

# TERA CAPITAL FUND

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## INFORMATION MEMORANDUM

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### OFFERING OF CLASS A COMMON SHARES

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August 2010

THIS INFORMATION MEMORANDUM IS SUBMITTED TO THE RECIPIENT ON A CONFIDENTIAL BASIS SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF AN INVESTMENT IN CLASS A COMMON SHARES OF TERA CAPITAL FUND. BECAUSE OF THE CONFIDENTIAL NATURE OF THIS INFORMATION MEMORANDUM ITS USE FOR ANY OTHER PURPOSE MIGHT INVOLVE SERIOUS LEGAL CONSEQUENCES. EXCEPT AS OTHERWISE NOTED HEREIN, THIS INFORMATION MEMORANDUM MAY NOT BE REPRODUCED IN WHOLE OR IN PART, AND IT MAY NOT BE DELIVERED TO ANY PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF TERA CAPITAL FUND.

# Information Memorandum

## TERA CAPITAL FUND

### Offering of Class A Common Shares

Tera Capital Fund (the “Fund”) is an open-end investment company organized as an exempted company limited by shares, with limited liability, under the laws of the Cayman Islands. The Fund was incorporated on January 17, 2005 and made its first investment on April 28, 2005. The investment manager to the Fund is Altima Asset Management, an asset management company organized as an exempted company limited by shares, with limited liability, under the laws of the Cayman Islands (the “Investment Manager”). The Investment Manager has been granted full discretionary authority and responsibility to implement the investment objectives of the Fund and to manage the assets of the Fund pursuant to an amended and restated management agreement, dated as of December 1, 2007, by and between the Fund and the Investment Manager (the “Investment Manager Agreement”). Alexander Polykovskiy and Timothy Enneking serve as the principals of the Investment Manager as well as the only members of the Board of Directors of the Fund. As such, Messrs. Polykovskiy and Enneking are the individuals primarily responsible for directing the investment of the Fund’s assets.

The Fund is offering its Class A common shares, par value U.S.\$0.01 (the “Common Shares” or the “Shares”), on a private basis only to a select number of institutional and individual investors that meet applicable regulatory requirements. Any investor who is a U.S. Person must be an “accredited investor”, as defined in SEC Regulation D promulgated under the U.S. Securities Act of 1933, as amended (the “Securities Act”) and a “qualified purchaser” as defined in the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”). See “*Eligible Investors*” herein.

The Fund operates as an open-end investment company with the investment objective of achieving long-term capital growth through investments in other investment funds that are based in, or invest in assets located in, primarily Russia and the Ukraine. The Fund may also invest in investment funds that are based, or invest, in the other member countries of the Commonwealth of Independent States (consisting of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan, all member nations, collectively, the “CIS Countries”) and Eastern Europe (including Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Montenegro, Poland, Romania, Slovakia, Slovenia, and Serbia). The Fund may also invest a small percentage of its assets in other developing markets outside of the above regions. The Fund employs a “multi-manager”, (i.e., fund of funds) investment approach pursuant to which the Fund maintains investments in investment funds or discretionary accounts (“Portfolio Funds”) that are managed by other investment managers (“Portfolio Fund Managers”). Once selected, Portfolio Fund Managers will be monitored on an ongoing basis and investment allocations adjusted as deemed appropriate by the Investment Manager. The Fund may utilize leverage on a moderate to extensive basis, and Portfolio Fund Managers and Portfolio Funds may utilize leverage to varying degrees, in each case for the purpose of increasing the amount of capital available for investment or for liquidity purposes. The Fund may, from time to time, utilize the services of one or more consulting firms to provide research, investment data and portfolio management services to the Fund. See “*Investment Objective and Strategy*”. An investment in the Fund involves significant risks. There is no assurance that the Fund will achieve its investment objective or be profitable. See “*Risk Factors*”.

The Investment Manager, any of its principals, and their respective affiliates may serve as investment managers or advisors to other investment funds and managed accounts in the future, certain of which may employ investment strategies that are substantially similar to the investment strategy employed by the Fund. See “*Risk Factors – Conflicts of Interest*”.

Subscriptions for Shares are being offered at a price per Share equal to the Net Asset Value (as defined herein) per Share. Thereafter, Shares may be subscribed for as of the first Business Day (as defined below) of a calendar month (or at such other time as the Fund may determine), at a price per Share equal to the Net Asset Value per Share as of the last day of the prior calendar month, subject to any sales or subscription charges. The minimum initial subscription by a shareholder is U.S.\$10,000. As used herein, the term “Business Day” means any day on which the Federal Reserve Bank of New York is open for business.

Fund shareholders will have the right to redeem any or all of their Common Shares on the last Business Day of any calendar month or such other Business Day as the Board of Directors of the Fund may determine in their sole discretion (a “Redemption Date”), on not less than thirty (30) days’ prior written notice, at a redemption price per Common Share equal to the Net Asset Value per Share as of the close of business on the Redemption Date, subject to certain conditions. Redemptions within the first six months of a shareholder’s initial investment, however, are subject to a 5% early redemption fee. See “*Redemption of Common Shares*”.

The Fund is regulated as an administered mutual fund under Section 4(1) of the Mutual Funds Law (2009 Revision) of the Cayman Islands (the “Funds Law”). As a mutual fund regulated under the Funds Law, the Fund is subject to the supervision of the Cayman Islands Monetary Authority (“CIMA”), which is authorized by the Funds Law to direct the Fund to provide it with audited financial statements and other information that CIMA reasonably requires. Such regulation and supervision will not involve an examination of the merits of an investment in the Fund, will not entail supervision of the investment performance or portfolio constitution of the Fund by the Cayman Islands Government or CIMA and does not mean that the Fund is guaranteed, insured or approved by the Cayman Islands Government or CIMA, or any other entity or governmental agency.

Prospective investors, together with their advisors, should review carefully this entire Information Memorandum and should discuss the Fund and its contemplated activities with the Investment Manager prior to any decision to purchase Common Shares.

THE OFFERING OF SHARES MADE HEREBY HAS NOT BEEN REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) OR ANY OTHER REGULATORY AUTHORITY OF ANY COUNTRY AND IS NOT BEING MADE IN ANY JURISDICTION WHERE SUCH OFFERING WOULD BE UNLAWFUL. INVESTORS SHOULD NOT CONSTRUE THE CONTENTS OF THIS INFORMATION MEMORANDUM AS TAX OR LEGAL ADVICE. PRIOR TO PURCHASING SHARES, A PROSPECTIVE PURCHASER SHOULD CONSULT WITH HIS OWN LEGAL, BUSINESS AND TAX ADVISORS TO DETERMINE THE APPROPRIATENESS AND CONSEQUENCES OF AN INVESTMENT IN THE FUND BY SUCH PURCHASER, INCLUDING MATTERS CONCERNING THE LAWS AND REGULATIONS IN THE COUNTRIES OF HIS CITIZENSHIP, RESIDENCE AND DOMICILE.

THIS INFORMATION MEMORANDUM HAS BEEN PREPARED ON BEHALF OF THE FUND AND EACH RECIPIENT HEREOF ACKNOWLEDGES THAT NO PERSON OR PARTY OTHER THAN THE FUND SHALL HAVE ANY RESPONSIBILITY OR LIABILITY FOR THE ACCURACY AND COMPLETENESS OF THE CONTENTS HEREOF. THE INFORMATION IN THIS INFORMATION MEMORANDUM IS AS OF THE DATE HEREOF AND IS SUBJECT TO CHANGE OR AMENDMENT. THE DELIVERY OF THIS INFORMATION MEMORANDUM AS OF ANY SUBSEQUENT DATE DOES NOT IMPLY THAT THERE HAS BEEN NO CHANGE OR AMENDMENT IN THE CONTENTS HEREOF.

THE SHARES OFFERED HEREBY WILL BE ILLIQUID. NO PUBLIC MARKET FOR SUCH SHARES EXISTS AND NONE IS EXPECTED TO DEVELOP. THERE WILL BE SIGNIFICANT RESTRICTIONS ON THE TRANSFERABILITY OF FUND SHARES. REDEMPTION OF SHARES WILL BE SUBJECT TO A VARIETY OF TERMS AND CONDITIONS AND THE FUND WILL HAVE THE RIGHT TO SUSPEND REDEMPTIONS UNDER CERTAIN CIRCUMSTANCES.

NO OFFERING LITERATURE OR ADVERTISING IN ANY FORM SHALL BE EMPLOYED IN THIS OFFERING OF SHARES IN THE FUND EXCEPT FOR THIS INFORMATION MEMORANDUM AND SUMMARY INFORMATION, IF ANY, WHICH SHALL BE QUALIFIED IN ITS ENTIRETY BY THE APPENDICES ATTACHED HERETO. NO PERSON OTHER THAN THE INVESTMENT MANAGER HAS BEEN AUTHORIZED TO MAKE REPRESENTATIONS, OR GIVE ANY INFORMATION, WITH RESPECT TO THE FUND SHARES, EXCEPT THE INFORMATION CONTAINED HEREIN, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED HEREIN OR OTHERWISE SUPPLIED BY THE INVESTMENT MANAGER MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND, THE INVESTMENT MANAGER OR ANY OF ITS PRINCIPALS.

THIS INFORMATION MEMORANDUM MAY CONTAIN CERTAIN FORWARD LOOKING INFORMATION ABOUT THE FUND AND ITS PROPOSED ACTIVITIES IN RELIANCE UPON THE “SAFE HARBOR” PROVISIONS OF THE U.S. FEDERAL SECURITIES LAWS. THIS INFORMATION IS SUBJECT TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, THOSE DESCRIBED UNDER “RISK FACTORS” HEREIN. ALL INVESTMENT PERFORMANCE IS INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE INVESTMENT MANAGER. ANY SIGNIFICANT CHANGE THEREIN CAN MATERIALLY AFFECT FUTURE RESULTS. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE FUND’S INVESTMENT OBJECTIVE WILL BE ACHIEVED OR THAT THE FUND WILL NOT INCUR LOSSES.

