to include receiving repayment of the loan or deposit or the making of an assignment or otherwise disposing of the right to receive repayment thereof;
<b>Investment Adviser</b>	Wermuth Asset Management GmbH or such other person appointed by the Fund;
<b>Investment Advisory Agreement</b>	means the agreement entered into between the Investment Adviser and the Fund;
<b>Investment Currency</b>	each currency, other than the U.S. Dollar (for the avoidance of doubt, the Fund is permitted to make investments denominated in U.S. Dollars as well) in which any of the Fund's investments is denominated;
<b>Investment Grade</b>	a rating of at least investment grade by any internationally recognised rating agency in respect of the long-term unsubordinated unsecured indebtedness of any person. For clarification, a rating of BBB- or Baa3 shall be considered to be "investment grade";
<b>Investment Jurisdiction</b>	each country that issues an Investment Currency;
<b>Long Assets</b>	means the sum of Notional Values which are positive for all positions in the Fund except for cash held in bank accounts and Derivative Contracts used for hedging purposes;
<b>Long Exposure</b>	is calculated by dividing Long Assets by NAV;
<b>Management Shares</b>	the voting non-participating management shares of no par value in the Fund;

<b>Memorandum</b>	this Private Placement Memorandum together with each schedule hereto as amended, substituted or supplemented from time to time;
<b>Net Asset Value or NAV</b>	the net asset value of the Fund or of the Participating Shares (or any class or series thereof) within the Fund as the context may require calculated in accordance with the Articles of Association and this Memorandum;
<b>Net Assets</b>	means the sum of Notional Values for all positions in the Fund except for cash held in bank accounts and Derivative Contracts used for hedging purposes;
<b>Net Exposure</b>	is calculated by dividing Net Assets by NAV;
<b>Notional Value</b>	means the Delta Adjusted Notional Amount for Derivative Contracts and nominal or face amount for other securities;
<b>Ordinary Resolution</b>	means a resolution of the Fund passed by a simple majority of the votes cast at a general meeting;
<b>Participating Share</b>	a non-voting participating redeemable share of no par value in the capital of the Fund and, save where the context otherwise requires, all references to "Participating Shares" herein shall be deemed to be Participating Shares of any or all classes and series of the Fund;
<b>Performance Fee</b>	the annual performance fees which may be payable from time to time to the Investment Adviser and the Sponsor. See the section in this Memorandum headed "Charges and Expenses - Investment Adviser's and Sponsor's Fees";
<b>Performance Payment Period</b>	with respect to each Participating Share, the period commencing on (and including) the date of issue of such share and ending on (and including) the last Business Day of the calendar year or, if earlier, the Redemption Day (or day of transfer to a new investor pursuant to a secondary market transfer) for the relevant Participating Share, and each subsequent period commencing on (but not including) the last Business Day of the preceding Performance Payment Period for the relevant Participating Shares and ending on (and including) the last Business Day of the next calendar year, or, if earlier, the Redemption Day for the relevant Participating Share;
<b>Prime Broker</b>	Renaissance Securities (Cyprus) Limited or such other prime broker(s) and bank(s) as may be appointed by the Fund from time to time;
<b>Prime Brokerage Agreement</b>	means the agreement entered into, or expected to be entered into (as the case may be) between the Prime Broker and the Fund;
<b>Portfolio</b>	the portfolio of assets and investments attributable to the Participating Shares;
<b>Recognised Clearing House</b>	Depository Clearing Company, National Settlement Depository, the CME Clearing House, The Clearing Corporation, LCH, Eurex Clearing AG, and any other clearing house which the Fund demonstrates affords to its members a level of protection which is commensurate with that afforded to their members by the clearing

	houses listed above;
<b>Redemption Day</b>	the first day in each calendar month or such other day or days as may be determined by the Directors from time to time, either generally or in any particular case;
<b>Redemption Notice</b>	a notice to redeem Participating Shares given in such form as the Administrator or Directors may from time to time determine;
<b>Redemption Price</b>	the Net Asset Value per Participating Share, denominated in US\$, as at the relevant Valuation Point, after adjustment for any redemption or other fee applicable to the Participating Shares being redeemed as set out in this Memorandum or as the Directors may from time to time otherwise determine upon the issue of the relevant Participating Shares and rounded down to the nearest whole cent;
<b>Secretary</b>	Kleinwort Benson (Channel Islands) Corporate Services Limited or such other person appointed from time to time;
<b>Senior Advisory Board</b>	a "senior advisory board" to the Fund, which may be appointed by the Investment Adviser at its own cost with the approval of the Board of Directors providing additional input towards the investment advice provided by the Investment Adviser and the sourcing of investment opportunities. The members of the Senior Advisory Board will not be liable for any advice they provide;
<b>Shareholder</b>	the person registered as the holder of a Participating Share in the register of members of the Fund required to be kept pursuant to the Companies Law;
<b>Short Assets</b>	means the sum of Notional Values which are negative for all positions in the Fund except for cash held in bank accounts and Derivative Contracts used for hedging purposes;
<b>Short Exposure</b>	is calculated by dividing Short Assets by NAV;
<b>Specified Credit Rating</b>	a minimum credit rating of 'A2' for long term debt from the credit agency of Moody's or 'A' from Standard & Poor's or Fitch and a minimum of 'P-1' or 'A-1' or 'F1', respectively, for short term debt from those same agencies;
<b>Specified Credit Rating Requirement</b>	in relation to a legal person, a requirement either that such person or that a parent company of such person has the Specified Credit Rating;
<b>Sponsor</b>	the seed investor providing the initial financial support for the set up of the Fund;
<b>Sponsor Agreement</b>	a sponsor agreement between: <ul style="list-style-type: none"> <li>(a) the Fund; and</li> <li>(b) the Sponsor;</li> </ul> whereby the Sponsor agreed to ensure a minimum level of Net Asset Value of the Fund;
<b>Sub-Administrator</b>	Apex Fund Services (Ireland) Limited or such other person

appointed from time to time;

**Subscription Price**

during the Initial Offering Period is US\$100 per Participating Share and after the Initial Offering Period will be the Net Asset Value per Participating Share calculated as at the Valuation Day immediately preceding the relevant Dealing Day;

**United States**

the United States of America (including the States and the District of Columbia) and its territories and possessions, which include Puerto Rico, the U.S. Virgin Islands, and any other area subject to its jurisdiction;

**Valuation Day**

means the last day in each calendar month when the Net Asset Value of the Fund is calculated as set out in this Memorandum or such other day as may be designated by the Directors as a Valuation Day from time to time; and

**Valuation Point**

means the time at which the NAV for the Fund is calculated being a time between 9.00 pm and 11.59 pm in Ireland on the Valuation Day, such time to be determined at the absolute discretion of the Directors or a duly authorised agent.

Capitalised terms used in this Memorandum and not otherwise defined in this Memorandum, have the meanings ascribed to them in the Articles of Association and references to US\$, USD or \$ are references to the lawful currency of the United States.

### **3 PRINCIPAL FEATURES**

The information set out in this summary should be read in conjunction with the full text of this Memorandum.

#### **3.1 Structure**

The Company has been established as an incorporated cell company under the Companies Law and the Fund has been established with the features of an open ended investment company. Following successful application investors will be issued with Participating Shares in the Fund.

The Fund may issue Participating Shares in separate classes with such designations or classifications as the Directors may determine without the consent of or notice to existing Shareholders save as required (see Variation of Class Rights below). Details of any new share class would be set out in an addendum to be read in conjunction with this Memorandum. Participating Shares of any one class may be issued in series with each series of a class having equal rights and privileges with each other series of that class.

#### **3.2 Participating Shares, Share Classes and Series of Participating Shares**

Participating Shares may be issued in series (each a "Series") with such designations or classifications as the Directors may determine without the consent of or notice to investors. The Fund shall establish in its financial records a separate account for each class and Series of Participating Shares.

The Directors may, at their discretion, from time to time, determine to issue further classes or Series of Shares with different rights in respect of the Fund's portfolio/assets and/or limited to specified categories of investors. Further classes of Shares may, without limitation,

- be denominated in a currency other than the base currency of the Fund, and/or
- have different management, performance and other fee charges applicable to them, and/or
- have different investment objectives and policies from those of the existing classes of Shares.

The Directors may, at their discretion, open or close any single or more classes to new and/or existing investors of the Fund.

#### **3.3 Investment Objective and Strategy**

##### **Objectives and Regional Focus**

The Fund's investment objective is to achieve enhanced total return from capital appreciation and/or income generation and avoidance of loss over the medium term through investment in Russian and Russian-related opportunities world-wide.

The business of the Fund is buying, selling and short selling securities including listed stocks, futures and depository receipts of Russian public companies. The Fund may also invest in listed commodity or FX futures.

##### **Investment Policy**

The investment policy of the Fund is termed as "trend following" and "mean reversion" with short, medium and long term investment horizons. The Fund aims to achieve superior risk and return characteristics of directional investment with by applying a value investment filter whereby Investment Adviser's recommendations on the basis of fundamental analysis places restrictions on the investments.

The principles of the investment approach are based on market inefficiencies which consistently remain. Trend forming is one of manifestation of such inefficiencies which is described by the clasterisation of serial correlation of returns - a phenomenon whereby current price movement determine the likelihood of the same direction of future price movement. The Fund employs automated analysis and smart execution of strategies and excludes the possibility of emotional trading. Fund returns are positively correlated with

volatility of the Russian market and the market itself. Short selling provides the possibility for the Fund to limit the downside risk in the falling market.

Since base currency for the fund is the US Dollar, Russian rouble risk is one of major risk of the investor. The Fund exploits rouble/dollar hedging via implementing trend following strategy on rouble/dollar futures. Thus, the Fund both protects the investments from probable rouble devaluation and potentially presents the opportunity to participate in the probable appreciation of the undervalued emerging market currency.

Restrictions set out in this Memorandum and such restrictions as may be imposed by applicable law. The Fund may maintain liquidity by holding cash and/or fixed income (including treasury) securities and money market instruments or other cash equivalents of Investment Grade issuers denominated in various currencies. To avoid losses from a possible default, bankruptcy, unexpected market conditions or a financial crisis, the Fund reserves the right to withdraw fully into "safe-haven" assets, for example, US Treasury securities or other money market instruments of developed countries.

To the extent permissible under the laws of the relevant jurisdiction, and subject to the investment restrictions set forth below, the Fund may attempt to enhance its portfolio's performance through the use of leverage and by entering into various financial transactions for speculative or hedging purposes, including but not limited to:

- the purchase or sale of futures, forward contracts or other derivatives on currencies;
- short sales of securities;
- long or short positions in forward or future contracts for securities;
- contracts for differences;
- repurchase or reverse repurchase agreements; and
- collateralised margin and other leveraging transactions, each of which involves significant risks, including risks associated with the use of leverage related to such transactions.

#### **Investment Factors / Potential Benefit from Investment**

The Fund relies on investment techniques and strategies developed by the Investment Adviser. There can be no assurance that the investment objectives of the Fund will be achieved.

Investment in the Fund is speculative and involves a high degree of risk. See the section in this Memorandum headed "Risk Factors". However, such an investment offers the following potential advantages, which might not be available to investors seeking to engage directly and without expert advice in the transactions in which the Fund will engage.

#### **Global and Russia expertise by the Investment Adviser**

Investment decisions for the Fund will be made with the assistance of the Investment Adviser. Between them, the officers of and consultants to the Investment Adviser have experience in the securities industry in general and in global markets, including emerging markets and Russia in particular. They are thus in a position to operate globally, but in particular in the Russian Federation, where they know the local language and culture. They have access to a network of contacts in politics, business and science in Russia, G7 countries and in international institutions.

#### **Administrative Convenience**

The Fund provides investors with a pooled investment program designed to alleviate the administrative difficulties involved in engaging directly in the types of transactions contemplated by the Fund.

#### **Investment Mechanisms**

The Fund may establish one or more custody, brokerage and other similar accounts in Investment Jurisdictions, meeting the requirements and completing the administrative tasks related thereto. Individual investors who do not wish to meet these requirements nor undertake these tasks themselves would not be able to benefit from the advantages of investing through such accounts. Where emerging markets provide mechanisms that afford investment advantages to foreign institutional investors who satisfy applicable requirements, the Fund also intends to fulfil those requirements and avail itself of those mechanisms to the

extent the opportunities to invest through the mechanisms are otherwise determined to be attractive. Individual investors may be prohibited from investing through some of those mechanisms, so investment in the Fund may afford to individual investors access to investments, or to investment mechanisms with certain advantages, that otherwise would not be available to individual investors directly. In addition, the Fund may establish subsidiaries in certain jurisdictions to make investments, where special advantages may exist under tax or other laws to investors domiciled in such jurisdictions. In those cases, investment in the Fund may afford those advantages to investors who are not domiciled in such jurisdictions and do not have affiliates there.

#### **Alignment of incentives**

The Investment Adviser's key staff have a significant portion of their personal wealth tied to the performance of the investments made by the Fund. Further, compensation of the Investment Adviser and its officers is heavily success-based. This may lead to a relatively higher alignment of incentives with investors than may be the case in some other investment advisory, fund- or portfolio-management relationships.

#### **Investment Restrictions**

Except for the investment restrictions listed below, the other policies and percentage limitations in respect to the Fund described in this Memorandum are not fundamental policies or investment restrictions of the Fund and may be amended or superseded by a simple decision of the Board of Directors.

In addition to the restrictions set out below, the Fund may from time to time be subject to investment limitations, portfolio diversification requirements and other restrictions imposed by laws, rules and regulations in particular Emerging Market Countries in which the Fund invests.

#### **General provision and restrictions**

The Fund has adopted certain investment restrictions, which as a rule may not be amended without the prior approval of the Board of Directors. Any change agreed in this fashion may generally only take effect after Shareholders have been given not less than 30 days prior notice and have had an opportunity to redeem their Participating Shares. However, the Board of Directors may decide on changes to investment restrictions in its sole discretion, with subsequent notice to Shareholders if it is of the opinion that such changes are necessary and advisable in the best interests of Shareholders and do not in the Board of Director's opinion increase the risk profile of the Fund.

For the purposes of the restrictions listed below, all percentage limitations apply immediately after a purchase or initial investment, and any subsequent change in any applicable percentage resulting from market fluctuations does not require elimination of any security from the Fund's portfolio.