THIS INFORMATION MEMORANDUM IS SUBMITTED TO A LIMITED NUMBER OF RECIPIENTS ON A CONFIDENTIAL BASIS SOLELY IN CONNECTION WITH THEIR CONSIDERATION OF AN INVESTMENT IN SHARES OF THE FUND. IT MAY NOT BE REPRODUCED IN WHOLE OR IN PART AND MAY NOT BE DELIVERED TO ANY PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE FUND. EACH PERSON ACCEPTING THIS INFORMATION MEMORANDUM THEREBY AGREES TO RETURN IT TO THE FUND UPON REQUEST.

CERTAIN PROVISIONS OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE FUND AND OTHER DOCUMENTS ARE SUMMARIZED IN THIS INFORMATION MEMORANDUM, BUT IT SHOULD NOT BE ASSUMED THAT THE SUMMARIES ARE COMPLETE AND SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THE CONTENTS OF THE DOCUMENTS WHICH THEY PURPORT TO SUMMARIZE. MATERIAL DOCUMENTS ARE AVAILABLE FOR INSPECTION AS INDICATED IN THE SECTION ENTITLED "DOCUMENTS AVAILABLE FOR INSPECTION" HEREIN. THE INVESTMENT MANAGER EXTENDS TO EACH INVESTOR AND ITS ADVISERS THE OPPORTUNITY TO DISCUSS THE OFFERING AND THE FUND WITH REPRESENTATIVES OF THE INVESTMENT MANAGER AND TO RECEIVE ADDITIONAL INFORMATION TO THE EXTENT SUCH INFORMATION MAY BE READILY AVAILABLE.

EACH INVESTOR SHOULD NOT CONSTRUE THE CONTENTS OF THIS INFORMATION MEMORANDUM AS LEGAL, TAX OR FINANCIAL ADVICE. EACH INVESTOR SHOULD CONSULT ITS OWN PROFESSIONAL ADVISERS AS TO THE LEGAL, TAX OR FINANCIAL CONSEQUENCES OR OTHER MATTERS RELEVANT TO THE SUITABILITY OF AN INVESTMENT IN THE SHARES.

**RESTRICTIONS ON SALES IN CERTAIN JURISDICTIONS:**

**AUSTRALIA**

THIS OFFER IS ONLY OPEN TO PRIVATE INVESTORS CONTACTED DIRECTLY BY THE FUND (OR ITS AGENTS) AND IS NOT MADE TO THE PUBLIC AT LARGE IN AUSTRALIA. NO OFFER FOR SUBSCRIPTION OF THE SHARES WILL BE MADE OTHER THAN UNDER THE EXCLUDED OFFER EXEMPTIONS CONTAINED IN SECTION 708 OF THE CORPORATIONS LAW. ACCORDINGLY, THIS INFORMATION MEMORANDUM IS NOT REQUIRED TO BE, AND HAS NOT BEEN, LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION. ANY SHARES PURCHASED UNDER THIS OFFER MAY NOT BE RESOLD WITHIN AUSTRALIA FOR A PERIOD OF 12 MONTHS AFTER THE INITIAL PURCHASE OTHER THAN IN ACCORDANCE WITH SECTION 708 OF THE CORPORATIONS LAW.

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**THE BAHAMAS**

THE SHARES MAY NOT BE OFFERED OR SOLD OR OTHERWISE DISPOSED OF IN ANY MANNER TO PERSONS DEEMED BY THE CENTRAL BANK OF THE BAHAMAS (THE "BANK") AS RESIDENT FOR EXCHANGE CONTROL PURPOSES, UNLESS SUCH PERSONS DEEMED AS RESIDENT OBTAIN THE PRIOR APPROVAL OF THE BANK.

## BELGIUM

THE OFFERING OF SHARES HAS NOT BEEN AND WILL NOT BE NOTIFIED TO THE BELGIAN BANKING AND FINANCE COMMISSION (COMMISSIE VOOR HET BANK-EN FINANCIËWEZEN/COMMISSION BANCAIRE ET FINANCIERE) NOR HAS THIS INFORMATION MEMORANDUM BEEN OR WILL IT BE APPROVED BY THE BELGIAN BANKING AND FINANCE COMMISSION. THE SHARES SHALL NOT, WHETHER DIRECTLY OR INDIRECTLY, BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN BELGIUM, AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, TO ANY INVESTOR OTHER THAN (I) CREDIT INSTITUTIONS AND INVESTMENT FIRMS REFERRED TO IN ARTICLE 3.2, A) OF THE BELGIAN ROYAL DECREE OF JANUARY 9, 1991 ON THE PUBLIC CHARACTER OF TRANSACTIONS WHICH AIM TO SOLICIT PUBLIC SAVINGS AND THE ASSIMILATION OF CERTAIN TRANSACTIONS WITH A PUBLIC OFFER, (II) INSTITUTIONS FOR COLLECTIVE INVESTMENT REFERRED TO IN BOOK III OF THE BELGIAN ACT OF DECEMBER 4, 1990 ON THE FINANCIAL TRANSACTIONS AND THE FINANCIAL MARKETS, (III) INSURANCE COMPANIES REFERRED TO IN ARTICLE 2§1 OF THE BELGIAN ACT OF JULY 9, 1975 ON THE SUPERVISION OF INSURANCE COMPANIES AND (IV) PENSION FUNDS REFERRED TO IN ARTICLE 2§3, 6 OF THE BELGIAN ACT OF JULY 9, 1975 ON THE SUPERVISION OF INSURANCE COMPANIES IN THE BELGIAN ROYAL DECREE OF MAY 15, 1985 ON THE ACTIVITIES OF PRIVATE MUTUAL FUNDS, EACH ACTING ON THEIR OWN ACCOUNT IN RELIANCE ON ARTICLE 3.2 OF THE BELGIAN ROYAL DECREE OF JANUARY 9, 1991. THIS INFORMATION MEMORANDUM HAS BEEN DISTRIBUTED IN BELGIUM ONLY TO INVESTORS MENTIONED HERE ABOVE FOR THEIR PERSONAL USE AND EXCLUSIVELY FOR THE PURPOSES OF THE OFFERING OF SHARES. ACCORDINGLY, THIS INFORMATION MEMORANDUM MAY NOT BE USED FOR ANY OTHER PURPOSE NOR PASSED ON TO ANY OTHER PERSON IN BELGIUM.

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## BRAZIL

THE SHARES OFFERED HEREBY HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE COMISSAO DE VALORES MOBILIARIOS AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE A PUBLIC OFFERING OR DISTRIBUTION UNDER BRAZILIAN LAWS AND REGULATIONS.

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## BRITISH COLUMBIA AND ONTARIO, CANADA

THIS INFORMATION MEMORANDUM CONSTITUTES AN OFFERING OF THE SECURITIES DESCRIBED HEREIN ONLY IN THOSE JURISDICTIONS AND TO THOSE PERSONS WHERE AND TO WHOM THEY MAY BE LAWFULLY OFFERED FOR SALE, AND THEREIN ONLY BY PERSONS PERMITTED TO SELL SUCH SECURITIES. THIS INFORMATION MEMORANDUM IS NOT, AND UNDER NO CIRCUMSTANCES IS TO BE CONSTRUED AS, AN ADVERTISEMENT OR A PUBLIC OFFERING OF THE SECURITIES DESCRIBED HEREIN IN CANADA. NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS REVIEWED OR IN ANY WAY PASSED UPON THIS DOCUMENT OR THE MERITS OF THE SECURITIES DESCRIBED HEREIN, AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENSE.

IF THIS INFORMATION MEMORANDUM, TOGETHER WITH ANY AMENDMENT THERETO, CONTAINS AN UNTRUE STATEMENT OF A MATERIAL FACT

OR OMTS TO STATE A MATERIAL FACT THAT IS REQUIRED TO BE STATED OR IS NECESSARY IN ORDER TO MAKE ANY STATEMENT THEREIN NOT MISLEADING IN THE LIGHT OF THE CIRCUMSTANCES IN WHICH IT WAS MADE (HEREIN CALLED A “MISREPRESENTATION”) AND IT WAS A MISREPRESENTATION ON THE DATE OF PURCHASE, PURCHASERS IN BRITISH COLUMBIA AND ONTARIO TO WHOM THE INFORMATION MEMORANDUM WAS SENT OR DELIVERED AND WHO PURCHASE SHARES SHALL HAVE A RIGHT OF ACTION AGAINST THE FUND FOR RESCISSION (WHILE STILL THE OWNER OF SUCH SHARES) OR ALTERNATIVELY, FOR DAMAGES, EXERCISABLE ON WRITTEN NOTICE GIVEN NOT MORE THAN 90 DAYS SUBSEQUENT TO THE DATE OF PURCHASE, PROVIDED THAT THE FUND WILL NOT BE LIABLE:

- (A) IF THE PURCHASER PURCHASED SUCH SHARES WITH KNOWLEDGE OF THE MISREPRESENTATION;
- (B) FOR ALL OR ANY PORTION OF ANY DAMAGES THAT IT PROVES DO NOT REPRESENT THE DEPRECIATION IN VALUE OF SUCH SHARES AS A RESULT OF THE MISREPRESENTATION; AND
- (C) FOR AMOUNTS IN EXCESS OF THE PRICE AT WHICH SUCH SHARES WERE SOLD TO THE PURCHASER.