To the extent such investment activity is otherwise permitted under the then applicable law of the relevant jurisdiction, the Fund:

- (i) may not invest less than 20% of its Gross Assets in Emerging Market Investments, including capital allocated to both short and long positions, except to the extent that the Fund is holding cash and/or fixed income (including treasury) and money market instruments or other cash equivalents of Investment Grade issuers denominated in U.S. Dollars, Canadian Dollars, Euros, Swiss Francs, British Pound Sterling and/or Japanese Yen for liquidity purposes, to address a perceived risk of default or global financial crisis, or prior to a termination of the Fund's business or prior to initial investment;
- (ii) may not enter into any transactions with the Investment Adviser or the Sponsor acting as principal, except for those transactions which are contemplated by the Management Agreement and the Investment Advisory Agreement;
- (iii) may not enter, or permit the Investment Adviser, on behalf of the Fund to enter into any transactions between the Fund; and
  - (a) any Investment Adviser;

- (b) the Sponsor;
  - (c) any of the directors, officers or employees of the Investment Adviser; or
  - (d) any of the respective Associated Companies of the Investment Adviser (in any case, other than the Investment Adviser itself acting as principal under the Investment Advisory Agreement);
- (iv) may not enter, or permit the Investment Adviser, on behalf of the Fund to enter into any transactions between the Fund and the Prime Broker unless the transaction complies with regulations which may be adopted from time to time by the Board of Directors, or, in the case of brokerage and other fees or commissions in connection with trading or foreign currency exchange transactions for the Fund, such fees or commissions are at rates which do not exceed the rates permissible under the guidelines established by relevant regulatory authorities or stock exchanges (but which may exceed the amounts which would be paid to unaffiliated third parties for similar services) and in the case of the purchase or sale of a security, any other trading transaction or any loan, such transaction is completed at a price determined on the basis of current publicly available quotations or otherwise at competitive prices or interest rates then prevailing on the relevant securities or money markets.

In addition, the following investment restrictions shall apply:

- (i) the Fund may not invest in private equity projects;
- (ii) the Fund may not invest in highly illiquid distressed debt;
- (iii) no more than 25% of the value of the Gross Assets of the Fund may be lent to or invested in the securities of any one issuer provided that this restriction shall not apply to investment in securities issued or guaranteed by a government, government agency or agency of any EU member state, OECD member state or by any supranational authority of which one or more EU or OECD member states are members;
- (iv) no more than 20% of the value of the Gross Assets of the Fund may be exposed to the creditworthiness or solvency of any one counterparty other than in respect of its exposure to a Prime Broker;
- (v) the Fund may not take legal or management control of the issuer of any of its underlying investments;
- (vi) the Fund may not invest in other funds except for liquid exchange traded funds which are treated as Investments and subject to general fund restrictions;
- (vii) the Fund may not invest in real property;
- (viii) investment in commodities shall not exceed 50% in aggregate of the Gross Assets of the Fund;
- (ix) the Fund will adhere to the principles of risk spreading as set out within these investment restrictions in relation to its use of derivatives and money market instruments, other than for the purpose of efficient portfolio management. The Fund may enter into Derivative Contracts both for the purpose of hedging and to optimise portfolio performance;
- (x) the investment restrictions in (i), (iv), (v), (vi) and (ix) apply to any investment at the time that investment is made.

The restriction referred to in (iv) above will not apply to transactions in financial instruments, foreign exchange or physical commodities with any counterparty (in respect of exposures to the counterparty incurred by the Fund as a result of, or in connection with, such transactions) where the counterparty satisfies the Specified Credit Rating Requirement and the Financial Resources Requirement.



The restriction referred to in (iv) above will also not apply to any exchange-traded Derivative Contract entered into by the Fund directly with a clearing member of the exchange on which such contracts are listed or traded, provided that the clearing member's matching contract is cleared by a Recognised Clearing House.

In relation to investments in Derivative Contracts, the restrictions referred to in (iii), (v) and (vii) above will apply to the underlying investments upon which the value of the relevant Derivative Contract is based and, for these purposes, the 25 per cent. limit referred to in restriction (iii) will be applied to the Fund's net long or short position in such underlying investments (as determined using the Delta Adjusted Notional Amount of any Derivatives Contracts to which it is party, calculated in accordance with normal market practice).

The investment restrictions in (iii), (iv), (vi), (vii), (viii) apply to any investment at the time that investment is made. Where any restriction is breached, the Directors and/or a duly authorised agent will ensure that immediate corrective action is taken except where the breach is due to appreciations or depreciations, changes in exchange rates, or by reason of the receipt of rights, bonuses, and benefits in the nature of capital or by reason of any other actions affecting every holders of that investment. However, the Directors and/or a duly authorised agent will have regard to investment restrictions when considering changes in the investment portfolio of the Fund.

The Board of Directors will satisfy itself that adequate custody and brokerage arrangements have been entered into in respect of the Fund's assets.

### **Borrowing**

The Fund may borrow cash and assets or pledge its assets, or purchase securities on margin, subject to the limitation that the Fund may borrow, including the purchase of securities on margin, from banks or financial institutions (including any Associated Companies) and, in connection therewith, pledge its assets, only if, after giving effect to such borrowing, the Fund's Long Exposure is less than or equal to 110% and the Fund's Short Exposure (absolute value) is less than or equal to 40%.

The Fund will aim to limit Long Exposure to 100% and Short Exposure (absolute value) to 30% but will reserve the right to increase (in absolute terms) each exposure by 10% each as exposures may increase for a short period of time due to such reasons like sudden price change or due to unsettled trades. Such events are expected to happen rarely.

Effectively the above restrictions put a limitation on Gross Exposure which may not exceed 150%. However, due to the reasons explained above will normally not exceed the limit of 130%.

Net Exposure as a sum of Short Exposure and Long Exposure can thus vary from (40%) to 110%. However, due to the reasons explained in the previous paragraph will normally not exit the range from (30%) to 100%.

There can be no assurance that the Fund will achieve its investment objective. It should be appreciated that the value of the Participating Shares may go down as well as up. An investment in the Fund involves investment risks, including possible loss of the entire amount invested. The capital return and income of the Fund is based on the capital appreciation and income on the investments it holds, less expenses incurred. Therefore, the Fund's return may be expected to fluctuate in response to changes in such capital appreciation or income. Shareholders' attention is drawn to the specific risk factors set out in the section in this Memorandum headed "Risk Factors".

### **3.4 Subscription and Redemption**

Participating Shares may generally be subscribed for on any Dealing Day in accordance with the terms set out in this Memorandum and the Articles of Association. Participating Shares are generally redeemable at the option of the holder on any Redemption Day in accordance with the terms set out in this Memorandum and the Articles of Association and are subject to compulsory redemption in certain circumstances.

### **3.5 Share Prices and Valuations**

Participating Shares are being offered during the Initial Offering Period at a subscription price of US\$100 per share. Thereafter Participating Shares shall be offered at the Net Asset Value per Participating Share calculated as at the Valuation Day immediately preceding the relevant Dealing Day.

### **3.6 Income and Distributions**

Although not anticipated to be paid, the Fund may declare and pay dividends to Shareholders of any class of Participating Shares, in the absolute discretion of the Directors.

### **3.7 Charges**

The charges payable in respect of the Participating Shares are set out in this Memorandum.

### **3.8 Taxation**

The Fund as a separate legal entity from the Company (or any other incorporated cell of the Company) will be taxed separately for the purposes of liability to Jersey income tax and be subject to Jersey income tax at a rate of 0%. It is the intention of the Directors that the Fund will not incur any taxes in other jurisdictions on their income and profits other than withholding taxes.

## **4 PROCEDURE FOR SUBSCRIPTION**

Applications for Participating Shares should be made on the relevant Application Form and in accordance with this Memorandum and Articles of Association. Though the minimum subscription and holding for Participating Shares for which applications will be accepted is expected to be the currency equivalent of US\$1,000,000 (see Issue of Participating Shares below), this may be waived, at the discretion of the Directors provided that the applicant is an Eligible Investor, subject always to appropriate confirmations to the satisfaction of the Directors.

## **5 MANAGEMENT AND ADMINISTRATION**

### **5.1 Directors**

The Directors have control and authority over and responsibility for the operations and management of the Fund and consequently owe their fiduciary and other duties to the Fund. The administration of the Fund has been delegated by the Directors to the Administrator on the terms of the Administration Agreement.

The Directors and holders of Management Shares in the Fund may appoint new Directors or remove Directors from time to time by way of Ordinary Resolution. Shareholders shall not participate in the management of the Fund.

The Directors are Kerry Sunter, Natalie Sullivan and Andrew Wignall whose details are set out below:

#### **Ms Kerry Sunter**

Kerry Sunter is a Director in Alternative Asset Fund Administration, within the Corporate Fiduciary Department at Kleinwort Benson. She has responsibility for a team of 6 who provide administration services to a number of funds including Russian Hedge Funds, Traded Life Insurance Funds and Property Funds. She sits on the board of a number of Fund and Fund Management entities, as well as the Kleinwort Benson entity which services its fund clients, positions for which she is regulated as a Key Person by the Jersey Financial Services Commission.

She has over 10 years experience within the financial services industry, starting her career in funds with retail fund house INVESCO in 2001 and prior to that working in general banking at Halifax International and in investments at Scottish Widows. Kerry joined Kleinwort Benson in April 2007 and was promoted in January 2008 to head up the Alternative Assets Fund Administration Team.

She qualified as an Independent Financial Advisor in 2006 and holds the Securities & Investments Institute Certificate in Investment & Financial Advice. She is also Trust qualified and holds the higher accredited Distinction Diploma in STEP, which she obtained in 2009 after which she became a professional member of STEP.

#### **Ms Natalie Sullivan**

Ms Natalie Sullivan is an Advocate of the Royal Court of Jersey. She was born in Jersey in 1973 and has worked as a commercial lawyer there since 1995, including as managing partner of Maples and Calder, Jersey between 2004 and 2008. Natalie has acted for many leading international organisations and promoters to establish and advise on a variety of fund structures with a wide range of investment strategies. Natalie also has extensive corporate commercial experience and has advised on a number of high profile offshore transactions. Natalie holds non-executive positions on a number of predominantly fund or investment entities.

#### **Mr Andrew Wignall**

Mr Andrew Wignall, 44, a chartered accountant, is an independent director of a number of private equity and other alternative fund structures. Until 2007 Andrew was a director of Moore Management Limited, the Jersey based fund management and fund administration company.

### **5.2 Investment Adviser**

Wermuth Asset Management GmbH has been retained by the Fund as its investment adviser under an Investment Advisory Agreement.

The Investment Adviser is a company incorporated in 1999 in Germany, registered at Langgasse 38-40, 65183 Wiesbaden, Amtsgericht Wiesbaden HRB 24805 and has a branch in Moscow. Wermuth Asset Management GmbH is an advisory firm which provides investment advice on investments globally with a current focus on emerging markets and Russia, and on new technologies with a potential global application.

The Investment Adviser's activities are limited to research, advice on investments, including advice on non-listed investments, to administrative and other support to the Fund and at its option the support of investor relations of the Fund.

The key officers of the Investment Adviser are Messrs. Jochen Wermuth, Dieter Wermuth and Michael Hyuk Choi. Following is biographical information for each of the managing directors:

Mr Jochen Wermuth, a German citizen, is currently managing partner of Wermuth Asset Management GmbH. Prior to this, Mr Wermuth was Head of Russian Debt Capital Markets in Deutsche Bank's Global Markets Division, London (Director of grade (1)), seconded to Moscow as a member of the management committee of Deutsche Bank OOO Moscow, responsible for the set up of Deutsche Bank's new Russian subsidiary with a full banking license and development of Deutsche Bank's businesses in Russia. He and his team facilitated US\$ billions in financing for the Russian Federation in 1997/98. Before joining Deutsche Bank, Mr Wermuth was an adviser to the Russian Government, co-founder and Head of the Economic Expert Group under the Ministry of Finance of Russia ([www.eeg.ru](http://www.eeg.ru)), and in this capacity worked for Ministers of Finance Federov, Panskov, Dubinin, Chubais, Zadornov, First Vice Ministers Vyugin, Ignatiev, Kudrin, Central Bank Chiefs, Ministers of Economics and others between 1993 and 1997, participating on the Russian side in IMF, World Bank and debt restructuring negotiations, economic policy planning, credit rating and Eurobond issue preparations and representing the Ministry of Finance and the Russian Government in investor presentations. Mr. Wermuth maintains an interest in economic policy advice via his ownership stake in Oxford Economic Policy (OEP) Ltd and via it in OEP LLP. Mr Wermuth received an MA in economics and a BA in economics and mathematics with honours and magna cum laude, along with the Lambert Prize for the best thesis in economics from Brown University in 1992. He has passed the qualifying exams for a D.Phil, in economics at Oxford University but not completed the degree. Mr Wermuth is fluent in English and German and speaks Russian and French.

Dr Dieter Wermuth, a German citizen and father of Mr. Jochen Wermuth, who participates in the weekly analysis and strategy discussions of the Investment Adviser and contributes his global macroeconomic views and strategies to the investment advisory process in this fashion. Dr Wermuth is an expert on the European Union economy, exchange rates and monetary policy. He regularly publishes in this regard and is frequently quoted and interviewed on television. Dr Wermuth was formerly the Chief European Economist of the UFJ Bank Limited, prior to that he was head of bond research at West LB, Düsseldorf, an advisor to the State of Hesse in setting up the new German securities market surveillance function, General Manager of Manufacturers Hanover GmbH and of Caisse des Depots and Consignations GmbH in Frankfurt, a function in which he established a fully licensed investment bank subsidiary and portfolio management business. Dr Wermuth has also been a Vice President of Citibank AG Frankfurt and a member of its German policy committee, prior to which he was a member of the staff of the Council of Economic Advisors to the German Government, based in Wiesbaden. He holds a diploma from the Chamber of Commerce in business administration (Industriekaufmann), a Diploma in economics from the University of Munich, a Master of Arts and a Ph.D. in economics from Tufts University. His native language is German, he is fluent in English and conversational in French.

Mr Michael Hyuk Choi, a German citizen of Korean descent, is currently Managing Director and tax and structuring adviser of Wermuth Asset Management GmbH in Germany, while he continues to practice as a lawyer in Frankfurt am Main, Germany. He has a German law degree from the University of Freiburg and has worked in Germany and Korea. He has specialised in the area of intellectual property rights and European law. He is fluent in German and speaks English and Korean.

None of the of the Investment Adviser's staff has:

- any unspent convictions in relation to indictable offences; or
- been bankrupt or the subject of an involuntary arrangement, or has had a receiver appointed to any asset of such Director; or
- 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
- 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
- had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- been disqualified by a court from acting as a director or from acting in the management or conduct of affairs of any company;

The Investment Adviser may with prior written approval from the Board of Directors from time to time appoint a "Senior Advisory Board" or one or more other institutions as sub-advisers to render advice to it relating to investments of the Fund. The Investment Adviser may enter into investment advisory agreements with other sub-advisers, pursuant to which the Investment Adviser would pay any such sub-adviser an advisory fee from the fees that the Investment Adviser receives under the Investment Advisory Agreement. The Fund will pay no advisory fees directly to any sub-advisers or to any Senior Advisory Board.

### 5.3 Secretary

The Fund has appointed Kleinwort Benson (Channel Islands) Corporate Services Limited (the "**Secretary**")

as company secretary. In such capacity, the Secretary will be responsible for the provision of the registered offices of the Fund as required by Jersey law.

The Secretary was incorporated in Jersey on 8 July 1985. The registered office of the Secretary is as specified in the Directory contained in this Memorandum. The Secretary is regulated under the Financial Services (Jersey) Law 1998.

The Secretary is providing directors to the Fund.

#### **5.4 Administrator and Sub-Administrator**

The Fund has appointed the Administrator to provide certain administrative functions and to be responsible for the general administrative functions in respect of the Fund such as the calculation of the Net Asset Value, the maintenance of accounting records and the keeping of the register of members of the Fund. It is intended that the Administrator will delegate to the Sub-Administrator all its powers and duties relating to the administration of the Fund. Such delegation shall be the object of an agreement for the delegation of duties to be entered into by the Administrator and the Sub-Administrator. Unless otherwise agreed between the Fund, the Administrator and the Sub-Administrator, any fees and expenses payable to the Sub-Administrator shall be borne by the Administrator, and the Administrator shall remain primarily liable to the Fund for the performance of any duties or functions so delegated by the Administrator.

The Administrator is authorised by the Bermuda Monetary Authority to administer collective investment schemes and the Sub-Administrator is authorised by the Central Bank of Ireland to provide administration services to collective investment schemes.

The register of members of the Fund may be inspected at the offices of the Secretary and/or the Administrator during normal business hours.

#### **5.5 Prime Broker**

The Fund has appointed Renaissance Securities (Cyprus) Limited ("**RenSec**") as a prime broker to the Portfolio under the terms of a Customer Document Pack (the "**Prime Brokerage Agreement**"). RenSec is a company incorporated in the Republic of Cyprus with registered address 9th Floor, Capital Centre, 2-4 Archbishop Makarios III Avenue, 1505 Nicosia, Cyprus and is part of Renaissance Capital, the leading investment bank with operations in emerging markets including Russia, Ukraine, CIS. Renaissance Capital is part of Renaissance Group ([www.renaissancegroup.com](http://www.renaissancegroup.com)). The services which RenSec will provide under the Prime Brokerage Agreement include various custodial services, execution, clearance and settlement of securities transactions, and margin financing. RenSec, in its capacity as prime broker, will have no decision-making discretion relating to the investment of the assets of the Portfolio and will not provide any investment advice in relation to the assets of the Portfolio.

RenSec is authorized by Cyprus Securities and Exchange Commission ("**CySEC**") under license number 053 / 04. Its indirect parent company, Renaissance Capital Holdings Ltd., has a credit rating of 'B2' for long term debt from the credit agency of Moody's or 'B' from Standard & Poor's or and 'B-' from Fitch.

#### **Remuneration of Prime Brokers**

For their services, the Prime Brokers will be paid by the Fund at normal commercial rates and their expenses will be reimbursed.

#### **5.6 Sponsor**

Pursuant to the terms of the Sponsor Agreement, the Sponsor has provided the Fund with the necessary initial financial support to ensure a minimum NAV will be achieved during the Initial Offering Period.

#### **5.7 Other Functionaries**

Additional functionaries (including Jersey and non-Jersey based custodians) may be appointed according to

the requirements of the Fund.

## **6 CHARGES AND EXPENSES**

### **6.1 Subscription Charge**

The Directors do not currently intend to make a subscription charge in respect of the Participating Shares. However, the Directors have determined that a subscription charge may be made with respect to subscriptions made on a Special Dealing Day with any such charge to be retained for the account of the Participating Shares to which the subscription relates. Any such subscription charge shall be determined by the Administrator by reference to the additional expenses incurred in calculating the NAV on a Special Dealing Day.

### **6.2 Redemption Charge**

The Fund may levy a redemption charge on any Participating Shares to be redeemed on a Special Dealing Day. Any such Redemption Charge shall be determined by the Administrator by reference to the additional expenses incurred in calculating the NAV on a Special Dealing Day.

### **6.3 Investment Adviser's and Sponsor's Fees**

The Participating Shares are subject to a performance fee (the "**Performance Fee**") payable by the Fund to each of the Investment Adviser and the Sponsor and calculated as 20% of the increase in the Net Asset Value per Participating Share (after adding back any distributions made) in respect of each Performance Period subject to a High Water Mark. In the event of redemption prior to a Performance Period, any accrued but unpaid Performance Fee in respect of the redeeming Shareholder will be deducted from the redemption proceeds. The Performance Fee in respect of each Performance Payment Period will be calculated by reference to Net Asset Value per Participating Shares before the deduction of any accrued Performance Fee but after the deduction of the accrued Annual Fee (as described below) and other fees. The Performance Fee is calculated according to the Equalization Method (see Schedule 2 – Equalization Method).

The Fund will pay the Investment Adviser and the Sponsor an annual fee (the "**Annual Fee**") calculated at a rate of 2% of the NAV of the Fund prior to the deduction of any other fees payable to the Investment Adviser and/or Sponsor and prior to adjustments to reflect any subscriptions for or redemptions of Participating Shares which were effected during the period in respect of which the Annual Fee is then being calculated. The Annual Fee shall accrue on each Dealing Day and shall be payable to each of the Investment Adviser and Sponsor by monthly payments payable within fourteen days before the end of each month in respect of the previous month.

Each of the Investment Adviser and the Sponsor shall be entitled to receive from the Fund a share of the Annual Fee and any Performance Fee determined as follows:

	Investment Adviser's percentage	Sponsor's percentage
(i) if Net Asset Value of the Fund is below US\$ 10m;	100%	0%
(ii) if Net Asset Value of the Fund is equal or above US\$ 10m but below US\$ 250m;	75%	25%
(iii) if Net Asset Value of the Fund is equal or above US\$ 250m.	50%	50%

The Investment Adviser and/or the Sponsor may at their option demand the payment of part of any Annual Fee or Performance Fee to which it is entitled to be made direct to a third party.

### **6.4 Secretary's Fee**

The Fund shall be subject to corporate secretarial fees initially set at £3,333 per annum, which include the Fund's pro-rata share of the secretarial fees of the Company, together with other ad-hoc corporate administration fees which shall be charged by the Secretary on a time spent basis.

## 6.5 Administration Fee

The Fund shall be subject to the following administration fees:

- (a) USD2,500 per month when the assets of the Fund are below USD10m. When the assets of the Fund are above USD10m, the fee payable will be the greater of USD3,000 per month or ten (10) basis points p.a. of the Fund's net assets. The basis points will be tiered as follows:

Net assets between USD0-100m	10 basis points p.a.
Net assets between USD100m-200m	8 basis points p.a.
Net assets in excess of USD200m	6 basis points p.a. thereafter.

- (b) Disbursement fees of 10% of the monthly fee pursuant to sub-paragraph (a) above.
- (c) The preparation of the financial statements and audit fees are charged at USD2,500 per annum.
- (d) A once off standard implementation fee of USD2,500.
- (e) The optional access to create and export a custom data extract to a third-party via a secure web portal for which there will be a one-time fee of USD1,000 and a recurring monthly charge of USD200 per month for daily downloads.

Such fees shall accrue on the last day of each month and shall be payable to the Administrator monthly in arrears (or at such times as shall be agreed upon in writing between the Fund and the Administrator from time to time), together with VAT, if any, thereon. The fees of the Administrator shall be paid out of the assets of the Fund and/or its relevant Portfolio(s).

## 6.6 Prime Brokerage Fee

The Fund expects to incur prime brokerage fees at the following rates:

MARKET	FEE
MICEX	0.02% of daily turnover
LSE (IOB section)	0.03% of order amount
NYSE	0.03% of order amount

With additional fees on the following basis:

Margin trading/cash lending (USD)	6% p.a.
Margin trading/stock lending (USD securities)	6% p.a.
Margin trading/stock lending (local equities)	10% p.a.

Brokerage commissions and transaction charges charged by brokers in connection with the Fund's trading activities will be paid by the Fund. There is no way to predict accurately the total amount of brokerage commission or the transaction charges which will be paid, since those charges are entirely dependent on the volume and instrument of trading directed by the Investment Adviser and the rates charged by the broker, which should not exceed normal fees dictated by industry standards.

The Fund may engage the services of other prime brokers or banks the fees and charges of which shall be paid by the Fund.

## 6.7 Directors Fees

Each Director shall be entitled to US\$5,000 per annum by way of remuneration payable by the Fund.

In addition, all Directors shall be entitled to be reimbursed for all reasonable expenses incurred in the course of their duties as a Director.

## **6.8 General Expenses**

The Investment Adviser, the Secretary, the Prime Broker and the Administrator are also entitled to be reimbursed their out of pocket expenses properly incurred in the performance of their respective duties attributable to the Fund. The Company will in addition settle all its own expenses including the costs and expenses of advisers, consultants, surveyors and other agents engaged on its behalf, commissions, banking fees, legal expenses and the costs of distribution of reports and accounts and similar documentation to Shareholders and attribute such expenses amongst all the cells of the Company as the directors of the Company deem appropriate.

All normal operating expenses including (but not limited to) audit fees, registration fees, legal fees, tax, charges incurred on the acquisition and realisation of investments, costs of publication and distribution of prospectuses and annual reports, the publication of share prices and the costs and expenses of the Investment Adviser set out in the Investment Advisory Agreement will be apportioned between all the cells of the Company as the directors of the Company deem appropriate.

The Investment Adviser is permitted, at its discretion, to rebate any charges payable to it in whole or in part.

## **6.9 Establishment Costs**

The establishment costs of the Fund (including all legal, administrative and other expenses incurred in the negotiation of documentation and agreements relating thereto shall except to the extent otherwise decided by the Directors, be amortised over a three year period.

## **7 NET ASSET VALUE**

The Net Asset Value of the Fund and the Net Asset Value per Participating Share shall be calculated, in US Dollars, by the Administrator (or such other person as the Directors may appoint for such purpose from time to time) on each Valuation Point (or at such other times as the Directors (or such other persons as aforesaid) may determine). The Subscription Price and Redemption Price (following the Initial Offering Period) will be available upon request from the Administrator.

The Net Asset Value of the Fund will be equivalent to all the assets less all the liabilities of the Fund as at the Valuation Day.

The Net Asset Value per Participating Share of any class or Series is determined by dividing the value of the assets of the relevant Fund attributable to the shares of the relevant class or Series less all liabilities attributable to the shares of such class or Series by the number of Participating Shares of such class or Series in issue as at the relevant Valuation Day. Participating Shares within the same Series in the Fund (if applicable) will have the same Net Asset Value per Participating Share.

The Fund shall keep separate books and records in which all transactions relating to the Fund shall be recorded and, in particular, the proceeds from the issue of shares in the Fund shall be applied to the books of the Fund, and the assets and liabilities and income and expenditure attributable thereto shall be applied to the Fund.

The value of the assets and liabilities of the Fund and the method of valuation of such assets and liabilities shall be determined by the Administrator in consultation with the Investment Adviser or its duly authorised agent.

For the purposes of calculating the Net Asset Value of the Fund the following provisions will apply:



- (a) The assets of the Fund shall include:
- (i) all cash in hand or on deposit, or on call including any interest accrued thereon;
  - (ii) all certificates of deposit, treasury bills, trade bills, bank acceptances, bills of exchange, bills, demand notes, promissory notes and accounts receivable;
  - (iii) all bonds, time notes, shares, stock, debentures, debenture stock, subscription rights, warrants, securities of whatever description any form of interest in any of the foregoing and other investments owned or contracted for by the Fund, other than rights and securities issued by it;
  - (iv) all stock and cash dividends and cash distributions to be received by the Fund and not yet received by it but declared to stockholders of record on a date on or before the day as of which the value is being determined;
  - (v) all interest accrued on any interest-bearing securities owned by the Fund except to the extent that the same is included or reflected in the principal value of such security;
  - (vi) cash payments outstanding on any Participating Shares allotted in the Fund;
  - (vii) all other investments of the Fund; and
  - (viii) all other property and assets of the Fund of every kind and nature including prepaid expenses as valued and defined from time to time by the Investment Adviser or the Administrator;
- (b) The liabilities of the Fund shall be deemed to include:
- (i) all bills, notes and accounts payable applicable to the Fund;
  - (ii) all management and administrative fees and expenses applicable to the Fund payable and/or accrued (the latter on a day-to-day basis) an allowance for the Fund's estimated annual audit and legal fees; accrued interest expenses and commitment fees on loans, repurchase agreement fees and debit balances; any taxes including, without limitation, withholding taxes (if any have been withheld and not yet paid to the taxing authority), transfer taxes and other governmental charges and duties; any guaranty fees; any reserve determined to be required for contingencies; and any other liabilities or expenses to be borne by the Fund;
  - (iii) the aggregate amount of all borrowings and interest, commitment fees and other charges in connection therewith;
  - (iv) all known liabilities present and future including the amount of any unpaid dividend declared upon the Participating Shares, or for the payment of money and outstanding payments on any Participating Shares previously redeemed in the Fund;
  - (v) an appropriate provision for taxes as determined from time to time by the Investment Adviser or the Directors (as appropriate); and
  - (vi) all other liabilities of the Fund of whatsoever kind and nature except liabilities represented by Participating Shares in the Fund and reserves (other than reserves authorised or approved by the Directors for duties and charges or contingencies). In determining the amount of such liabilities the Directors may calculate administrative and other expenses of a regular or recurring nature on an estimated figure for yearly or other periods in advance and accrue the same in equal proportions over any such period.