THE FOREGOING SUMMARY IS SUBJECT TO THE EXPRESS PROVISIONS OF EITHER THE SECURITIES ACT (BRITISH COLUMBIA) OR THE SECURITIES ACT (ONTARIO), WHICHEVER THE CASE MAY BE, AND SUCH REFERENCE IS MADE FOR THE COMPLETE TEXT OF SUCH PROVISION.

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#### CAYMAN ISLANDS

THE SHARES MAY NOT BE OFFERED TO THE PUBLIC IN THE CAYMAN ISLANDS, UNLESS THE FUND IS LISTED ON THE CAYMAN ISLANDS STOCK EXCHANGE.

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#### CHILE

THE SHARES OFFERED HEREBY HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE SUPERINTENDENCIA DE VALORES Y SEGUROS (THE “CHILEAN SECURITIES COMMISSION” OR SVS) AND MAY NOT BE OFFERED AND SOLD IN CHILE EXCEPT IN CIRCUMSTANCES WHICH DO NOT CONSTITUTE A PUBLIC OFFERING OR DISTRIBUTION UNDER CHILEAN LAWS AND REGULATIONS.

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#### CHINA

NO INVITATION TO OFFER FOR, OR OFFER FOR, OR SALE OF, THE SHARES SHALL BE MADE TO THE PUBLIC IN CHINA OR BY ANY MEANS THAT WOULD BE DEEMED PUBLIC UNDER THE LAWS OF CHINA. THE OFFER OF SHARES IS PERSONAL TO THE INVESTOR TO WHOM THE INFORMATION MEMORANDUM HAS BEEN ADDRESSED BY THE FUND. BUSINESS ENTITIES INCORPORATED UNDER THE LAWS OF CHINA (EXCLUDING FOREIGN INVESTMENT BUSINESS ENTITIES) SHALL APPLY FOR APPROVAL FROM THE CHINESE GOVERNMENT AUTHORITIES BEFORE PURCHASING THE SHARES. FURTHERMORE, ALL BUSINESS ENTITIES INCORPORATED UNDER THE LAWS OF CHINA AND CHINESE CITIZENS RESIDING

IN CHINA SHALL OBTAIN THE PRIOR APPROVAL FROM THE CHINESE FOREIGN EXCHANGE AUTHORITY BEFORE PURCHASING THE SHARES.

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FRANCE

THE SHARES OFFERED HEREBY DO NOT COMPLY WITH THE CONDITIONS IMPOSED BY FRENCH LAW FOR ISSUANCE, DISTRIBUTION, SALE, PUBLIC OFFERING, SOLICITATION AND ADVERTISING WITHIN FRANCE. THE DISTRIBUTION OF THIS INFORMATION MEMORANDUM AND THE OFFERING OF SHARES IN THE FUND IN FRANCE ARE THEREFORE RESTRICTED BY FRENCH LAW. PROSPECTIVE INVESTORS SHOULD INFORM THEMSELVES AS TO THE RESTRICTIONS WITH RESPECT TO THE MANNER IN WHICH THEY MAY DISPOSE OF THE SHARES IN FRANCE.

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GERMANY

ANY PERSON WHO IS IN POSSESSION OF THIS INFORMATION MEMORANDUM UNDERSTANDS THAT NO ACTION HAS OR WILL BE TAKEN WHICH WOULD ALLOW AN OFFERING OF SHARES TO THE PUBLIC IN GERMANY. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS PRIVATE INFORMATION MEMORANDUM NOR ANY OTHER OFFERING MATERIALS RELATING TO THE SHARES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN GERMANY. INDIVIDUAL SALES OF THE SHARES TO ANY PERSON IN GERMANY MAY ONLY BE MADE ACCORDING TO GERMAN SECURITIES, TAX AND OTHER APPLICABLE LAWS AND REGULATIONS.

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GREECE

THE SHARES MAY NOT BE OFFERED OR SOLD IN ANY MANNER THAT CONSTITUTES AN OFFER OR SALE TO THE PUBLIC IN THE HELLENIC REPUBLIC WITHIN THE LAWS AND REGULATIONS FROM TIME TO TIME APPLICABLE TO PUBLIC OFFERS OR SALES OF SECURITIES.

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HONG KONG

THIS INFORMATION MEMORANDUM RELATES TO A PRIVATE PLACEMENT AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN HONG KONG TO SUBSCRIBE FOR SHARES. NO STEPS HAVE BEEN TAKEN TO REGISTER THIS INFORMATION MEMORANDUM AS A PROSPECTUS IN HONG KONG.

THE OFFER OF THE SHARES IS PERSONAL TO THE PERSON TO WHOM THIS INFORMATION MEMORANDUM HAS BEEN DELIVERED BY OR ON BEHALF OF THE FUND, AND A SUBSCRIPTION FOR SHARES WILL ONLY BE ACCEPTED FROM SUCH PERSON FOR SUCH MINIMUM AMOUNT OF SHARES AS DESCRIBED IN THIS INFORMATION MEMORANDUM. IT IS A CONDITION OF THE OFFER THAT EACH PERSON WHO AGREES TO SUBSCRIBE FOR SHARES PROVIDES A WRITTEN UNDERTAKING THAT IT IS ACQUIRING SUCH SHARES FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO DISTRIBUTE OR RESELL SUCH SHARES AND THAT IT WILL NOT OFFER FOR SALE, RESELL OR OTHERWISE DISTRIBUTE OR AGREE TO DISTRIBUTE SUCH SHARES WITHIN SIX MONTHS FROM THEIR DATE OF SALE TO SUCH PERSON.



## IRELAND

FOR IRISH PROSPECTIVE SHAREHOLDERS: THIS INFORMATION MEMORANDUM IS NOT A PROSPECTUS AND DOES NOT CONSTITUTE OR FORM PART OF ANY OFFER OR INVITATION TO THE PUBLIC TO SUBSCRIBE FOR OR PURCHASE SHARES IN THE FUND AND SHALL NOT BE CONSTRUED AS SUCH AND NO PERSON OTHER THAN THE PERSON TO WHOM THIS INFORMATION MEMORANDUM HAS BEEN ADDRESSED OR DELIVERED SHALL BE ELIGIBLE TO SUBSCRIBE FOR OR PURCHASE SHARES IN THE FUND.

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## ISRAEL

ISRAELI RESIDENTS, OTHER THAN THOSE CONSIDERED “EXEMPTION HOLDERS” UNDER THE GENERAL CURRENCY CONTROL PERMIT, 1978, REQUIRE A SPECIAL PERMIT FROM THE ISRAELI CONTROLLER OF FOREIGN CURRENCY IN ORDER TO PURCHASE THE SHARES. THE SHARES ARE OFFERED TO A LIMITED NUMBER OF SOPHISTICATED INVESTORS, IN ALL CASES UNDER CIRCUMSTANCES DESIGNED TO PRECLUDE A DISTRIBUTION WHICH WOULD BE OTHER THAN A PRIVATE PLACEMENT. THE INFORMATION MEMORANDUM MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE, NOR BE FURNISHED TO ANY OTHER PERSON THAN THOSE TO WHOM COPIES HAVE BEEN SENT.

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## ITALY

THIS PRIVATE INFORMATION MEMORANDUM IS SOLELY INTENDED FOR THE INDIVIDUALS TO WHOM IT IS DELIVERED AND MAY NOT BE CONSIDERED OR USED AS A PUBLIC OFFERING IN THE MEANING OF AND FOR THE PURPOSE OF THE ART 1/18 TER L.N. 216/74.

IN ADDITION, ANY PERSON WHO IS IN POSSESSION OF THIS INFORMATION MEMORANDUM UNDERSTANDS THAT NO ACTION HAS OR WILL BE TAKEN THAT WOULD ALLOW AN OFFERING OF THE SHARES TO THE PUBLIC IN ITALY. ACCORDINGLY, THE SHARES MAY NOT BE OFFERED, SOLD OR DELIVERED AND NEITHER THIS PRIVATE INFORMATION MEMORANDUM NOR ANY OTHER OFFERING MATERIALS RELATING TO THE SHARES MAY BE DISTRIBUTED OR MADE AVAILABLE TO THE PUBLIC IN ITALY. INDIVIDUALS SALES OF THE SHARES TO ANY PERSON IN ITALY MAY ONLY BE MADE ACCORDING TO ITALIAN SECURITIES, TAX AND OTHER APPLICABLE LAWS AND REGULATIONS.

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## JAPAN

UNDER ARTICLE 23-14 PARAGRAPH 1 OF THE SECURITIES EXCHANGE LAW (THE “SEL”), THE PURCHASE OF SHARES CANNOT BE MADE UNLESS THE PURCHASER AGREES TO THE CONDITION THAT IT WILL NOT MAKE AN ASSIGNMENT OF THE SHARES TO ANY PERSON OTHER THAN A NON-RESIDENT OF JAPAN (HAVING THE SAME MEANINGS AS DEFINED IN ARTICLE 6, PARAGRAPH 1(6) OF THE FOREIGN EXCHANGE AND FOREIGN TRADE CONTROL LAWS), EXCEPT FOR THE CASE THAT ALL THE SHARES (EXCLUDING THE SHARES ASSIGNED TO NON-RESIDENTS OF JAPAN) ARE ASSIGNED TO ONE PERSON. FURTHERMORE, DISCLOSURE UNDER THE SEL HAS NOT BEEN MADE.

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## SOUTH KOREA

THIS INFORMATION MEMORANDUM IS NOT, AND UNDER NO CIRCUMSTANCE IS TO BE CONSTRUED AS, A PUBLIC OFFERING OF SECURITIES IN KOREA. NEITHER THE FUND NOR THE INVESTMENT MANAGER ARE MAKING ANY REPRESENTATION WITH RESPECT TO THE ELIGIBILITY OF ANY RECIPIENTS OF THIS INFORMATION MEMORANDUM TO ACQUIRE THE SHARES UNDER THE LAWS OF KOREA, INCLUDING BUT WITHOUT LIMITATION THE FOREIGN EXCHANGE MANAGEMENT ACT AND REGULATIONS THEREUNDER. THE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES AND EXCHANGE ACT OF KOREA AND NONE OF THE SHARES MAY BE OFFERED, SOLD OR DELIVERED, OR OFFERED OR SOLD TO ANY PERSON FOR RE-OFFERING OR RESALE, IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT PURSUANT TO APPLICABLE LAWS AND REGULATIONS OF KOREA.

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LIECHTENSTEIN

FOR PROSPECTIVE SHAREHOLDERS OF LIECHTENSTEIN: THE SHARES ARE OFFERED TO A NARROWLY DEFINED CATEGORY OF INVESTORS, IN ALL CASES UNDER CIRCUMSTANCES DESIGNED TO PRECLUDE A PUBLIC SOLICITATION. THE INFORMATION MEMORANDUM MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE, NOR BE FURNISHED TO ANY OTHER PERSON OTHER THAN THOSE TO WHOM COPIES HAVE BEEN SENT.

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LUXEMBOURG

FOR PROSPECTIVE SHAREHOLDERS OF LUXEMBOURG: THE SHARES ARE OFFERED TO A LIMITED NUMBER OF SOPHISTICATED INVESTORS, IN ALL CASES UNDER CIRCUMSTANCES DESIGNED TO PRECLUDE A DISTRIBUTION WHICH WOULD BE OTHER THAN A PRIVATE PLACEMENT. THE INFORMATION MEMORANDUM MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE, NOR BE FURNISHED TO ANY OTHER PERSON OTHER THAN THOSE TO WHOM COPIES HAVE BEEN SENT.

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THE NETHERLANDS

THE SHARES WILL NOT BE OFFERED, TRANSFERRED OR SOLD, WHETHER DIRECTLY OR INDIRECTLY, TO ANY INDIVIDUAL OR LEGAL ENTITY IN THE NETHERLANDS, AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, OTHER THAN TO INDIVIDUALS OR LEGAL ENTITIES WHO OR WHICH TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF THEIR PROFESSION OR TRADE (WHICH INCLUDES BANKS, BROKERS, DEALERS, INSURANCE COMPANIES, PENSION FUNDS, OTHER INSTITUTIONAL INVESTORS AND COMMERCIAL ENTERPRISES WHICH REGULARLY, AS AN ANCILLARY ACTIVITY, INVEST IN SECURITIES).

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NEW ZEALAND

THIS INFORMATION MEMORANDUM HAS BEEN PREPARED SOLELY FOR AND THE OFFER MADE IN IT IS MADE SOLELY TO HABITUAL INVESTORS (BEING PERSONS DEFINED IN SECTION 3(2)(A)(II) OF THE NEW ZEALAND SECURITIES ACT 1978).

#### NORWAY

THIS INFORMATION MEMORANDUM HAS NOT BEEN FILED WITH THE OSLO STOCK EXCHANGE IN ACCORDANCE WITH THE NORWEGIAN SECURITIES TRADING ACT, SECTION 5-1, AND MAY THEREFORE NOT BE DISTRIBUTED TO MORE THAN FIFTY POTENTIAL INVESTORS IN NORWAY.

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#### THE RUSSIAN FEDERATION

THE SHARES ARE NOT INTENDED TO BE SOLD OR OFFERED IN (OR ON THE TERRITORY OF) THE RUSSIAN FEDERATION OR TO RUSSIAN RESIDENTS AND THIS INFORMATION MEMORANDUM HAS NOT BEEN REGISTERED WITH, AND WILL NOT BE REGISTERED WITH, THE FEDERAL SECURITIES MARKET'S COMMISSION OF THE RUSSIAN FEDERATION.

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#### SINGAPORE

THIS INFORMATION MEMORANDUM HAS NOT BEEN REGISTERED WITH THE REGISTRAR OF COMPANIES IN SINGAPORE AND THE SHARES WILL BE OFFERED IN SINGAPORE PURSUANT TO AN EXEMPTION INVOKED UNDER SECTIONS 106C AND 106D OF THE COMPANIES ACT, CHAPTER 50 OF SINGAPORE ("COMPANIES ACT"). ACCORDINGLY, THE SHARES MAY NOT BE OFFERED OR SOLD, NOR MAY THIS INFORMATION MEMORANDUM OR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE SHARES BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC OTHER THAN (1) TO AN INSTITUTIONAL INVESTOR OR OTHER BODY OR PERSON SPECIFIED IN SECTION 106C OF THE COMPANIES ACT, OR (2) TO A SOPHISTICATED INVESTOR SPECIFIED IN SECTION 106D OF THE COMPANIES ACT, OR (3) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, SECTION 106E(2) OF THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT.

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#### SOUTH AFRICA

THE SHARES OFFERED HEREIN ARE FOR YOUR ACCEPTANCE ONLY AND MAY NOT BE OFFERED OR BECOME AVAILABLE TO PERSONS OTHER THAN YOURSELF AND MAY NOT BE PUBLICLY OFFERED, SOLD OR ADVERTISED IN SOUTH AFRICA AND THIS INFORMATION MEMORANDUM MAY ONLY BE CIRCULATED TO SELECTED INDIVIDUALS.

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#### SWITZERLAND

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#### UNITED KINGDOM

THIS DOCUMENT IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "ORDER") OR (III) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER OR (IV) OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED UNDER THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THE SHARES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SHARES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

ANY PLACEMENT AGENT ACTING ON BEHALF OF THE FUND HAS REPRESENTED AND AGREED THAT:

(A) IT HAS ONLY COMMUNICATED OR CAUSED TO BE COMMUNICATED AND WILL ONLY COMMUNICATE OR CAUSE TO BE COMMUNICATED AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE "FSMA")) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE SHARES IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE FUND; AND

(B) IT HAS COMPLIED AND WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO THE SHARES IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM.

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**INVESTMENTS BY U.S. INVESTORS:**

THIS MEMORANDUM HAS NOT BEEN FILED WITH OR REVIEWED BY THE SEC OR ANY STATE SECURITIES COMMISSION. NEITHER THE SEC NOR ANY STATE OR FEDERAL GOVERNMENTAL AGENCY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

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US INVESTORS THAT ARE SUBJECT TO U.S. FEDERAL INCOME TAXATION WILL BE SUBJECT TO THE SO-CALLED "EXCESS DISTRIBUTION" REGIME THAT IS APPLICABLE TO PASSIVE FOREIGN INVESTMENT COMPANIES, WITH THE

RESULT THAT SUCH PERSONS MAY HAVE SERIOUS AND UNUSUAL TAX CONSEQUENCES BY REASON OF AN INVESTMENT IN THE FUND. SEE “*CERTAIN TAX CONSIDERATIONS – CERTAIN U.S. INCOME TAX CONSIDERATIONS– TAXATION OF U.S.TAXABLE INVESTORS – PASSIVE FOREIGN INVESTMENT COMPANY*”.

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**NOTICE TO FLORIDA PURCHASERS:**

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE FLORIDA SECURITIES ACT IN RELIANCE UPON AN EXEMPTION THEREFROM. ANY SALE MADE PURSUANT TO SUCH EXEMPTION IS VOIDABLE BY A FLORIDA PURCHASER WITHIN THREE (3) DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY SUCH PURCHASER TO THE ISSUER, AN AGENT OF THE ISSUER OR AN ESCROW AGENT, OR WITHIN THREE (3) DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO THE PURCHASER, WHICHEVER OCCURS LATER.

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ALL REFERENCES HEREIN TO “DOLLARS” AND “\$” ARE TO UNITED STATES DOLLARS.

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## FUND DIRECTORY

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## SUMMARY

*This summary of certain provisions of this Information Memorandum (“Memorandum”) is intended only for quick reference, is neither complete nor exact and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this Memorandum and the documents attached hereto. Certain provisions of the Memorandum and Articles of Association of the Fund and other documents are summarized in this Memorandum, but it should not be assumed that the summaries are complete and such summaries are qualified in their entirety by the contents of the documents which they purport to summarize.*

### **The Fund**

Tera Capital Fund is an open-end investment company organized as an exempted company limited by shares, with limited liability, under the laws of the Cayman Islands. The Fund was incorporated on January 17, 2005 and made its first investment on April 28, 2005.

### **Investment Manager**

Altima Asset Management, an asset management company organized as an exempted company limited by shares, with limited liability, under the laws of the Cayman Islands, with its principal office in Moscow, Russia and its registered office at the offices of M&C Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, serves as investment manager to the Fund. The Investment Manager has been granted full discretionary authority and responsibility to implement the investment objectives of the Fund and to manage the assets of the Fund pursuant to the Investment Manager Agreement. Alexander Polykovskiy and Timothy Enneking serve as the principals of the Investment Manager as well as the only members of the Board of Directors of the Fund. As such, Messrs. Polykovskiy and Enneking are the individuals primarily responsible for directing the investment of the Fund’s assets.

### **Other Managed Funds and Accounts**

The Investment Manager, any of its principals, and their respective affiliates may serve as investment managers or advisors to other investment funds and managed accounts in the future, certain of which may employ investment strategies that are substantially similar to the investment strategy employed by the Fund. See “*Risk Factors – Conflicts of Interest*”.