The value of the assets of the Fund or any Series shall be calculated on the following basis when determining the Net Asset Value of the Fund or any Series:

- (a) The value of any cash in hand or on deposit, prepaid expenses, cash dividends and interest declared or accrued as aforesaid and not yet received shall be deemed to be the full amount thereof unless in any case the Investment Adviser or its duly authorised agent is of the opinion that the same is unlikely to be paid or received in full in which case the value thereof shall be arrived at after making such discount as the Investment Adviser or its duly authorised agent may consider appropriate in such case to reflect the true value thereof.
- (b) The value of any units in any unit trust or of any shares in a fund the quoted price of the units or shares of which is directly related to the underlying value of its net assets shall be the last trade price.
- (c) The value of any demand notes, promissory notes and accounts receivable shall be deemed to be the face value or full amount thereof after making such discount as the Investment Adviser may consider appropriate to reflect the true current value thereof.
- (d) Deposits shall be valued at their principal amount plus accrued interest from the date of acquisition.
- (e) Loan participations, certificates of deposit, treasury bills, bank acceptances, trade bills and similar instruments shall each be valued either;
  - (i) on the basis of a notification to the Investment Adviser by a person approved by the Investment Adviser for the purposes of this paragraph whose business includes dealing in or effecting transactions in the relevant instrument according to the normal dealing practice therein; or
  - (ii) on the basis of a straight line yield to maturity at the date of acquisition of the particular instrument.
- (f) Where any investment (not being an investment of the type described in paragraph (b) above) owned or contracted for by the Fund is listed or dealt in on a stock, commodity or futures exchange recognised as such under the securities laws of the jurisdiction in which it is situated the value of such investment shall be based on the price which shall be notified to the Administrator by a member of the stock exchange as the official closing last trade prices (or if not available, the last trade price available for the previous seven days; or mid-market price if no trades happened during last week) immediately prior to the Dealing Day and where any Investment (not being an Investment of the type described in paragraph (b) above) owned or contracted for by the Fund is dealt in on any over-the-counter market, the value of such Investment shall be based on the last trade prices (or if not available, the last trade price available for the previous seven days; or mid-market price if no trades happened during last week) which shall be notified to the Administrator by a person approved by the Administrator for the purposes of this paragraph whose business includes dealing in or effecting transactions in the Investment concerned as being the price therefore as at the official close of such over-the-counter market immediately prior to the Dealing Day. Where such Investment is listed or dealt in on more than one stock exchange or over-the-counter market the Administrator may in its absolute discretion select any one of such stock exchanges or over-the-counter markets for the foregoing purpose. If, however, trading volume in the security is clearly higher on one stock exchange, this stock exchange shall be referred to as the "primary exchange" and referred to first. If there are no reported trades on either such exchange on such date, the last reported trade within the past week on either exchange shall be used, subject (as determined by the Administrator) to a discount if marketability is limited by the size of the holding relative to the trading volume, or at the last mid price if a security is thinly traded. If the Administrator reasonably determines in good faith that following the foregoing provisions does not result in the true value of such securities to be reflected, it may seek to determine the fair market value of such securities in an alternative fashion after seeking the advice of the Investment Adviser and the Directors.
- (g) Where agreements are in existence for the unconditional sale or purchase of investments by the Fund but such sale or purchase has not been completed such investments shall be excluded or included and the net sale or gross purchase consideration excluded or included (as the case may require) as if such sale or purchase had been duly completed provided that if the net amount receivable is not payable until some future time the Administrator, in consultation with the Investment Adviser or its duly

authorised agent, shall make such allowance (if any) as they consider appropriate to reflect the true current value thereof.

- (h) If and whenever the quoted price of an Investment is a single price the dealing commission (if any) payable shall be taken into account to arrive at the market dealing price.
- (i) Dividends to be received will be accrued on the date of announcement subject to an adjustment following payment in the event of any discrepancy between the amount stated in the announcement and that actually paid.
- (j) All positions are valued at either the closing last trade prices on the exchange on which such securities or assets are traded.
- (k) Options and futures will be valued at market value, being the last trade price on the relative exchange.
- (l) The payments due for Participating Shares to be redeemed shall be deemed to be a liability of the Fund from the close of business on the day on which they are actually redeemed until such payment is made.
- (m) Investments which are made through participation arrangements or through holding companies which in turn own local resident companies which hold the investments on behalf of the holding company will be valued at an amount equal to the Fund's percentage interest in the underlying security multiplied by the market value of the underlying security.
- (n) If in any case a particular value is not ascertainable as above provided or if the Administrator in consultation with the Investment Adviser or its duly authorised agent consider that some other method of valuation better reflects the value of the relevant investment then in any such case the method of valuation shall be such as the Administrator, in consultation with the Investment Adviser or its duly authorised agent, shall decide using their best good faith judgement and subject to the approval of the Directors of the Fund.

In the event that the Administrator, in consultation with the Investment Adviser or its duly authorised agent determines that the valuation of any securities or other property pursuant to the provisions above does not fairly represent market value, the Administrator, in consultation with the Investment Adviser or its duly authorised agent may value such securities or other property as it reasonably determines and will set forth the basis of such valuation in writing in the records of the Fund.

Any determination of the Net Asset Value for the purposes of the Articles of Association will be expressed in US Dollars.

For investments denominated in any other currency, the conversion into the US\$ for valuation purposes will be made based on the market rate for US\$ (adjusted to account for differences in settlement dates between the notional foreign exchange transaction and the theoretical liquidation of each relevant asset) assessed in accordance with the rules of any established currency exchange or official source generally applied for similar purposes, on the Business Day in the relevant Investment Jurisdiction as of which such theoretical conversion is made or, if no such rate is available, at a rate equal to the arithmetic mean of rates quoted to the Administrator on such date by two financial institutions in the principal financial centre for such jurisdiction selected by the Administrator as their respective spot rates for the sale of such currency against delivery of US\$ or at a single rate so quoted, if two are not quoted to the Investment Adviser. Reserves may be established for estimated or accrued expenses or liabilities.

The Administrator, in consultation with the Investment Adviser or its duly authorised agent and with the approval of the Directors may make such modifications to the means of calculating the Net Asset Value as it may from time to time consider reasonable to ensure that such changes accord with good accounting practice.

All valuations will be binding on all persons and in no event shall the Directors, the Administrator or the Investment Adviser incur any individual liability or responsibility for any determination made or other

action taken or omitted by them in the absence of manifest error or bad faith.

There is no requirement under Jersey law for the Company to prepare audited accounts, however the Fund is required to prepare audited accounts. The Directors have appointed KPMG in Cyprus as independent auditors to report on the financial statements prepared for the Fund.

Prospective investors should be aware that situations involving uncertainties as to the valuation of positions could have an adverse effect on the Fund's net assets if the Administrator's or the Investment Adviser's judgements regarding appropriate valuations should prove incorrect.

## **8 ISSUE OF PARTICIPATING SHARES**

The Directors may issue Participating Shares in classes or Series with such designations or classifications as the Directors may determine (and the Directors may re-name or re-designate any issued class or series of Participating Shares) without the consent of or notice to existing investors, unless otherwise provided in this Memorandum.

Applications for Participating Shares of any class in the Fund may be made on any Dealing Day at the Subscription Price. Applications must be made on an Application Form and sent to the Administrator. Applications together with subscription monies must be received not later than 5pm (in Ireland) one Business Day prior to any a Dealing Day. Applications may be accepted or rejected in the sole discretion of the Directors and in particular the Directors and/or Administrator may require any applicant to provide further information and/or declarations. In particular, measures aimed towards the prevention of money laundering may require a detailed verification of the applicant's identity.

By way of example an individual may be required to produce a copy of a passport or identification card duly certified by a notary public, together with evidence of his/her address such as a utility bill or bank statement and date of birth. In the case of corporate applications this may require production of a certified copy of the certificate of incorporation (and any change of name), memorandum and articles of association (or equivalent), the names, occupations, dates of birth and residential and business addresses of all directors.

The Directors and the Administrator reserve the right to request such information as is necessary to verify the identity of an applicant. In the event of delay or failure by the applicant to produce any information required for the verification purposes, the Directors may refuse to accept the application.

The Directors may allot Participating Shares in the absence of any such required information or declarations provided that if such information or declarations have not been received within one month of the relevant Dealing Day, the allotment shall be cancelled and the relevant subscription monies shall be returned within one month thereafter to the applicant at his risk after deducting such amount as the Directors may in their discretion think fit to cover expenses incurred, and until returned such application monies may be made use of by the Fund for its own benefit.

If an Application Form or the subscription monies or any information or declarations required by the Directors and/or the Administrator are received after such time, the Directors may defer allotment of Participating Shares until the next succeeding Dealing Day on which the conditions for allotment have been satisfied.

The Directors may impose restrictions on the persons or classes of persons who may apply for, and continue to hold, Participating Shares.

The minimum subscription in respect of any application for Participating Shares is shares with an aggregate value of US\$1,000,000 (or less where other investor eligibility criteria are met).

Payment must be made in US Dollars direct to the account indicated in the application form by bank transfer as described in the Application Form. Subscription monies may be paid in other currencies only by prior arrangement with the Directors and the costs of conversion may be deducted by the Directors from the subscription monies. At the Directors absolute discretion and by prior arrangement with the Directors, payments may be accepted in forms of consideration other than cash, in particular by way of the transfer,

assignment or vesting of securities or other non-cash assets in the Fund, in accordance with the terms of the Articles of Association. Participating Shares will not be issued until receipt by the Fund of the subscription monies in cleared funds.

Save in exceptional circumstances where the Directors are specifically requested in writing to issue a certificate, all Participating Shares will be issued in non-certificated form so that entitlement will be evidenced solely by an entry in the register of members of the Fund. If requested Participating Shares will be issued in certificated form and share certificate(s) will be despatched.

The Directors may in its discretion satisfy any application for Participating Shares by procuring the transfer to the applicant of fully paid Participating Shares.

## **9 REDEMPTIONS**

Shareholders may redeem all or part of their holding of Participating Shares (subject to the minimum holding and redemption requirements referred to below) on any Redemption Day at the Redemption Price by submitting a Redemption Notice not less than 5 Business Days prior to the Redemption Day on which the redemption is to take effect or on such shorter notice period as the Directors may decide in their absolute discretion. If the Redemption Notice is received after such time the Directors may defer the redemption of such shares until the next succeeding Redemption Day. A redemption request may not be withdrawn unless dealings are suspended after such request is received by the Directors. The Directors have discretion to waive or reduce the notice period required for redemptions in the Fund either generally or in any specific instance.

Redemptions may be satisfied by the Directors at their discretion by procuring the purchase of the Participating Shares to be redeemed at the Redemption Price calculated as at the Valuation Day immediately preceding the relevant Redemption Day.

Redemption payments will be made in US Dollars or, in the absolute discretion of the Directors in kind, or partly in cash and partly in kind.

Redemption proceeds will normally be paid within fourteen days of the relevant Redemption Day on which the relevant Participating Shares are redeemed in US Dollars or such other currency as the Directors may in their discretion at the request and cost of the Shareholder agree. Payment will be made in accordance with instructions included on the Redemption Notice or any amended instructions received and accepted by the Directors. Any accrued management, performance and/or redemption fees will be deducted from the redemption proceeds.

The Directors may in their exclusive discretion limit the total amount of redemptions effected on any Redemption Day to the lesser of: (i) 90% of the Participating Shares in issue for the Fund on that day; or (ii) that number of Participating Shares for the Fund the aggregate Net Asset Value of which as of the immediately preceding Valuation Day amounted to 90% of the total Net Asset Value of the Fund (in each case before giving effect to sales of Participating Shares or requests for redemption for such month). In such circumstances the Administrator may scale down pro rata the number of Participating Shares to be redeemed in response to each request for redemption to the extent necessary to ensure that the foregoing limit is not exceeded, and shall carry forward the balance for redemption as at the next Redemption Day and so on to each succeeding Redemption Day until each request has been complied with in full. Requests for redemption carried forward from an earlier Redemption Day shall have priority over later requests.

Redemption proceeds due will be paid out after final calculation of the Net Asset Value per Share calculated as at the Valuation Day immediately preceding the relevant Redemption Day.

The minimum value of Participating Shares in the Fund which may be the subject of a redemption request is US\$100,000. A redemption request will not be accepted if as a result the number of Participating Shares held by the redeeming Shareholder in the Fund would fall below the minimum holding value of US\$1,000,000 (unless other investor eligibility criteria would apply).

## **10 SUSPENSION OF DEALINGS**

The Directors may at any time declare a suspension of the valuation of the Net Asset Value of Participating Shares or the Fund and of the issue, sale, purchase and redemption (including the right to receive redemption proceeds) of Participating Shares of the Fund for the whole or any part of a period during which:

- (a) a breakdown occurs in any of the means normally employed in ascertaining the value of the investments comprised in the Fund; or
- (b) for any other reason, the value of a substantial part (in the opinion of the Directors or the Investment Adviser) of the investments comprised in the Fund cannot reasonably be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Directors or the Investment Adviser, it is not reasonably practical for the Fund to realise or dispose of investments or fairly to determine the Net Asset Value of the Fund; or
- (d) the remittance of funds which will or may be involved in the realisation of, or in payment for, investments or the issue, sale, purchase or redemption of Participating Shares cannot, in the opinion of the Directors or the Investment Adviser, be carried out without undue delay and at normal rates of exchange; or
- (e) it is deemed necessary for liquidity reasons or in the best interest of the Fund; or
- (f) when redemptions would seriously impair the Fund's ability to operate or jeopardise its tax status; or
- (g) in the opinion of the Directors or the Investment Adviser, certified in writing, such a suspension is desirable in the interests of the Shareholders of the Fund.

Affected Shareholders will be notified of any such suspension of dealings by means either of written notification or by a notice being placed in an appropriate publication by the Fund on dealings being suspended and thereafter monthly during the period of suspension. The end of any such period of suspension will be similarly notified.