### **The Offering**

The Fund is authorized to issue 5,000,000 common shares, which are divided into 100 non-participating voting common shares, U.S.\$0.01 par value (each, a “Management Share”) and 4,999,900 Redeemable, Participating, Non-Voting undesignated Common Shares, U.S.\$0.01 par value, to be issued in such classes or series as the Board of Directors of the Fund may determine. As of November 30, 2007, the Board of Directors of the Fund has issued 9,464.5 shares of Redeemable, Participating, Non-Voting Common Shares, U.S.\$0.01 par value, designated as Class A Common Shares (the “Shares” or “Common Shares”). Shares of a class issued from time to time may be denominated as separate series of such class for purposes of accruing the Performance Fee (as defined herein) applicable to such Shares (or for other purposes in the Fund’s discretion). The Fund may issue

fractional Shares under certain circumstances. See “*Description of Common Shares*”.

#### **Offering Price**

Subscriptions for Shares are being offered at a price per Share equal to the Net Asset Value (as defined herein) per Share. Thereafter, Shares may be subscribed for as of the first Business Day of a calendar month (or at such other time as the Fund may determine), at each issue date, at a price per Share equal to the Net Asset Value per Share as of the last day of the prior calendar month, subject to any sales or subscription charges. See “*Offering Price*”.

#### **Subscription for Common Shares**

The minimum initial subscription by a shareholder is U.S.\$10,000. A sales charge of two percent (2%) of the subscription amount may be payable upon subscription of the Shares. An existing shareholder may purchase additional Common Shares on the first Business Day of any month (or at other times, in the discretion of the Fund). See “*Offering Price*”. The Fund reserves the right to reject a subscription, or any portion thereof, or to terminate the offering of Common Shares at any time. See “*Subscription for Common Shares*”.

A duly completed Subscription Agreement must be received by the Administrator (as defined below) not less than five (5) business days prior to the desired purchase date for Common Shares, first by facsimile with the original to follow by courier, together with subscription funds delivered by wire transfer received by the Administrator not less than two (2) business days prior to the desired purchase date for Common Shares, unless other payment arrangements are expressly accepted by the Fund. See “*Subscription for Common Shares*”.

#### **Eligible Investors**

The Common Shares will be offered from time to time on a private basis only to a select number of institutional and individual investors that meet applicable regulatory requirements. Any investor who is a U.S. Person must be an “accredited investor”, as defined in SEC Regulation D promulgated under the Securities Act; and a “qualified purchaser” as defined in the Investment Company Act. See “*Eligible Investors*”.

**Investment Objective and Strategy**

The Fund operates as an open-end investment company with the investment objective of achieving long-term capital growth through investments in other investment funds that are based in, or invest in assets located in, primarily Russia and the Ukraine. The Fund may also invest in investment funds that are based, or invest, in the other CIS Countries and Eastern Europe. The Fund employs a “multi-manager”, (i.e., fund of funds) investment approach pursuant to which the Fund maintains investments in Portfolio Funds that are managed by other Portfolio Fund Managers. See “*Investment Objective and Strategy*”. An investment in the Fund involves significant risks. There is no assurance that the Fund will achieve its investment objective or be profitable. See “*Risk Factors*”.

**Risk Factors**

An investment in the Common Shares is subject to various risks, including, without limitation, risks relating to the limited operating history of the Fund, the concentration of the Fund’s assets in a limited number of Portfolio Funds, the Fund’s investment strategy, the use of certain investment techniques, certain conflicts of interest and the illiquid nature of the Common Shares. There can be no assurance that the Fund will be profitable or that it will not incur losses. See “*Risk Factors*”.

**Performance Fee**

The Investment Manager will receive an annual Performance Fee equal to twenty percent (20%) of the increase in the Net Asset Value of each Share over the Net Asset Value per Share of the Fund during each year. No Performance Fee with respect to a Share will be due, however, as to a Net Asset Value increase with respect to such Share unless, and only to the extent that, such increase in Net Asset Value on the date of valuation exceeds the lesser of the Net Asset Value per Share at the time of subscription for such Share or the Net Asset Value per Share at the time the last Performance Fee was assessed against such Share. See “*Fees and Expenses – Performance Fee*”.

**Management Fee**

The Investment Manager will not receive a separate management fee for the management and administrative services it provides to the Fund.

**Redemption of Common Shares**

A holder of Common Shares has the right to redeem each month all or any part of such Common Shares on a Redemption Date, at a redemption price equal to the Net Asset Value per Share as of the close of business on the Redemption Date, after giving effect to certain adjustments. A redemption request, specifying the desired Redemption Date, must be received in writing by the Administrator at least thirty (30) days prior to the Redemption Date. Subject to the receipt of the original redemption request by the Administrator, payment for Common Shares so redeemed shall be made not later than thirty (30) days following the Redemption Date; except that the Board of Directors may elect in their sole discretion to make payment with respect to 90% of the value of the Common Shares so redeemed no later than thirty (30) days following such Redemption Date, with the balance paid within ninety (90) days after the Redemption Date. No

interest will be paid on any redemption amounts from the Redemption Date to the date of full payment. The Fund may settle any redemptions in kind.

Redemptions by a shareholder prior to six months from the date of his initial purchase of Common Shares will be subject to an early redemption fee equal to 5% of the amount redeemed, which fee shall be deducted from the redemption payment and shall be payable to the Fund.

A redemption of a portion of a holder's Common Shares will only be permitted if (i) such Common Shares being redeemed have a total net asset value of not less than U.S. \$5,000; and (ii) immediately after such redemption, the aggregate Net Asset Value of the remaining Common Shares owned by the holder is at least equal to the lesser of the total Net Asset Value of the holder's Common Shares at the time of purchase or U.S.\$10,000, unless such restrictions are waived by the Fund's directors in their discretion.

The Fund has the right to redeem Common Shares at any time, for any reason. See "*Redemption of Common Shares*".

#### **Administrator**

Maples Finance Limited, a licensed trust company and mutual fund administrator headquartered in the Cayman Islands, is the administrator of the Fund (the "Administrator"). Maples Finance Limited is wholly owned by Maples and Calder, the Fund's Cayman Islands legal counsel. The Fund may change administrators to another administrator licensed under Cayman law or discontinue the use of an administrator, if permitted by Cayman law. See "*Agents of the Fund – Administrator*".

#### **Dividends**

In view of the investment objective of the Fund, it is the present policy of the Fund to reinvest any dividends or other income it receives. Accordingly, shareholders are unlikely to receive current income on their Common Shares.

#### **Valuation of Assets**

The Fund calculates the value of the Fund's assets no less frequently than monthly, in accordance with the guidelines set forth in "*Calculation of Net Asset Value Per Share*".

#### **Tax Considerations**

The Fund has been advised by its Cayman Islands counsel, Maples and Calder, that there are at present no corporation, income, capital gains, profits or other income taxes in the Cayman Islands that would apply to the Fund or its shareholders. Based on the Fund's organizational structure, anticipated methods of operation and features as described herein, the Fund generally should not be subject to U.S. federal income tax (other than a 30% tax on certain types of income from U.S. sources, including, primarily, dividends and certain interest income, which tax is generally withheld by the U.S. payor of such income). Shareholders of the Fund who are not otherwise subject to U.S. taxation should not become subject to any such taxation by reason of their investment in Shares of the Fund. Distributions made by the Fund (including distributions made in redemption of Shares) to U.S. tax-exempt investors should not constitute unrelated business taxable income to

such investors provided that they have not incurred indebtedness to acquire Shares of the Fund.

**US investors that are subject to U.S. federal income taxation will be subject to the so-called “excess distribution” regime that is applicable to passive foreign investment companies, with the result that such persons may have serious and unusual tax consequences by reason of an investment in the Fund.**

Potential shareholders should consult their own advisors regarding tax treatment by the jurisdiction applicable to them. Shareholders should rely only upon advice received from their own tax advisors based upon their own individual circumstances and the laws applicable to them.

**Operating Expenses**

All fees and expenses (including, without limitation, any brokerage costs payable on the purchase or sale of investments, interest on borrowings and fees in respect thereof, statutory or government fees, annual registration fees, service provider fees, costs associated with the preparation and distribution of the financial statements of the Fund and any other general operating and administrative costs and expenses) will be borne by the Fund.

**Fiscal Year**

The fiscal year of the Fund is the calendar year, subject to change in the discretion of the directors of the Fund.

**Auditors**

The Fund has retained McGladrey & Pullen, Cayman to serve as the Fund’s independent certified public accountants. Such firm will audit the financial statements of the Fund, in accordance with generally accepted accounting principles, for each fiscal year of the Fund. The Directors of the Fund have the right to change the auditing and accounting firms for the Fund.

**Distribution Arrangements**

The Investment Manager may utilize third parties to assist in the solicitation of new investors in the Fund. Unless a selling commission is expressly agreed to by an investor, any fees paid to such parties for such services will be borne by the Investment Manager and will not reduce the investment of any purchaser of Shares. All subscribed funds will be invested in the Fund.

**Additional Information**

Prospective shareholders are invited to meet with representatives of the Investment Manager for a further explanation of the terms and conditions of this offering of Common Shares and to obtain any additional information necessary to verify the information contained in this Memorandum, to the extent the Investment Manager possesses such information or can acquire it without unreasonable effort or expense.

## THE FUND

Tera Capital Fund (the “Fund”) has been organized under the laws of the Cayman Islands as an exempted company limited by shares, with limited liability. The Fund is regulated as an administered mutual fund under Section 4(1) of the Mutual Funds Law (2009 Revision) of the Cayman Islands (the “Funds Law”). The Fund is constituted for an indefinite period. The Fund’s registered office in the Cayman Islands is situate at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The rights and obligations of shareholders of the Fund are determined by its Memorandum of Association and Articles of Association, as filed with the Registrar of Companies, Cayman Islands. The Fund’s Board of Directors has the authority to create new classes, series or sub-series of Common Shares of the Fund with different rights and restrictions than those currently offered by the Fund.

The investment manager to the Fund is Altima Asset Management (the “Investment Manager”). The Investment Manager has been granted full discretionary authority and responsibility to implement the investment objectives of the Fund and to manage the assets of the Fund pursuant to an amended and restated management agreement, dated as of December 1, 2007, by and between the Fund and the Investment Manager (the “Investment Manager Agreement”). Alexander Polykovskiy and Timothy Enneking serve as the principals of the Investment Manager as well as the only members of the Board of Directors of the Fund. As such, Messrs. Polykovskiy and Enneking are the individuals primarily responsible for directing the investment of the Fund’s assets. See “*The Investment Manager*”.

## INVESTMENT OBJECTIVE AND STRATEGY

### General

The Fund operates as an open-end investment company with the investment objective of achieving long-term capital growth through investments in other investment funds that are based in, or invest in assets located in, primarily in Russia, the Ukraine, other member countries of the Commonwealth of Independent States (consisting of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan, all member nations, collectively, the “CIS Countries”) and Eastern Europe (including Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Montenegro, Poland, Romania, Slovakia, Slovenia, and Serbia). The Fund may also invest a small percentage of its assets in other developing markets outside of the above regions. The Fund employs a “multi-manager”, (i.e., fund of funds) investment approach pursuant to which the Fund maintains investments in investment funds or discretionary accounts (“Portfolio Funds”) that are managed by other investment managers (“Portfolio Fund Managers”). Once selected, Portfolio Fund Managers will be monitored by the Investment Managers on an ongoing basis and investment allocations will be adjusted as deemed appropriate by the Investment Manager. The Fund may utilize leverage on a moderate to extensive basis, and Portfolio Fund Managers and Portfolio Funds may utilize leverage to varying degrees, in each case for the purpose of increasing the amount of capital available for investment or for liquidity purposes. The Fund may, from time to time, utilize the services of one or more consulting firms to provide research, investment data and portfolio management services to the Fund.

The Investment Manager may also elect to manage directly any portion of the Fund’s capital; direct investments may include, without limitation, publicly-traded securities; securities lacking a ready market or whose public resale is subject to legal restrictions (“restricted securities”); and debt or equity securities issued by Portfolio Fund Managers.



The Portfolio Funds should generally be considered medium to long-term commitments. Many of the Fund's investments may be in private investment funds that permit only quarterly or annual redemptions by investors, including the Fund. The Investment Manager will monitor the performance of existing Portfolio Fund Managers on an ongoing basis as well as seek to identify suitable new Portfolio Fund Managers and disciplines to be incorporated into the Fund's portfolio.

The Fund may periodically maintain all or a portion of its assets in money market instruments and other cash equivalents and may not be fully invested at all times.

### **Multi-Manager, Multi-Strategy Approach**

The Investment Manager invests the Fund's assets with a limited number of Portfolio Fund Managers in order to provide a diversity of investment techniques, strategies, asset classes and markets. This approach, which is referred to as a "multi-manager" (i.e., fund of funds) or "multi-strategy" approach, allows an investor in the Fund to have access to the talents of certain Portfolio Fund Managers with an investment that is generally smaller than the minimum amounts required to invest directly with the Portfolio Fund Managers. The Investment Manager seeks the most effective combination of Portfolio Funds and Portfolio Fund Managers utilizing this approach based upon the following principles:

- The Investment Manager allocates assets to various Portfolio Fund Managers after monitoring their performance and market conditions to maximize effectiveness. After an investment is made, the Portfolio Fund Managers are monitored on an ongoing basis by the Investment Manager, with the assistance of any consultants retained by or on behalf of the Fund.
- The Investment Manager allocates assets to best complement investment performance patterns and current market environment relative to each Portfolio Fund Manager. This approach is intended to achieve low volatility of the Fund as a whole, as well as low correlation to any particular asset class or the market generally.

Presently, the Investment Manager, when selecting a Portfolio Fund Manager, will also look for Portfolio Fund Managers that invest in those CIS Countries and Eastern European countries that exhibit all or most of the following characteristics:

- Active pursuit of macro-economic reform policies.
- Significant progress towards privatization.
- Policies that promote foreign direct investment.
- Political stability.

Based on these characteristics, investments in Russia, the Ukraine and Kazakhstan currently represent a majority of the Fund's investments and the Investment Manager presently expects that it will continue to invest the majority of the Fund's assets in Portfolio Funds that invest in such countries.

### **Selection of Portfolio Fund Managers**

The allocation of the Fund's assets among Portfolio Fund Managers at a given time is made on the basis of a number of factors, including the following:

- The size of the Fund at the time.

- The performance of the Portfolio Fund Managers.
- The investment philosophies of the Portfolio Fund Managers.
- Existing and anticipated economic and market conditions.
- The ability of the Portfolio Fund Managers to manage additional assets, and the amount of purchases and redemptions of Shares of the Fund at the time.

The Investment Manager may change the percentage of the Fund's assets allocated to particular Portfolio Fund Managers, or change Portfolio Fund Managers entirely, where alternative investment styles or strategies offer the potential for superior returns, or conversely, when the Investment Manager concludes that a style or strategy of a particular Portfolio Fund Manager has underperformed, or is likely to underperform, the overall market for a given period.

The Fund selects Portfolio Funds that it believes have stable management teams with experience in their particular market, that are generally well known to the Investment Manager, and that invest only in publicly traded securities that have sufficient trading volume to ensure reasonable liquidity. In particular, the fund bases its criterion on:

- The perceived ability of such Portfolio Fund Managers to manage and control risk;
- The diversification of the Portfolio Funds in terms of market capitalization emphasis, sector focus and fund size;
- The access of such Portfolio Fund Managers to information regarding their underlying investments, general economic prospects (with respect to Portfolio Funds based in Russia or invested in Russian companies) or any other developments that may affect such Portfolio Funds;
- The quality of reporting and investor relations of the Portfolio Funds;
- The sustained rate of return of the Portfolio Funds;
- The fee structures of, and other differences among, the Portfolio Funds; and
- A short or non-existent "lock-up" period.

The number of Portfolio Funds that the Fund invests in is, and will remain, small (generally, five to eight Portfolio Funds), which the Investment Manager believes maximizes the impact of a successful performance by any single Portfolio Fund. In addition, the Portfolio Funds that the Fund invests in generally follow the same strategy of avoiding over-diversification, and typically take significant positions in their portfolio companies. See "*Risk Factors – Risks Relating to Investment Strategy – Use of Multi-Manager Approach – Strategic and Portfolio Fund Manager Concentration.*"

The Fund will generally employ a Portfolio Fund Manager by investing in a pooled investment vehicle that is sponsored or managed by a Portfolio Fund Manager. The Fund may also employ a Portfolio Manager by entering into an agreement with a Portfolio Fund Manager under which the Portfolio Fund Manager will be given discretionary authority to manage a portion of the Fund's assets (such agreements and vehicles being referred to herein as "Portfolio Funds"). The determination whether to employ a discretionary account or investment vehicle with respect to a particular Portfolio Fund Manager is

generally made on an assessment of which form of relationship is expected to be more favorable to the Fund and the shareholders.

In addition to direct allocations of Fund assets to Portfolio Fund Managers, a portion of the Fund's assets may be allocated to participate in "multi-manager" or "multi-strategy" pooled investment products established by third-parties and managed by third-party Portfolio Fund Managers. Once allocated to such investment products, the Fund assets will generally be further allocated by the third-party Portfolio Fund Manager to one or more Portfolio Funds identified and selected by the Portfolio Fund Manager.

### **Direct Management of Fund Assets by Investment Manager**

The Investment Manager may manage directly a portion of the Fund's capital; direct investments may include, without limitation, publicly-traded securities, restricted securities and securities issued in PIPE transactions. In this connection, the Investment Manager may invest a portion of the Fund's capital, directly or indirectly, in any debt or equity securities issued by Portfolio Fund Managers regardless of whether a portion of the Fund's capital has been allocated to such Managers. In addition, the Investment Manager may cause the Fund to serve, directly or indirectly, as an "initial investor" in a newly-formed or smaller Portfolio Fund in exchange for such consideration with respect to the Manager of such Portfolio Fund as the Investment Manager deems appropriate (including, without limitation, an equity interest in such Manager and/or the right to receive a portion of any fees associated with the management of such Portfolio Fund). In determining what portion of assets to manage directly, the Investment Manager will take into account, among other factors, the strategies employed by other Portfolio Fund Managers, the attractiveness of investment opportunities known to the Investment Manager, the relative terms available for investment and the level of risk relative to potential return.

### **Manager Diversification**

The Investment Manager attempts to select Portfolio Fund Managers that offer a variety of different skills in an effort to preserve capital while providing opportunities for long-term capital appreciation and to achieve complimentary diversification by style and strategy, however, diversification is limited by the relatively small number of Portfolio Funds that the Fund invests in at any given time. Nevertheless, the investment styles, policies and approaches of the Portfolio Fund Managers selected by the Investment Manager are likely to vary, perhaps significantly. Once a Portfolio Fund Manager is selected with an investment strategy and style consistent with the Fund's investment objective, no fixed restrictions will be imposed by the Fund or the Investment Manager on the specific portfolio investments activities of such Portfolio Fund Manager or the related Portfolio Fund. In general, Portfolio Funds will be relatively concentrated and the Investment Manager will not be required to rebalance allocations among Managers following initial allocations except as it may in its discretion deem appropriate.