## **11 COMPULSORY REDEMPTION**

If it shall come to the notice of the Directors that any Participating Shares are owned directly or beneficially by:

- (a) any person in breach of any law or regulation of any country or governmental authority by virtue of which such person is not qualified to hold such shares; or
- (b) any person who shall belong to or be comprised within any class of persons stipulated by the Directors as being ineligible to own Participating Shares; or
- (c) any person so as to cause the Company and/or the Fund to be in breach of any law or regulation of any country or governmental authority or so as to constitute fiscal tax or other pecuniary disadvantage or any material administrative disadvantage to the Company and/or the Fund,

then the Directors may give notice to such person requiring him to transfer such shares to a person who is qualified or entitled to own the same or to give a request in writing for the redemption of such shares. If any person upon whom such a notice is served does not within thirty days after service of such notice transfer his shares to a person qualified or entitled to own the same or establish to the satisfaction of the Directors (whose judgement shall be final and binding) that he is qualified and entitled to own the shares, he shall be deemed upon the expiration of thirty days to have submitted a Redemption Notice for the redemption of all his Participating Shares.

A person who becomes aware that he is holding or owning Participating Shares in breach of any law or

requirement of any country or governmental authority by virtue of which he is not qualified to hold such shares or that he is a person who belongs to or is comprised within any class of persons stipulated from time to time by the Directors shall forthwith, unless he has already received a notice as described above, either transfer all his shares to a person qualified or permitted to own the same or submit a Redemption Notice for the redemption of all his Participating Shares.

Payment of the Redemption Price in the above circumstances will be made within three Business Days of the valuation being completed in respect of the Dealing Day next following the receipt or deemed receipt of the Redemption Notice. Upon payment of such Redemption Price as aforesaid, such person shall have no further interest in such Participating Shares or any of them or any claim against the Fund or the Company in respect thereof.

The exercise by the Directors of the above mentioned power shall not be questioned or invalidated in any case on the ground that there was insufficient evidence of ownership of Participating Shares by any person or that the true ownership of any Participating Shares was otherwise than appeared to the Directors at the relevant date provided that the said powers shall have been exercised in good faith.

The Directors may at any time and from time to time call upon any Shareholder by notice in writing to provide the Directors with such information and evidence as they shall require to ascertain whether or not the Participating Shares are owned directly or beneficially by a person falling within any of the descriptions set out above.

If after the expiry of the Initial Offering Period the aggregate Net Asset Value of the Fund is less than USD1 million, or if the Directors deem it in their absolute discretion, that it is not economically viable to maintain the Fund, the Directors may by not less than 1 month's notice (expiring on a Redemption Day) to all holders of Participating Shares in the Fund redeem, on the Redemption Day on which such notice expires, all (but not only some) of the Participating Shares then in issue in the Fund at the Redemption Price on such Redemption Day.

## **12 TRANSFERS**

Participating Shares may be transferred with the consent of the Directors in accordance with the Articles of Association. The instrument of transfer of a Participating Share may be in any usual form or in any other form which the Directors may approve and shall be executed by or on behalf of the transferor. The Directors may in their absolute discretion and without assigning any reason decline to register any transfer of shares (whether or not fully paid shares).

The Directors may also refuse to register any transfer:

- (a) to a person falling within the description contained in the section headed 'Compulsory Redemption' above;
- (b) of a Participating Share on which the Fund has a lien; or
- (c) if the resultant holding of the transferor or transferee would have a value of less than the required minimum of US\$1,000,000 in the Fund.

The Directors may also refuse to register a transfer unless the instrument of transfer is:

- (a) lodged at the registered office of the Fund or at such other place as the Directors may appoint and is accompanied by such evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) in respect of only one class of Participating Shares;
- (c) in favour of not more than four transferees; and
- (d) accompanied by a completed Application Form and such information as is necessary to verify the

identity of all transferees. In the event of delay or failure by the transferees to produce any information required for the verification purposes, the Directors may refuse to accept the instrument of transfer.

The registration of transfers of Participating Shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may determine.

The transferor of a Participating Share shall be deemed to remain the holder of such Participating Share until the Participating Share has been registered in the name of the transferee in the register of members of the Fund.

There shall be paid to the Fund in respect of the registration of any probate, letters of administration, certificate of marriage or death, power of attorney or other document relating to or affecting the title to any Participating Shares, such fee as the Directors may from time to time require or prescribe.

### **13 DIVIDENDS**

Although not anticipated, dividends may, in the absolute discretion of the Directors be declared and paid to the holders of the Participating Shares as permitted by the Companies Law.

### **14 TAXATION**

It is the responsibility of all persons interested in purchasing Participating Shares to inform themselves as to any tax consequences arising from their investment in the Fund and the Fund's operations or management, as well as any foreign exchange or other fiscal or legal restrictions, which are relevant to their particular circumstances in connection with the acquisition, holding or disposition of Participating Shares. Investors should therefore seek their own separate tax advice in relation to their holding of Participating Shares and accordingly neither the Company, the Fund, nor the Investment Adviser accept any responsibility for the taxation consequences of any investment into the Fund by an investor.

The Fund is treated as a separate 'zero rated company' and will fall to be assessed under Article 123C of the Income Tax (Jersey) Law 1961, as amended (the "**1961 Law**"), as a Jersey resident company which is neither a "utility company" nor a "financial services company" and as such will be charged to Jersey income tax at a rate of 0% on its income (other than on receipts chargeable to tax under Schedule A of the 1961 Law – which relates broadly to income or profits derived from the ownership, disposal or development of land in Jersey).

The Company and the Fund are treated as separate companies under the 1961 Law.

It is contemplated that the Comptroller of Income Tax in Jersey will confirm that the Fund will be subject to the above tax treatment and will not be subject to any obligation to withhold Jersey income tax from any dividend or interest payments made to it.

No death duties, capital gains tax, gift, inheritance or capital transfer taxes are levied in Jersey. No stamp duty is levied in Jersey on the issue, transfer or redemption of Participating Shares held, but probate stamp fees may be payable at the rate of up to 0.75% of the value of the Jersey estate in the event of the death of the holder of Participating Shares.

The attention of Jersey residents is drawn to the provisions of Article 134A of the 1961 Law which may in certain circumstances render such a resident liable to income tax on any undistributed income or profits of the Company or the Fund as appropriate.

A Jersey goods and services tax ("**GST**") applies at a standard rate of five per cent (5%) on the majority of goods and services supplied in Jersey for local use or benefit. Each of the Company as an incorporated cell company and the Fund as an incorporated cell has applied for and obtained International Services Entity status under the Goods and Services Tax (Jersey) Law 2007 (the "**GST Law**"). In connection with their International Services Entity status the Company and the Fund will each pay an annual fee to the



Comptroller of Income Tax in Jersey, which is currently fixed at £100. As an International Services Entity the Company and the Fund will not be required to charge GST and in most situations will not be subject to a GST charge on goods and services provided to them.

On 3 June 2003, the European Union ("EU") Council of Economic and Finance Ministers adopted a directive on the taxation of savings income in the form of interest payments (the "**EU Savings Tax Directive**"). From 1 July 2005, each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other EU Member State; however, Austria, Belgium and Luxembourg will instead apply a withholding tax system for a transitional period in relation to such payments.

Jersey is not subject to the EU Savings Tax Directive. However, in keeping with Jersey's policy of constructive international engagement, the States of Jersey has introduced a retention tax system in respect of payments of interest (or other similar income) made to an individual beneficial owner resident in an EU Member State by a paying agent situate in Jersey (the terms "beneficial owner" and "paying agent" are defined in the EU Savings Tax Directive). The retention tax system will apply for a transitional period prior to the implementation of a system of automatic communication of information regarding such payments to EU Member States. The transitional period will end only after all EU Member States apply automatic exchange of information and the EU Member States unanimously agree that the United States of America has committed to exchange of information upon request. During this transitional period, an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident. The proposals do not apply to interest (or other similar income) payments to bodies corporate or non-EU Member State residents. Based on these provisions and our understanding of the current practice of the Jersey tax authorities, any dividend distributions to Shareholders by the Fund and income realised by a Shareholder upon the sale or redemption of shares do not constitute interest payments for the purpose of the retention tax and therefore neither the Fund nor a paying agent appointed by the Fund in Jersey is obliged to levy the retention tax in Jersey under those provisions in respect thereof. To the extent that the Fund makes distributions, in the form of interest in the future, the obligations set out above may apply.

**This Memorandum does not address legal, regulatory or taxation issues outside of Jersey. Accordingly investors should consult their professional advisers on the potential tax, exchange control and other consequences of subscribing for, purchasing, holding, redeeming or selling Participating Shares under the laws of their country of citizenship, domicile or residence.**

## **15 RISK FACTORS**

### **15.1 General**

**The Fund is newly formed. There can be no assurance that the Fund will achieve its investment objectives.**

**The past investment performance of the Investment Adviser cannot be construed as an indication of the future results of an investment in the Fund. Potential investors should note that there is no guarantee that the services of any of the principals of the Investment Adviser may be secured on a permanent basis.**

Potential investors should note that the investments of the Fund are subject to market fluctuations and other risks inherent in investing in securities or investments of the kind and nature in which the Fund invests and there can be no assurance that any appreciation in value will occur. In particular, the value of investments may be affected by uncertainties such as international, political and economic developments or changes in government policies.

The risks which an investor should take into account include risks which are company specific, i.e. they apply to the Company and all its current and future cells; and which are cell specific, i.e. they are specific to

the Fund and arise in respect of the investment objective and policy adopted in relation to the Fund and that of the underlying investments in which it invests.

An investment in the Fund may involve a number of significant risk factors directly or indirectly. Prospective investors should carefully consider the following factors, among others, in making their investment decision and should consult their own legal, tax and financial advisors as to all of these risks and an investment in the Fund. The risk of loss in investing in the Participating Shares can be substantial. Investors should therefore carefully consider whether such type of investment is suitable for them in light of their financial condition. As with other investments, there can be no assurance that investing in the markets will be profitable. Before investing in the Participating Shares, investors should be aware of the following risk factors.

An investment in the Fund is speculative and involves substantial risks associated with Emerging Market Investments and the investment strategy. Therefore, in addition to reading the cautionary statements appearing at the beginning of this Memorandum, prospective investors should make such inquiries as they think appropriate and carefully consider the following risks before subscribing for Participating Shares.

## **15.2 Long-term investment**

### **Investment policy related issues**

To the extent permitted under the law of the relevant jurisdiction, the Fund intends, among other things, to buy securities and futures and options traded on securities exchanges, to enter into contracts for differences and other derivative transactions, to buy securities traded outside Emerging Market Countries and to make short sales of securities and options. The investment techniques, such as the use of leverage, speculative trading and buying and selling (including short sales) securities and instruments on margin, and the likelihood of a high portfolio turnover, can be expected to increase the risk of loss of some or all of the investments by the Fund. Options, which may be used to hedge some of the Fund's leverage positions, are also likely to be used to maximise investment profits, and expose the Fund to greater risk of loss. Similarly, short sales can substantially increase the impact of adverse price movements on the Fund's portfolio. The Fund will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the sold or borrowed security. The Fund will realise a gain if the security declines in price between those dates. This result is the opposite of what one would expect from a cash purchase of a "long" position in a security. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of any premium in lieu of dividends or interest the Fund may be required to pay in connection with a short sale. Under such circumstances, the returns generated from the Fund's investments may result in a loss of capital. Accordingly, an investment in the Fund is not a complete investment program and is suitable only for those professional investors who can afford to lose a substantial part or all of their investment.

The Fund does not intend to track any market index such as RTS or MICEX and Fund's performance can differ significantly from the index performance.

Net and Gross Exposures are variable and can change dramatically from day to day. As a result, market price change or Fund trading activity may result in losses in both cases whether market price returns are positive or negative.

Fund performance is subject to variable fees which the Fund pays to various service providers. As a rule, the smaller the Fund NAV the higher is the influence of such fees on the Fund performance.

The Fund employs computer software which implements automated trade execution and quantitative analysis. The software programs are not immune to malfunctioning or internet access can, in certain circumstances, not be available which may adversely affect Fund's performance.

Currency hedging transactions involve the usage of long and short positions in currency futures and options. Such activity carries a thread of unlimited losses for the Fund.

## **15.3 Borrowing**

As set out in the investment restrictions, the Fund may borrow cash or assets and purchase securities on margin. Borrowing funds to purchase securities or other instruments and trading in futures and options and forward contracts will provide the Fund with the opportunity for greater returns but will also increase the Fund's level of risk. As a result, a relatively small price movement in an asset of the Fund may result in substantial losses to the Fund. The Fund may also, subject to the investment restrictions indicated herein and limitations on transactions with Associated Companies, purchase from financial institutions, guarantees for obligations of the Fund in favour of creditors of the Fund. Each of these actions will increase the Fund's exposure to capital risk and cause the Fund to incur higher current expenses that may not be recovered by appreciation of the securities or investments purchased in connection therewith.

#### **15.4 Key Person Risk**

The performance of the Fund is very much reliant upon the services provided by the Investment Adviser. Changes in personnel within the Investment Adviser may affect the activities of the Fund. Key people responsible for providing investment advice are:

Mr. Jochen Wermuth (Chief Investment Officer and managing partner)

Mr. Yury Roslavlev (Head of Quant Strategies)

Mr. Tikhon Moiseev (Head of Quant Implementation)

Mr. Sergey Ilchenko (Head of Quant Department)

The Fund shall notify investors as soon as practical of any change of key personnel within the Investment Adviser.

#### **Considerations Relating to Emerging Markets**

##### **15.5 Currency Fluctuations and Capital Account Controls**

A substantial portion of the Fund's assets will be invested in securities denominated in various Investment Currencies in particular Russian rouble whereas the NAV per Participating Share will be determined in U.S. Dollars and redemption payments to Shareholders are expected to be made in U.S. Dollars. Certain Investment Currencies have been in the past, and continue to be, subject to severe devaluations against the U.S. Dollars.

The NAV of the Fund's portfolio and distributions in U.S. Dollar terms will be adversely affected by depreciations in the value of Investment Currencies relative to the U.S. Dollar, to the extent the Fund is unable to hedge, or has not otherwise hedged, its exposure to this devaluation risk at favourable exchange rates or the providers of such hedges fail to perform their obligations to the Fund. In addition, the Fund will incur transaction costs in connection with conversions between Investment Currencies and U.S. Dollars. The Fund's Investments made in certain Investment Currencies continue to be and are expected to continue to be subject to often rapidly changing restrictions on repatriation of investments and/or exchange controls limiting or abolishing the ability to convert investments made in Investment Currencies into the Base Currency.