### **Illustrative Investment Strategies of Portfolio Fund Managers**

*Strategies Generally.* There are no predetermined fixed compositions or limitations on the types of investment strategies that Portfolio Fund Managers selected for the Fund may employ. Investment strategies employed may include, but will not be limited to, the following:

#### **Equity Strategies**

*Long-Short Strategies.* Portfolio Fund Managers may employ so-called long-short strategies, where the portfolio will have both long and short positions, which can be weighted toward the long side ("net long") or short side ("net short") or have varying approaches to being relatively balanced long and short, whether in terms of capital invested, directional exposure or exposure adjusted for volatility or other factors.

*Long-Biased/Long-Only Strategies.* Portfolio Fund Managers may focus primarily on “long-biased” and/or “long-only” investment strategies (*i.e.*, strategies in which the value of the long portfolio exceeds the value of the short portfolio or the portfolio contains only long positions, respectively). Long-biased and long-only investment strategies may include, without limitation, value, deep value, activist, strategic block and distressed equity or debt investment strategies.

*Opportunistic Equity Trading.* Portfolio Fund Managers may purchase and, after a short time, sell common stocks and stock options based largely on expectations of specific price movements and overall market trends. This strategy may also include purchasing preferred stocks, debt securities and short-term, money-market instruments.

*Short Selling.* Some Portfolio Fund Managers may emphasize short selling, beyond the level employed as part of a hedging strategy. Short-selling involves selling securities prior to their purchase by borrowing them from a broker in anticipation of being able subsequently to repurchase the securities at a lower price and cover one’s position. Short positions may be taken in securities that are identified as being overvalued, frequently in companies with questionable accounting, questionable management or serious threats to their continued viability as going concerns.

*Private Placements.* Some Portfolio Fund Managers may invest a portion of their capital in the form of private placements, consisting of restricted securities of non-public or public companies. Such companies are typically, although not always, speculative or developmental stage firms. Private placement investment strategies may also involve investments with ready exit strategies (such as immediate registration rights) or positions paired with marketable positions in other securities of the same issuer.

### **Futures Strategies**

*Investment strategies that involve speculative trading in futures contracts, options on futures contracts, swaps and forward contracts.* Portfolio Fund Managers may trade portfolios of instruments in an effort to actively profit from anticipated trends in market prices and to capture passive risk premiums. Portfolio Fund Managers may rely on either technical or fundamental analysis or a combination thereof in making trading decisions and attempting to identify price trends. Portfolio Fund portfolios may trade in a variety of futures markets including, without limitation, stock index, interest rate, metals, energy and/or agricultural futures markets.

### **Currency Strategies**

*Investment strategies that involve speculative trading in currencies, primarily through investing and trading in spot, forward, and over-the-counter option contracts on currencies.* Futures, swaps, options and other instruments may also be utilized. A Portfolio Fund may engage in spot and interbank forward contracts and over-the-counter futures and options transactions with counterparties meeting credit quality criteria deemed satisfactory by its Portfolio Fund Manager. Such transactions are unlikely to be effected on a regulated exchange or market but will be effected directly with counterparties. Portfolio Fund Managers may engage in currency trading with respect to any currency or combination of currencies deemed appropriate by them, without limitation.

### **International/Global Strategies**

Although the Fund intends to invest primarily in Portfolio Funds that predominately invest in CIS Countries and other emerging markets in Eastern Europe, Portfolio Fund Managers may also use the following global or international investing strategies:

*Global Macro.* In global macro investing, a Portfolio Fund Manager will generally seek to generate returns by capturing significant directional trends throughout the global markets while seeking to preserve capital by limiting major risks. A Portfolio Fund Manager’s investment approach may utilize both

fundamental and technical analysis and may combine the use of systematic models with discretionary input from its personnel. A Portfolio Fund may invest in a broad variety of asset classes including, without limitation, equities, fixed income instruments, sovereign debt, currencies and commodities. Investments will generally reflect the Portfolio Fund Manager's expectations regarding global macro conditions and trends, taking into account such factors as global macro economic indicators, geopolitical issues and international capital flows, among others.

*Emerging Markets.* Emerging market Portfolio Funds invest in the equity and debt instruments of those developing countries worldwide that have established securities markets.

*Global Equity and Fixed Income.* Certain of the securities trading, relational trading and special situations strategies which are described herein can also be implemented in the equity and fixed income markets of developed countries other than the U.S. Although the financial markets of the various developed countries have a relatively high degree of correlation, each market economy follows a distinct economic cycle of recession and expansion and may therefore offer unique investment opportunities that are not then available within the U.S.

### **Relational Trading/Arbitrage**

*Flexible Long-Short Hedged Strategies.* There are many different forms of hedged investment strategies. Generally speaking, hedged strategies maintain both long and short positions in order to moderate risk exposure and simultaneously benefit from individual security and broad market trends. Hedged strategies may also involve the use of financial futures and options, swaps, equity and fixed-income securities, currency instruments and/or other financial instruments in implementing trading methodologies.

*Inter-Market Arbitrage.* Different markets may react differently to price changes in the same asset. For example, the common stock of issuers which produce a particular commodity may reflect changes in the price of such commodity in a manner significantly divergent from, but related to, such price changes themselves. These inter-market discrepancies create an opportunity for investors willing to arbitrage the differences in valuations and implied volatility in the equity and commodity markets.

*Fixed-Income Arbitrage.* Fixed income arbitrage is an investment strategy implemented by investing in fixed income securities and a variety of related instruments, including swaps, strips, futures, fixed income options, repurchase agreements, reverse repurchase agreements and other derivative instruments. The strategy is intended generally to capture fixed-income yields and the underlying price movements associated therewith at acceptable risks while minimizing exposure due to interest rate changes or other events affecting market direction. The trading strategies employed in fixed income arbitrage include: (i) relative value positions, which involve taking simultaneous long and short positions in fixed income securities that are similar; (ii) basis positions, which involve taking simultaneous long and short positions in a financial futures contract and offsetting each trade with the underlying deliverable cash instrument when implied interest rates between the futures contract and the underlying cash instrument are inconsistent; and (iii) convergence positions which involve taking simultaneous long and short positions in securities whose attributes are substantially similar, although not identical.

*Convertible Arbitrage.* Convertible arbitrage is an investment strategy that focuses on hedged investments using convertible or exchangeable securities, such as convertible debentures and preferred stocks, warrants and options, and other equity securities, in combination with positions in the respective underlying common stocks. In a typical convertible arbitrage position, the Portfolio Fund Manager will assume a long position in the convertible security and a short position in the underlying common stock or a warrant or option equivalent. In such a position, the portfolio will have the benefit of the yield on the convertible security plus the downside protection afforded by the offsetting short position. The primary goal of each net position is to create a low volatility asset that produces a current yield higher than that offered by the risk-free

market and also offers the opportunity for net capital gain in certain circumstances, such as periods of higher equity market volatility.

*Statistical Arbitrage.* In statistical arbitrage, a Portfolio Fund Manager seeks to exploit shorter-term, relative mispricings between securities based on fundamental and/or technical factors. This is accomplished using quantitative-based tools such as multiple regression analyses, factor analyses and artificial intelligence. Typically, the Portfolio Fund Manager will seek to neutralize various portfolio risks at the portfolio level by investing comparable dollar amounts on the long and short sides in hundreds of securities. So-called “program trading” is a well-known form of statistical arbitrage that is quantitatively driven. Other forms of statistical arbitrage may utilize smaller portfolios or surrogate instruments in lieu of direct positions, such as index and market basket options and investment company shares. Statistical arbitrage may also cover other styles, such as supply-demand trading, that may not be strictly quantitative but are short-term and technically driven.

### **Special Situations**

*Merger or “Risk” Arbitrage.* Merger arbitrage involves acquiring securities of companies which are potentially subject to an acquisition, exchange offer, tender offer or reorganization. The ability to make an accurate assessment of the probability that the transaction in question will be consummated is fundamental to the success of this strategy. This assessment involves evaluating, among other things, shareholder reaction, distribution of voting rights, regulatory response, the possibility of litigation and the reaction of incumbent management. The projected results of a proposed merger arbitrage transaction are usually clear. Profits result from the spread between the market price at which a position is initiated – generally discounted primarily to reflect the possibility that the transaction may not occur – and the amount realized upon consummation.

*Distressed Securities and Reorganizations.* This strategy involves investments in the securities of highly leveraged or financially troubled companies, including those in bankruptcy proceedings, reorganizations or liquidations. The value of these securities is typically severely depressed and substantial appreciation and gains can be recognized if the issuer is restored to financial viability, if a reorganization proceeding is successfully consummated or significant assets are acquired or exchanged on favorable terms. In some instances, particularly in the case of senior debt and other preferred claims, the ability to realize upon such claims successfully upon completion of a liquidation may also afford attractive investment opportunities.

### **Multi-Manager (Fund of Funds), Multi-Strategy**

Portfolio Fund Managers may employ investment strategies in which a Portfolio Fund Manager employs a multi-manager investment approach. Pursuant to such strategy, the investment fund of a Portfolio Fund Manager maintains investments with a diversified group of Portfolio Fund Managers managing private investment vehicles or accounts. Such Portfolio Fund Managers may employ a broad range of investment strategies and investment techniques involving a broad range of securities and other instruments.

The foregoing are only examples of certain possible strategies that Portfolio Fund Managers may implement. Furthermore, certain Portfolio Fund Managers may implement a number of different strategies or techniques in addition to their basic strategy. Except as described in the next paragraph, there are no material limitations on the investment strategies or techniques that may be employed by Portfolio Fund Managers which the Investment Manager may select.

*Impact of Leverage on Investment Strategy Selection.* Notwithstanding the foregoing, in the event the Fund employs leverage, the Fund may be subject to certain constraints imposed by the Fund’s lenders with respect to, among other things, the types of investment strategies to be employed by Portfolio Fund

Managers and the amount of Fund assets allocated to specific investment strategies. See “*Use of Leverage by the Fund*”.