##### **15.6 Suspension of valuation of NAV and Dealings in Shares**

The Board of Directors may at any time in accordance with the Articles declare a suspension of the valuation of the NAV of Participating Shares and of the issue, sale, purchase, redemption and conversion of Participating Shares for the whole or any part of a period during which certain events occur, as set out in the section in this Memorandum headed "Suspension of Dealings". This may also lead to a deferral of the Fund's obligation to make payments in respect of redemptions already requested before the occurrence of the event causing a suspension of valuation of the NAV. In addition, the occurrence of such an event, and the potential delays resulting therefrom, are likely to have a negative impact on the performance of the Fund.

##### **15.7 Market Liquidity and Volatility**

The securities markets in Emerging Market Countries are generally characterised by a small number of issuers, heavy concentration of trading in a few equity securities of domestic issuers and/or in a few debt securities issued by the respective ministry of finance or other governmental agencies of such Emerging Market Countries and trading only in the over-the-counter market in the cases of certain securities and, in many cases, may be susceptible to being influenced by large investors trading significant blocks of securities. The price volatility of Emerging Market Investments is comparatively greater and the liquidity of such securities is comparatively less than is the case with securities in the United States, Western Europe and other countries with developed securities markets. In addition, certain Emerging Market Investments, particularly those fixed income securities purchased at a discount and/or of longer maturities, are subject to large fluctuations in market value as a result of changing interest rates. Since some of the Fund's investments may also be privately placed, illiquid structured securities and minimum holding periods may exist with respect to some of the Fund's investments, the Fund's investments generally will be illiquid. As a consequence, the Fund may experience difficulty in valuing its investments to determine its NAV and in disposing of investments to meet liquidity needs or in light of adverse developments affecting a particular investment or its issuer, and the Fund may find it necessary to dispose of securities at unfavourable prices or to retain securities that it would otherwise sell. The price sources available to the Fund for purposes of valuations may not reflect firm bids.

### **15.8 Counterparty Risks**

Major trading activity of the Fund will be conducted on brokerage account(s) via direct market access which minimizes counterparty risk to the default risk of the broker with which the Fund has an account and to the default risk of the clearing house used to settle the transactions. However, the Fund may enter from time to time into over-the-counter transactions which create additional counterparty risk. Shareholders must be aware of the fact that fewer institutions enter into transactions in Emerging Market Investments than enter into transactions in other types of investments in the international financial markets. Many of those institutions are themselves located in Emerging Market Countries and/or are below Investment Grade; the Fund may enter into transactions to purchase and/or sell Emerging Market Investments with many such institutions. In addition, the period between the commitment to a transaction and the settlement of a transaction in Emerging Market Investments is often substantially longer than the period for the settlement of a transaction in other types of investments, and the documentation involved is often substantially more complex. Therefore, the Fund's exposure to loss in the event of default by its counterparty or counterparties in such transactions may be highly concentrated and significant.

### **15.9 Concentrated Investment**

The range of appropriate investments for the Fund to invest in is limited. The Fund is obligated to spread the Fund's assets among a limited amount of different issuers by its limitation to hold no more than 25% of any one non-G7 Government bond or cash asset, as set out in the section in this Memorandum headed "Investment Restrictions". At times, the Fund may thus hold a relatively small number of securities positions, each representing a relatively large portion of the Fund's net assets. Losses incurred on such investments could have a materially adverse effect on the Fund's overall financial condition. In addition, in entering into transactions in Emerging Market Countries to satisfy regulations requiring non-residents to invest only through certain authorised institutions, the Fund may transact business with only one or a limited number of authorised institutions. Therefore, the Fund's exposure to loss in the event of default by its counterparty or counterparties in such transactions may be highly concentrated, correlated and significant.

### **15.10 Costs of Local Investments and Investments in Collective Investment Schemes**

Trading and trading-related costs, such as bid-offer spreads, commissions and price sensitivity to trading volume, in Emerging Market Countries are generally higher as compared to such costs in highly developed markets.

### **15.11 Issuer Factors and Other Credit Risks**

Historically, Emerging Market Issuers, particularly Government Agencies, have experienced substantial difficulties in servicing their external debt obligations and have often restructured or rescheduled payments in respect thereof. The political and economic climate in many Emerging Market Countries, including the factors described below and others, may adversely affect the ability and willingness of Emerging Market Issuers to repay principal of, and/or interest on, their respective debt obligations when due, depending on, among other things, the related effects thereof on such issuer's cash flow situation and, in the case of sovereign issuers, the extent of its foreign reserves, the relative size of its debt service burden and policy considerations. In many cases, the Fund may have limited legal recourse against a defaulting Emerging Market Issuer and may, even if successful in obtaining legal redress, find enforcement difficult. In addition, in some cases, holders of debt securities, including the Fund, may be requested to extend additional monies to issuers and/or to agree to rescheduled and/or reduced payments. In such cases, other participants in the relevant obligations may be more directly involved in renegotiating the terms thereof and, accordingly, may have greater information than that which is available to the Fund and its advisers.

The foregoing risks may be intensified in many Emerging Market Countries where the debt and equity markets are often dominated by a small number of issuers; and, accordingly, the Fund may be exposed to high concentrations of credit risk vis-à-vis the issuers of the Emerging Market Investments in which the Fund invests. In addition, in certain Investment Jurisdictions, the Fund will be required to make investments through local commercial banks. Because the Fund intends, subject to applicable laws, to utilize the services of the same entity to satisfy all of its local settlement, clearing and custodial needs within a particular Investment Jurisdiction, the Fund will be subject to concentrated credit and performance risks in this respect as well.

#### **15.12 Political and Economic Factors**

Economies of many Emerging Market Countries are generally characterized by varying growth and inflation rates, continuing recessions, disparate rates of unemployment, large amounts of external indebtedness and related budget deficits and balance of payment issues, currency fluctuations and exchange controls, as well as other economic factors, and may be subject to trade imbalances and financial instability. There can be no assurance that the Fund's investments in Emerging Market will not be adversely affected by political, economic and social conditions prevailing in Emerging Market Countries or that adverse developments will not occur in any particular Investment Jurisdiction while the Fund holds investments relating thereto.

#### **15.13 Tax and Other Legal Factors**

In the recent past, the tax systems of several Emerging Market Countries have been marked by rapid change, which has sometimes occurred without warning and has been applied with retroactive effect. In these developing countries, a large national budget deficit often gives rise to an acute government need for tax revenues, while the condition of the economy has reduced the ability of potential tax payers to meet their tax obligations. In some cases, there is widespread non-compliance with tax laws, insufficient personnel to deal with the problem and inconsistent enforcement of the laws by inexperienced tax inspectors.

Similarly, as a general matter, the nascent legal systems of many Emerging Market Countries are undergoing rapid and radical changes, with the introduction of laws dealing with fields such as property, corporations, banking, securities, trade regulation and bankruptcy. In many cases, the legal framework remains in a state of flux and legal uncertainty continues to exist in many areas, in part, because significant legislative gaps remain and regulations necessary to implement legislation have not been adopted and, in part, because recently-adopted laws have not yet been interpreted or their interpretation is inconsistent. There is also uncertainty about whether changes in the political environment may result in changes, including changes with retroactive effect, in the law. As a general matter, for a foreign investor, like the Fund, there is also uncertainty about the ability to protect and enforce contractual rights. There is little experience with commercial dispute resolution in many Emerging Market Countries, and the paucity of procedural and remedial protections that exists in countries with long-established civil legal systems may not be available in the developing judiciaries of these countries. Majority equity shareholders of Emerging Market Issuers have found their shareholder rights diluted, retracted or ignored in several instances, corporate governance has been poor, asset stripping and minority shareholder rights violations have been common and claimants have

not always succeeded in finding legal recourse. Further uncertainty for the Fund, as an investor, exists because many of its investments will be made in Emerging Market Investments of a sovereign or other public-sector issuer, and there is always uncertainty about the ability to enforce claims against governments and their agencies or instrumentalities or government enterprises. Further, independently of whether claims are pursued against a public- or private sector issuer, corruption throughout the legal systems of Emerging Market Countries may limit the ability to enforce claims. Even in the regular course of business, the Fund may suffer disadvantages in an environment where corruption may influence decisions by officials or business people. These uncertainties to which the Fund is exposed in connection with its investments translate into risks to be considered by any prospective investor in Participating Shares.

#### **15.14 Other Factors**

Generally accepted international accounting standards are not necessarily followed by Emerging Market Issuers, and financial reporting standards and practices, and the quality and reliability of official data and statistics, in Emerging Market Countries generally fall short of those followed in the United States and in countries in Western Europe. Therefore, less information, and less reliable information, generally will be available with respect to Emerging Market Countries and investments in Emerging Market Investments than is the case with respect to similar securities of issuers from, for example, the United States. Local rating services may exist in Emerging Market Countries where the Fund may invest, but their ratings may not be reliable because of these deficiencies in accounting and reporting practices. It is expected that a substantial portion of the Fund's investments will be below Investment Grade. These types of securities are considered to be highly speculative and involve a greater degree of risk of default or bankruptcy and price volatility than securities in higher rating categories. In all cases, these factors represent risks to the Fund, and therefore, to an investor in Participating Shares, because the value of the Fund's investments and, therefore, the NAV of the Participating Shares, will depend on the ability and willingness of the issuers of those investments, and of the providers of derivatives entered into by the Fund, to perform their obligations; the inability of the Fund to obtain the information necessary to analyse its investments on a continuing basis could result in its need to dispose of investments after their value has suffered a material decline as a result of unreported, or inadequately reported, adverse circumstances.

Custodial, settlement and clearing services in many Emerging Market Countries are also not as highly developed as those that exist in more developed countries, and the banking institutions that fulfil custodial roles are not subject to as high a degree of supervision, or supervision by as highly trained personnel, as are their counterparts in the United States and Western European countries. Although the Fund intends to restrict investments in Emerging Market Countries to securities for which it believes adequate custodial, settlement and clearing services are available to it, there can be no assurance that these services will prove adequate to protect the interests of the Fund and the Investment Adviser will not be responsible for related losses suffered by the Fund, except as a result of its own negligence, bad faith, fraud or wilful misconduct. Recourse of the Fund and the Investment Adviser against such sub custodians and agents may be limited.

#### **Other Considerations**

##### **15.15 No Assurance of Profits**

An investor may lose all or part of the amount paid on subscription for Participating Shares.

##### **15.16 Absence of Market; Restrictions on Transfer**

Each investor should be fully aware of the restrictions on transfer of Participating Shares held by it. Even though the Participating Shares will be registered under the laws of Jersey, the Participating Shares are not readily transferable and no transfer, pledge, assignment or encumbrance of Participating Shares may be made without the prior approval of the Directors in their absolute discretion.

##### **15.17 Restriction on redemptions**

The Participating Shares can be redeemed at the start of each calendar month on Dealing Days and also on Special Dealing Days, with 5 Business Days' prior notice. Redemptions may be suspended in the circumstances described in the section in this Memorandum headed "Suspension of Dealings".

#### **15.18 No Participation in Management and no Voting Rights**

Shareholders - unless they are also Directors - will not be entitled to participate in the day-to-day management of the Fund or to participate in the conduct of the Fund's business or on particular investment decisions.

Participating shares have no voting rights save with respect to any potential variation of rights. Any changes that may adversely affect the Shareholders will be announced 30 calendar days prior such changes take into effect to allow the Shareholders to put a redemption request. Directors are responsible to determine whether any such changes can adversely affect the Shareholders.

#### **15.19 Dependence on the Investment Adviser**

All decisions with respect to the day to day management of the Fund will be made by the Directors with assistance from the Investment Adviser. See the section in this Memorandum headed "Management and Administration" The Fund will benefit from investment recommendations received from the Investment Adviser. As a result, the success of the Fund for the foreseeable future will depend exclusively upon the quality of the advice it receives from the Investment Adviser, which in turn depends on the skills and abilities of its executives. Although these officers will devote such time and effort as in their judgment may be reasonably required to implement the objectives of the Fund, they will not all be required to devote all of their total working time and effort to the Fund.

#### **15.20 Regulatory Oversight**

The Fund has been established in Jersey as an unregulated eligible investor fund under the Order and is not regulated by the Jersey Financial Services Commission (the "Commission"). The Secretary is authorised to conduct fund services business under the Financial Services (Jersey) Law 1998 (the "FS Law") in respect of the Fund. The Commission is protected by the FS Law against liability arising from the discharge of its functions under such laws.

#### **15.21 Role and Limited Liability of the Investment Adviser and the Administrator**

The Fund will not have employees of its own and will look to the Secretary and the Administrator for the administration of the Fund, subject to the direction and oversight of the Board of Directors.

The Investment Adviser's role is limited to providing advice. Investors will have no recourse to the Investment Adviser in case of underperformance of the Fund. The Investment Adviser's obligations are towards the Fund and its liability is limited to fraud, wilful default, bad faith or gross negligence. The Administrator's obligations are towards the Fund and its liability is limited to fraud, wilful default, bad faith and negligence.

#### **15.22 Risk and Limited Liability of Prime Broker(s)**

The Fund has engaged the Prime Broker to provide prime brokerage services to the Fund. These arrangements are set out in detail in the section of the Memorandum headed "Management and Administration - Prime Broker". The use of a prime broker involves the Prime Broker holding certain assets of the Fund (other than subscription and redemption monies) and these assets will be subject to a security interest in favour of the Prime Broker. There is a risk that in order to reduce any indebtedness of the Fund to the Prime Broker, the Prime Broker may enforce the security and take all steps it considers necessary to protect itself against loss.

Such steps include the right to sell any and all investments or property in the Fund's accounts in order to offset market risk and to offset any indebtedness, the right to buy any property which may have been sold

short and the right to close or cancel, replace or reverse any outstanding transactions. Such purchases or sales may be effected by the Prime Broker publicly or privately with or without notice in such manner as the Prime Broker in their sole discretion determine appropriate in the circumstances. The Prime Broker's obligations are towards the Fund and its liability is limited to negligence, bad faith or wilful misfeasance.

### **15.23 Cross Class Liability**

The Company is established as an incorporated cell company and each of its cells is an incorporated cell pursuant to the Companies Law. The Company and each cell is a separate legal entity with separate segregated assets and liabilities. There can be no guarantee that the courts of any jurisdiction outside of Jersey will recognise the segregation of assets and liabilities or respect the limitations on liability associated with incorporated cell companies.

The performance of shares of a particular cell may be inferior to the performance of shares of another cell. Investors in any of the cells will be entitled to a share of the net gains of the underlying investment attributable to that cell only.

### **15.24 Indemnification of the Directors, Investment Adviser, Secretary, Administrator and Prime Broker**

The Directors, Investment Adviser, Secretary, Administrator and Prime Broker and their respective affiliates are entitled to be indemnified in certain circumstances. As a result, there is a risk that the Fund's assets will be used to indemnify such persons, companies or their employees or satisfy their liabilities as a result of their activities in relation to the Fund.

### **15.25 Dividend Policy**

No payments of dividends are intended to be made on the Participating Shares. Those who anticipate the need for regular income from dividends from their investments should not invest in the Fund.

### **15.26 Mandatory Redemptions or Repurchases**

The Fund has the right to require, on at least 30 days' notice, the compulsory redemption or repurchase of all Participating Shares held by a Shareholder in the Fund if the Directors determine that the Participating Shares are held for the benefit of any non-eligible Shareholder. The Fund also reserves the right to require compulsory redemption or repurchase of all shares held by a Shareholder if, in the opinion of the Directors, the ownership of the shares by the Shareholder is contrary to the best interests of the Fund by virtue of resulting in legal, pecuniary, regulatory taxation or material administrative disadvantage to the Fund.

### **15.27 Conflicts of Interest**

The Investment Adviser may from time to time act as investment adviser to other funds. It is therefore possible that, in the course of its business, it may have potential conflicts of interest with the Fund. The Investment Adviser may, for example make investments for other clients or on its own behalf without making the same available to the Fund. The Investment Adviser will, however, have regard in such event to their obligations under the Investment Advisory Agreement. The Administrator may provide similar services for other similar funds.

### **15.28 Alternative Investment Fund Managers Directive**

A European Directive on Alternative Investment Fund Managers ("**AIFM**") was published on 1 July 2011 in the Official Journal of the EU. The AIFM Directive will restrict the ability of a non-EU fund manager to market a non-EU Alternative Investment Fund ("**AIF**") to investors in the EU. The restriction would prohibit the marketing of such funds in the EU, save where certain conditions are met. It is proposed that the Directive be implemented into national law by member states of the EU by 22 July 2013. Until such date, the rules affecting non-EU AIFMs managing non-EU AIFs will be governed by the local law of each EU state. There may be restrictions on the marketing of the Participating Shares to investors in the EU in



the future, which in turn may have a negative effect on marketing and liquidity generally. The Directors propose to keep the position regarding the AIFM Directive under review, as it may impact the Fund (as a Jersey domiciled, non-EU fund). Furthermore, the Directors will take appropriate steps in the future (which may include a reconstruction of the Fund) in light of the Level 2 implementation and interpretation of the AIFM Directive and any subordinate and national legislation.

## **15.29 General**

The value of investments and the income from them, and therefore the value of, and income from, Participating Shares can go down as well as up and an investor may not recoup the original amount invested in the Fund. An investment should only be made by those persons who are able to sustain a loss on their investment.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN THIS OFFERING. POTENTIAL INVESTORS MUST READ THE ENTIRE MEMORANDUM INCLUDING THE RELEVANT SUPPLEMENTS AND ALL ATTACHMENTS AND MUST CONSULT THEIR OWN PROFESSIONAL ADVISERS, BEFORE DECIDING TO INVEST IN THE FUND.**

## **16 STATUTORY AND GENERAL INFORMATION**

### **16.1 Corporate Structure**

The Company is an incorporated cell company with limited liability registered in Jersey on 2 August 2011 under the provisions of the Companies Law. The Fund has been formed as an incorporated cell of the Company and was registered in Jersey on [●] 2011. The Fund is an unregulated eligible investor fund pursuant to the Order.

An incorporated cell of an incorporated cell company under the Companies Law is a separate company. As such, the Fund transacts and enters into agreements with third parties in its own name and the position of creditors of the Fund is the same as for an ordinary limited company. Accordingly any creditor of the Fund would not, as a matter of law, have recourse to the assets of the Company or any other incorporated cell of the Company. A Jersey incorporated cell company is a separate legal entity, with the individual cells having independent legal personality.

The rights and obligations of the holders of Participating Shares are governed by the Articles of Association. Prospective investors should examine these documents carefully and consult with their own legal counsel concerning their rights and obligations before subscribing for Participating Shares. Copies of the Articles of Association of the Fund are available for inspection by an interested investor at the Administrator's office during normal business hours on any Business Day. The Articles of Association may only be altered by special resolution of the Fund.

The following statements and other statements in this Memorandum concerning the Articles of Association and related matters are only a summary, do not purport to be complete, and in no way modify or amend the Articles of Association.

### **16.2 Shares**

The Fund has been established with a nominal number of Management Shares of no par value and an unlimited number of Participating Shares of no par value. The Management Shares in the Fund are held by the Secretary.

The Management Shares have been created solely to comply with the Companies Law, which states that no redeemable shares may be issued at a time when there are no issued shares which are not redeemable. The holders of the Management Shares are entitled to receive notice of general meetings and to attend and vote thereat. On a poll a holder of Management Shares is entitled to one vote for all shares held by him. Management Shares are not redeemable.

Participating Shares carry a right to dividends (if any) declared by the Fund. Participating Shares carry no right to vote, save in respect of a variation of class rights (see below). In a winding up, each Participating Share has a right to the return of paid up capital and, following the return of paid up capital on the Management Shares, a right to share in the surplus assets of the Fund.

### **16.3 Meetings and Reports**

Holders of Participating Shares are not entitled to attend nor vote at (nor receive notice of) general meetings of the Fund although may attend and vote at any separate class meetings within the Fund where appropriate (see Variation of Class Rights). The Annual General Meeting of the Fund will be held in Jersey within 6 months of each Accounting Date. Other general meetings may be held at such time and place as the Directors may determine.

Shareholders in the Fund are not, by virtue of that fact, members either of the Company itself or of any other incorporated cell of the Company.

The Accounting Date of the Fund is 31 December in each year. Copies of the annual report containing the audited financial statements of the Fund in respect of the preceding financial year will be sent to the registered address of each Shareholder (or the first-named of joint Shareholders) within 7 months of the end of the accounting period (or the first-named of joint Shareholders) at least 21 days prior to the annual general meeting. Copies of all financial information concerning the Fund is available on request from the Administrator (telephone 00 353 21 4633366). However, save as otherwise permitted by the Companies Law a Shareholder is only entitled to financial information in respect of a cell of the Company within which he holds Participating Shares.

### **16.4 Borrowing**

At the date hereof the Fund has no outstanding debentures, loan capital (including loan capital created but unissued), borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances or acceptance credits, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

### **16.5 Indemnities**

The Articles of Association contain provisions indemnifying the Directors, Secretary, Administrator and Investment Adviser and other officers and servants of the Fund (as appropriate), against all costs, losses and expenses which any such officer or servant may incur or become liable to by reason of any contract entered into or thing done by him as an officer or servant or in any way in discharge of his duties, including travelling expenses otherwise than through his own wilful default, bad faith, fraud or negligence. The amount for which such indemnity is provided will attach as a lien on the property of the Fund and have priority as between the members over all other claims. However, such indemnities shall only be effective in so far as allowed under the Companies Law. In addition, the Investment Advisory Agreement, Prime Broker Agreement, Corporate Services Agreement and Administration Agreement provide that the Investment Adviser, the Prime Broker, Secretary and the Administrator (as the case may be) will be indemnified against loss or damage, suffered by them in the discharge of their duties under such agreements.

### **16.6 Share Certificates**

Save in exceptional circumstances where the Directors are specifically requested in writing to issue a certificate, all Participating Shares will be issued in non-certificated form so that entitlement will be evidenced solely by an entry in the register of members of the Fund. If requested Participating Shares will be issued in certificated form and share certificate(s) will be despatched.

### **16.7 Directors' Remuneration, Service Agreements and Interests**

The Fund must have a board of directors which may or may not comprise the same persons as the board of directors of the Company. Directors meet separately in their capacity as Directors of the Fund and, in that capacity, they owe their fiduciary and other duties to the Fund rather than to the Company or any other cell of the Company.

- (a) Each Director is entitled to be paid remuneration for his services in the amount specified in this Memorandum or as otherwise fixed by the Fund by Ordinary Resolution. The Directors may also be reimbursed for expenses incurred in connection with the business of the Fund and may, if the Directors so determine, receive additional remuneration for special services to or at the request of the Fund. The aggregate emoluments of the Directors will be disclosed in the Fund accounts.
- (b) There are no service agreements in existence between the Fund and its Directors nor are any such agreements proposed.
- (c) Save as disclosed herein, no Directors have any interest, direct or indirect, in the promotion of the Fund or in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Fund since the date of creation of the Fund, and no Director has a material interest in any contract or arrangement entered into by the Fund which is significant in relation to the business of the Fund.
- (d) A Director may act in a professional capacity for the Company and the Fund and may receive remuneration for such professional services. A Director may also hold any other office or place of profit with the Company and the Fund and may be a director, officer or member of any company or any cell in which the Company may be interested.
- (e) A Director may contract with the Fund and no contract or arrangement made by the Fund in which any Director is in any way interested shall be liable to be avoided, but the nature of his interest must be declared at a meeting of the Directors.
- (f) A Director may not normally vote in respect of any contract in which he is materially interested (other than in respect of the agreements set out in section 16.9).
- (g) There is no share qualification for Directors and no prohibition upon Directors acquiring shares in the Fund.
- (h) There is no age limit for Directors.
- (i) A Director may be removed at any time by Ordinary Resolution or by the Directors.

### **16.8 Variation of Class Rights**

- (a) Subject to the provisions of the Companies Law, all or any of the special rights attached to any class of shares for the time being issued within the Fund may (unless otherwise provided by the terms of issue of the shares of that class within the Fund) from time to time (whether or not the Fund is being wound up) be varied with the consent in writing of the holders of not less than two-thirds of the issued shares of that class within such Fund or with the sanction of a resolution passed with a two-thirds majority at a separate general meeting of the holders of such shares within such Fund.
- (b) The rights attached to any class of shares within the Fund having preferential rights are (unless otherwise expressly provided by the conditions of issue of such shares) deemed not to be varied by the creation or issue of further shares ranking *pari passu* therewith within such Fund.

### **16.9 Material Contracts**

The following contracts have been entered into since the incorporation of the Fund otherwise than in the

ordinary course of business and prior to the date of this Memorandum and are or may be material:

- (a) Investment Advisory Agreement entered into between the Fund and the Investment Adviser (the "**Investment Advisory Agreement**") whereby the Investment Adviser has been appointed advise the Fund with respect to its investments. The Investment Adviser shall be paid such fees with respect to the Fund as are detailed in this Memorandum. The Investment Advisory Agreement may be terminated by the Investment Adviser or the Fund on six months' notice. Shorter notice may be given in specified circumstances including material breach;
- (b) Prime Brokerage Agreement between the Fund and the Prime Broker (the "**Prime Brokerage Agreement**") whereby the Prime Broker is appointed to provide brokerage services to the Fund. The conditions regarding the Prime Brokerage Fee as well as the termination of the Prime Brokerage Agreement are determined in the Custody Agreement;
- (c) Administration Agreement entered into between the Administrator and the Fund (the "**Administration Agreement**") whereby the Fund has appointed the Administrator to provide certain administrative duties and transfer agent services to the Fund. The Administrator's fees shall be paid by the Fund. The Administration Agreement is terminable by the Fund or the Administrator on ninety days' notice;
- (d) Sponsor Agreement entered into between the Sponsor and the Fund (the "**Sponsor Agreement**") whereby the Fund has appointed the Sponsor to provide seed investments to the Fund during the Initial Offering Period; and
- (e) Corporate Services Agreement entered into between the Secretary and the Fund pursuant to which the Secretary provides the Fund with certain registered office, company secretarial and registrar services.

The Investment Adviser, the Administrator, the Prime Broker, Sponsor and the Secretary will have the benefit of certain indemnities which are provided for in the above referenced agreements.

#### **16.10 Conflicts of Interest**

The Directors, the Investment Adviser, the Prime Broker, the Sponsor, the Secretary and the Administrator or companies with which any of them are associated may from time to time act as manager, investment adviser, broker, sponsor, secretary, administrator, in relation to, or be otherwise involved in, other funds established by parties other than the Company which have similar objectives to those of the Company and the Fund. It is therefore possible that any of them may, in the course of business, have potential conflicts of interest with the Company and the Fund. Each will, at all times, have regard in such event to its obligations to the Company and the Fund (as appropriate) and will endeavour to ensure that such conflicts are resolved fairly. In addition any of the foregoing may deal as principal or agent with the Company and the Fund, provided that such dealings are carried out as if effected on normal commercial terms negotiated on an arm's length basis. The Investment Adviser or any of its affiliates or any person connected with the Investment Adviser may invest in, directly or indirectly, or advise other funds or accounts which invest in assets which may also be purchased or sold by the Fund and may also invest in the Fund. Neither the Investment Adviser nor any of its affiliates nor any person connected with it is under any obligation to offer investment opportunities of which any of them becomes aware to the Company and the Fund or to account to the Company and the Fund (as appropriate) in respect of (or share with the Company or the Fund or inform the Company or Fund of) any such transaction or any benefit received by any of them from any such transaction. In determining the Net Asset Value, the Directors may rely on valuations provided or attributed to any asset or liability by the Administrator and/or the Investment Adviser.

#### **16.11 Side Letters**

The Fund may enter into separate agreements with certain investors, including without limitation, those deemed to involve a significant or strategic relationship, to provide them with additional or different information and reporting that is provided to other investors of the Fund ("**Side Letters**"). Such

information may provide the recipient greater insights into the Fund's activities than is included in standard reports to investors. The Directors will not be required to notify any or all of the other Shareholders of any such Side Letters or any of the rights and/or terms or provisions thereof, nor will the Directors be required to offer such additional and/or different rights and/or terms to any or all of the other Shareholders (unless the provisions of such Side Letters adversely affect the rights of such other Shareholders to a material extent). The Directors may enter into such Side Letters with any party as the Directors may determine in its sole and absolute discretion at any time. The other Shareholders will have no recourse against the Fund, the Investment Adviser and/or any of their affiliates in the event that certain Shareholders receive additional and/or different rights and/or terms as a result of such Side Letters.

#### **16.12 Winding Up**

Provided no incorporated cell of the Company remains, the Company may be wound up with the approval of a special resolution (requiring a two-thirds (2/3rds) majority) of the holders of Shares of the Company. The Fund may similarly be wound up voluntarily by way of special resolution of the Fund. In the event of a winding up of the Fund, a liquidator may be appointed with authority to collect in the assets, pay the debts and liabilities and then distribute the surplus assets in accordance with the Articles of Association.

#### **16.13 Data Protection**

Information provided by investors to the Fund may constitute "personal data" for the purposes of the Data Protection (Jersey) Law 2005 (the "**Data Protection Law**").

The Fund will be the "**data controller**" in respect of such data, but has appointed the Administrator and Secretary as "data processors" of such data (each as defined in the Data Protection Law). Personal data may be processed as part of, and for the purposes of, the administration of the Fund, including for the purposes of maintaining accurate records of investor interests in the Fund and communications with investors.

Details of the registration of the Fund as a data controller can be found on the website of the Jersey Data Protection Commissioner: [www.dataprotection.gov.je](http://www.dataprotection.gov.je).

#### **16.14 Miscellaneous**

- (a) Neither the Company nor the Fund has established a place of business in the United Kingdom.
- (b) The Fund is responsible for all normal operating expenses, stamp and other duties and charges incurred on the acquisition and realisation of investments.
- (c) The Investment Adviser may (on behalf of the Fund) pay commissions to promoters of the Fund.
- (d) No litigation or claims of material importance are pending or threatened against the Company or the Fund.
- (e) The nature of the right represented by Participating Shares is that of a share in the Fund. The Fund is a separate legal entity under the Companies Law from the Company and any other incorporated cell of the Company.
- (f) The expenses incurred in the establishment of the Fund (including all legal and administrative costs) shall be amortised over a period of three year(s).

#### **16.15 Documents Available for Inspection**

Copies of the following documents will be available for inspection at, and copies can be obtained from, the registered office of the Fund in Jersey during usual business hours (Saturdays and public holidays excepted):

- (a) the material contracts referred to in paragraph 16.9;

- (b) the Memorandum and Articles of Association of the Fund;
- (c) the Companies Law; and
- (d) the latest annual report of the Fund.

**SCHEDULE 1**  
**DESCRIPTION OF ELIGIBLE INVESTOR UNDER THE COLLECTIVE INVESTMENT**  
**FUNDS (UNREGULATED FUNDS) (JERSEY) ORDER 2008**

**Who is an eligible investor?**

1. For the purposes of Schedule 1 to the Order, an eligible investor in relation to a fund is a person who at the time of making in relation to the fund a subscription, purchase, or exchange, or an acquisition is a person specified in any of the sub-paragraphs of paragraph 2 (below).
2. The following persons are specified for the purposes of paragraph 1:
  - (1) a person who has agreed to pay consideration of not less than one million United States dollars, or the equivalent of that amount in another currency, for the subscription, purchase, exchange or acquisition;
  - (2) a person whose ordinary business or professional activity includes or could be reasonably expected to include:
    - (a) the acquisition, underwriting, management, holding or disposal of investments, whether as principal or agent; or
    - (b) the giving of advice on investment;
  - (3) subject to paragraph 3, an employee, director or shareholder of, or consultant to, a person specified in sub-paragraph (2) of this paragraph;
  - (4) a functionary in relation to the fund or an associate of such a functionary;
  - (5) subject to paragraph 3, a person who:
    - (a) is an employee, director or shareholder of, or consultant to, such a functionary or associate; and
    - (b) in making the relevant subscription, purchase, exchange or acquisition would acquire units in the fund as remuneration, or reward, as such an employee, director or shareholder or consultant;
  - (6) an individual whose property has a total market value of not less than 10 million United States dollars or the equivalent of that amount in another currency;
  - (7) a company, partnership, limited partnership or limited liability partnership, trust, or unincorporated association, in relation to which one or both of the following requirements is met:
    - (a) its property (or its property and that of its associates) has a total market value of not less than 10 million United States dollars or the equivalent of that amount in another currency;
    - (b) every shareholder of the company, every partner of the partnership, limited partnership or limited liability partnership, every beneficiary of the trust or every member of the association (as the case requires) would, himself or herself, be an eligible investor in relation to the fund if he or she made in relation to the fund a subscription, purchase, or exchange or an acquisition;
  - (8) a wholly-owned subsidiary of a company that satisfies sub-paragraph (7) of this paragraph;

- (9) a trustee of a trust established by a person who is specified in any of sub-paragraphs (2), (3), (4), (6), (7) and (8) of this paragraph or is an employee, director, shareholder, or consultant, specified in sub-paragraph (5)(a) of this paragraph;
  - (10) a trustee of a trust established for the benefit of:
    - (a) a person who is specified in sub-paragraph (2) or (3) of this paragraph or is an employee, director, shareholder, or consultant, specified in sub-paragraph (5)(a) of this paragraph;
    - (b) any one or more persons in any one or more of the following classes:
      - (i) the spouse of a person specified in clause (a) of this sub-paragraph;
      - (ii) the issue of such a person;
      - (iii) the dependants of such a person; or
    - (c) a person specified in clause (a) of this sub-paragraph and any one or more persons in any one or more of the following classes:
      - (i) his or her spouse;
      - (ii) his or her issue;
      - (iii) his or her dependants; or
  - (11) a person who in making the subscription, purchase, exchange or acquisition is acting as or for a public sector body.
3. For the purposes of:
- (1) Sub-paragraph (3) of paragraph 2, a reference to a shareholder of a person specified in sub-paragraph (2) of paragraph 2 is a reference to a shareholder in respect of whom the person has signed a declaration that the investment is suitable for the shareholder and that the shareholder is able to bear the economic consequences of the investment, including the possibility of the loss of the entire investment; or
  - (2) sub-paragraph (5) of paragraph 2, a reference to a shareholder of a functionary or associate specified in sub-paragraph (4) of paragraph 2 is a reference to a shareholder in respect of whom the functionary or associate (as the case requires) has signed a declaration that the investment is suitable for the shareholder and that the shareholder is able to bear the economic consequences of the investment, including the possibility of the loss of the entire investment.
4. To calculate the total market value of an individual's property for the purposes of sub-paragraph (6) of paragraph 2:
- (1) add the market value of the movable and immovable property (in Jersey and elsewhere) of the individual (determined as if there were no liability in respect of any of that property) to the market value of the movable and immovable property (in Jersey and elsewhere) of the individual's spouse (determined as if there were no liability in respect of any of that property);
  - (2) deduct any liability that is secured over that property of the individual by mortgage, charge or other security or encumbrance;
  - (3) deduct any liability that is secured over that property of the individual's spouse by mortgage, charge or other security or encumbrance;



- (4) deduct any liability of the individual that is not secured as referred to in sub-paragraph (2) of this paragraph; and
  - (5) deduct any liability of the individual's spouse that is not secured as referred to in sub-paragraph (3) of this paragraph.
- 5. However, if the sum of the deductions that would be made under sub-paragraphs (3) and (5) of paragraph 4 exceeds the total market value of the movable and immovable property (in Jersey and elsewhere) of the spouse, then:
  - (1) treat the latter total market value as zero; and
  - (2) do not make the deductions referred to in sub-paragraphs (3) and (5) of paragraph 4.
- 6. A reference to property in paragraphs 4 or 5 shall not include the individual's principal residence, or the spouse's principal residence.
- 7. For the purposes of sub-paragraph (7)(a) of paragraph 2, except in the case to which paragraph 8 applies, to calculate the total market value of the property of a company, partnership, limited partnership or limited liability partnership, trust, or unincorporated association:
  - (1) find the total market value of its movable and immovable property (in Jersey and elsewhere) as if there were no liability in respect of that property;
  - (2) deduct any liability that is secured over that property by mortgage, charge or other security or encumbrance; and
  - (3) deduct any liability of the company, partnership, limited partnership or limited liability partnership, trust, or unincorporated association, being a liability that is not so secured.
- 8. For the purposes of sub-paragraph (7)(a) of paragraph 2, in the case where the total market value of the property of a company, partnership, limited partnership or limited liability partnership, trust, or unincorporated association, and of its associates, is to be calculated:
  - (1) find the total market value of its and their movable and immovable property (in Jersey and elsewhere) as if there were no liability in respect of that property;
  - (2) deduct any liability that is secured over that property by mortgage, charge or other security or encumbrance; and
  - (3) deduct any liabilities of the company, partnership, limited partnership or limited liability partnership, trust, or unincorporated association, and of its associates, being liabilities that are not so secured.
- 9. For the purposes of this paragraph:

**"associate"** means:

- (1) in relation to a company:
  - (a) a company that is a subsidiary or a holding body of the first-mentioned company or a subsidiary of any such holding body;
  - (b) an individual, partnership, limited partnership or limited liability partnership, trust, or unincorporated association that has direct or indirect control of the first-mentioned company; or

- (c) a company that is directly or indirectly controlled by any such individual, partnership, limited partnership or limited liability partnership, trust, or unincorporated association; or
- (d) in relation to an individual, partnership, limited partnership or limited liability partnership, trust, or unincorporated association, a company directly or indirectly controlled by the individual, partnership, limited partnership or limited liability partnership, trust, or unincorporated association;

**"holding body"** has the same meaning as in the Companies (Jersey) Law 1991, as amended (the "Law");

**"public sector body"** means:

- (1) the States or the government of any country (or territory) outside Jersey;
- (2) a local government of any part of a country (or territory) outside Jersey;
- (3) any international organization the members of which include Jersey or a member state of the European Economic Community; or
- (4) the central bank of any sovereign State, the European System of Central Banks or any other system of central banks;

**"subsidiary"** has the same meaning as in the Law;

**"wholly-owned subsidiary"** has the same meaning as in the Law.

## SCHEDULE 2 EQUALIZATION METHOD

If an investor subscribes for Participating Shares at a time when the NAV is other than the High Water Mark, certain adjustments will be made to a Shareholder's holding of Participating Shares to reduce inequities that could otherwise result to the Investor or to the Investment Adviser and Sponsor as a result of the payment of Performance Fees.

Equalization is designed to ensure that:

- any payable Performance Fee is charged only to those Shareholders who participate in value appreciation;
- all Shareholders have the same amount of capital per Participating Share at risk in the Fund;
- all Shareholders have the same Net Asset Value (net of performance fees) per Participating Share; and
- there is only one issue of Participating Shares.

The method set out below uses an "**Incentive Fee Redemption**" and an "**Equalization Credit**" (both terms defined below) to calculate any required adjustment of the number of Participating Shares held by Shareholders.

When an investor subscribes to the Fund, the NAV per Participating Share can be higher or lower than the HWM.

- (1) If the Participating Shares are subscribed for at a time when the NAV per Participating Share is less than the HWM per Participating Share, the investor will be required to pay a Performance Fee in respect of any future appreciation in the value of those Participating Shares. With respect to any such appreciation from the NAV per Participating Share at the date of subscription up to the HWM per Participating Share, the Performance Fee will be charged at the end of each Performance Payment Period by redeeming such number of the Shareholder's Participating Shares as have an aggregate NAV (after accrual for any Performance Fee) equal to 20 per cent. of any such appreciation (an "**Incentive Fee Redemption**"). An amount equal to the aggregate NAV of the Participating Shares so redeemed will be paid to the Investment Adviser and/or Sponsor as appropriate (for the avoidance of doubt, such redemption proceeds will not be paid to the Shareholder). Incentive Fee Redemptions are used to ensure that the Fund maintains a uniform NAV per Participating Share. As regards the Shareholder's remaining Participating Shares, any appreciation in the NAV per Participating Shares of those Participating Shares above the HWM per Participating Share will be charged a Performance Fee in the normal manner.
- (2) If Participating Shares are subscribed for at a time when the NAV per Participating Share is greater than the HWM per Participating Share, the investor will be required to pay an amount in excess of the then current NAV per Participating Share (after accrual for the Performance Fee) equal to 20 per cent. of the difference between the then current NAV per Participating Share (before accrual for the Performance Fee) and the HWM per Participating Share (an "**Equalization Credit**"). At the date of subscription the Equalization Credit will equal the Performance Fee per Participating Share accrued (the "**Maximum Equalization Credit**"). The Equalization Credit is payable to account for the fact that the NAV per Participating Share has been reduced to reflect an accrued Performance Fee to be borne by existing Shareholders and serves as a credit against Performance Fees that might otherwise be payable by the Fund but that should not, in equity, be charged against the Shareholders making the subscription because, as to such relevant Participating Shares, no appreciation has yet occurred.

The additional amount invested as the Equalization Credit will be at risk in the Fund and will therefore appreciate or depreciate based on the performance of the Participating Shares subsequent to the subscription of the relevant Participating Shares but will never exceed the Maximum Equalization Credit. In the event of a decline as at any Valuation Day in the NAV per Participating Share of those Participating Shares, the Equalization Credit will also be reduced by an amount equal

to 20 per cent. of the difference between the NAV per Participating Share (before accrual for the Performance Fee) at the date of issue and as at that Valuation Day. Any subsequent appreciation in the NAV per Participating Share will result in the recapture of any reduction in the Equalization Credit but only to the extent of the previously reduced Equalization Credit up to the Maximum Equalization Credit.

At the end of each Performance Payment Period, if the NAV per Participating Share (before accrual for the Performance Fee) exceeds the HWM per Participating Share, that portion of the Equalization Credit equal to 20 per cent. of the excess, multiplied by the number of Participating Shares subscribed for by the investor, will be applied to subscribe for additional Participating Shares for the investor. Additional Participating Shares of that class will continue to be so subscribed for at the end of each Performance Payment Period until the Equalization Credit, as it may have appreciated or depreciated in the Fund after the original subscription for Participating Shares was made, has been fully applied.

If the investor redeems his Participating Shares before the Equalisation Credit (as adjusted for depreciation and appreciation as described above) has been fully applied, the investor will receive additional redemption proceeds equal to the Equalization Credit then remaining multiplied by a fraction, the numerator of which is the number of Participating Shares being redeemed and the denominator of which is the number of Participating Shares held by the investor immediately prior to the redemption in respect of which an Equalization Credit was paid on subscription.

Please refer to the Directors or Administrator for detailed explanation of Equalization Method.

In addition to the method set out above, the Directors or a duly authorised agent have absolute discretion to make such adjustments as they deem appropriate to promote fair and equitable treatment of any Shareholder, Investment Adviser or Sponsor in respect of the payment of the Performance Fee.

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