## **Investments of Portfolio Funds**

Portfolio Fund Managers of Portfolio Funds may invest and trade their assets, in the form of long and short positions, in a broad variety of securities and other instruments, whether traded on exchanges, over-the-counter or negotiated or electronic markets. Although the Fund seeks Portfolio Funds that make equity investments in CIS Countries and other countries in Eastern Europe, the Portfolio Fund Managers selected by the Investment Manager will be free to invest the assets of their Portfolio Funds on a worldwide basis. Investments by Portfolio Funds may include equity and fixed-income securities; convertible and hybrid stocks and debt securities, including high-yield securities; preferred stocks, warrants and options; structured and other synthetic securities and related derivative instruments, such as swaps, forwards, options, futures, caps and floors; other derivatives, including those relating to equity securities, equity indices, interest rate products, fixed-income products and indices; structured securities; corporate and government securities, money market instruments, U.S. and non-U.S. currencies and interests in currencies, such as options, spot, swap and forward contracts; certificates of deposit, banker’s acceptances, trust receipts and trade and commercial obligations, loans, bridge loans, advances, loan participations and creditor claims, whether secured or unsecured, performing or nonperforming, and irrespective of ranking; and any other instruments or other evidences of indebtedness. A Portfolio Fund may periodically maintain all or a portion of its assets in money market instruments and other cash equivalents and may not be fully invested at all times.

Portfolio Fund Managers will also be free to invest a portion of their Portfolio Fund assets in restricted securities. These could include securities of issuers with other classes of publicly traded securities, securities awaiting an initial public offering or otherwise.

The Investment Manager, on behalf of the Fund, has complete flexibility in determining, or permitting Portfolio Fund Managers to determine, the instruments and markets in which Portfolio Funds may invest and the investment techniques that Portfolio Funds may use to achieve their investment objectives.

## **Investment Techniques**

Portfolio Fund Managers utilized by the Fund may, when investing in the securities and instruments described above, may utilize a broad variety of investment techniques, including, but not limited to, those described below. These practices may vary significantly from time to time and no assurance can be given that the use of any practice by a Portfolio Fund Manager will have its intended result or that the use of any practice is, or will be, available to the Fund through investing in a particular Portfolio Fund at a particular time.

*Hedging.* It is expected that Portfolio Fund Managers, to varying degrees, will employ a variety of hedging techniques. Such techniques are intended to limit an investment portfolio’s exposure to market declines or other risks. Hedging may involve a variety of instruments and strategies, including selling short securities, taking offsetting positions in options or other derivatives related to specific securities, investing in market index or “market basket” instruments or assuming short positions in junior securities of the same issuer.

*Leverage.* Some Portfolio Fund Managers may utilize borrowed funds, or leverage, in their investment activities. The use of leverage by particular Portfolio Fund Managers may vary, depending upon the risk profile of their individual strategies. The use of leverage can increase investment returns, as well as the risk of investment loss and associated volatility. A Portfolio Fund Manager’s leverage policies will be a matter that will be reviewed by the Investment Manager in the process of Portfolio Fund Manager selection. The ability of the Investment Manager to monitor a Portfolio Fund Manager’s use of leverage will depend

upon the extent to which Portfolio Fund Managers make such information available to their investors. The Fund may utilize leverage on a moderate to extensive basis in connection with its investment activities. See “*Use of Leverage by the Fund*”. The use of leverage by both Portfolio Fund Managers and the Fund could substantially increase the Fund’s risk of loss. See “*Risk Factors*”.

*Options Strategies.* Portfolio Fund Managers may purchase or write call and put options on securities, securities indices or groups of securities that are traded on U.S. or non-U.S. securities exchanges or sold over-the-counter. Portfolio Fund Managers may also buy or sell put and call options on currencies or other instruments. Options written (sold) by Portfolio Fund Managers may be covered (*i.e.*, where the Portfolio Fund owns an offsetting position in the underlying security) or uncovered. Portfolio Fund Managers may employ a wide spectrum of derivative instruments in addition to conventional options, in connection with their particular strategies.

*Other Techniques.* Although the foregoing describes certain types of investments and investment techniques to be utilized by the Portfolio Fund Managers selected by the Fund, the Investment Manager reserves the right to engage Portfolio Fund Managers that invest in other instruments and utilize other investment techniques, if it deems the same to be consistent with the Fund’s investment objective, without notice to or approval by the shareholders

## **Oversight of Portfolio Funds**

The Investment Manager monitors Portfolio Fund Managers and their Portfolio Funds on an ongoing basis. In furtherance thereof, the Investment Manager seeks to obtain periodic reports from Portfolio Fund Managers regarding underlying portfolio positions and performance of the Fund’s Portfolio Fund investments. However, there can be no assurance that the Investment Manager will be able to obtain such transparency in the case of each Portfolio Fund in which the Fund invests. Furthermore, such periodic reports are likely to be internally generated by the Portfolio Fund Portfolio Fund Managers without the benefit of review by an outside party. The Investment Manager will contact Portfolio Fund Managers on a periodic basis and may, but is not required to, meet personally with Portfolio Fund Managers from time to time. The Investment Manager will also utilize its contacts to assist it in evaluating certain events or trends, whether within a strategy or as to a particular Portfolio Fund or Portfolio Fund Manager.

## **Use of Leverage by the Fund**

Leverage generally involves the use of borrowed funds to increase the amount of capital available for investment purposes. The Fund may utilize leverage to increase the amount of capital available for investment purposes. As the Fund utilizes a “multi-manager” investment approach, pursuant to which it allocates its assets among a number of Portfolio Funds, the ability of the Fund to use leverage as an investment technique enables the Fund to obtain additional (borrowed) capital to invest in Portfolio Funds. In addition, the Fund may borrow on a temporary basis to facilitate redemptions.

Through the utilization of leverage, the Fund may obtain additional (borrowed) capital in an amount significantly greater than the Fund’s existing capital. The actual amount of leverage to be utilized by the Fund, which is likely to vary over time, shall be determined by the Investment Manager in its discretion (subject to any credit limitations imposed by lenders and/or counterparties). Such varying amounts of leverage may be expected to have a material impact on the Fund’s performance, as well as its risk of loss.

Leverage may be obtained through borrowings directly from lenders or through swap agreements, options or other derivative instruments (or through a combination of such methods). The lender or counterparty on any swap, option or other derivative instrument may be any entity or institution that the Investment Manager determines to be creditworthy.



As a condition to providing the Fund with additional capital, the Fund's lenders ("Lenders") may require the Fund to pledge all or a substantial portion of the Fund's assets as collateral. In addition, Lenders may impose various covenants and restrictions on the Fund as a result of which they may exercise a substantial degree of control over the Fund's investment activities and the Fund's assets. Such covenants and restrictions may, among other things, have the effect of: restricting the ability of the Investment Manager to fully implement the Fund's investment strategy in the manner that it deems appropriate; restricting the ability of the Fund to transfer and dispose of its assets; restricting the ability of the Investment Manager to take other actions to protect the Fund's assets; restricting the ability of the Fund to declare or make distributions of its assets to shareholders; restricting the ability of the Fund's Board of Directors and shareholders to adopt and implement changes to the Fund's investment activities and organizational documents. The failure of the Fund to satisfy such covenants and restrictions could result in an event of default under a loan arrangement. Upon an event of default, a Lender may require the Fund to liquidate certain investment positions with one or more Portfolio Funds in an untimely or otherwise adverse manner, may be entitled to take possession of all or a portion of the Fund's assets, and/or may have the right to take other actions which could have an adverse impact on the Fund or its assets.

The Fund would be charged interest by Lenders for borrowings and required to pay or reimburse Lenders for various expenses.

The Board of Directors may, from time to time without the consent of the Fund's shareholders, enter into, and modify the terms of, loan arrangements of the Fund. Furthermore, the Board of Directors, in its discretion, may terminate the Fund's current loan arrangement or obtain additional or alternative credit facilities or other loan arrangements on behalf of the Fund from the Fund's current lender or from other lenders.

## **Direct Investments**

*General.* While the Fund's capital is expected to be invested only in Portfolio Funds, the Fund may also directly invest in common stocks (and their equivalents) of companies in CIS Countries, other countries in Eastern Europe, and elsewhere, or other equity or hybrid instruments, such as preferred stocks and convertible securities and other instruments, in the discretion of the Investment Manager.

*Long and Short Positions.* The Fund's portfolio may include both long and short positions. The overall weighting of such positions is not limited as to the long or short side and the Fund may, at times, be "net long" (i.e., the value of long positions is greater than the net exposure on short positions), or "net short" (i.e., the value of short positions is greater than the net exposure on long positions) to varying degrees, without fixed limitation.

*Cash Positions.* As a defensive strategy, or pending the identification of Portfolio Funds or companies meeting the Investment Manager's methodology, the Fund may invest in a variety of cash equivalents or money market instruments. Accordingly, the Fund may not be fully invested at all times.

*Holding Periods.* The holding periods for the Fund's direct positions may vary substantially, with periods ranging from one day to more than one year.

## **Direct Investment Technique**

Although the Fund is expected to invest only in Portfolio Funds, the Investment Manager may choose to employ a broad variety of direct investment techniques in furtherance of its investment strategy. These could include the use of short selling, leverage, options and hedging. The Investment Manager may also employ other techniques and instruments in furtherance of the Fund's investment strategy.

*Short Selling.* Short positions may involve both investment and trading situations, where the Investment Manager, on the basis of its methodology, believes the security sold short is likely to decline in price, and hedging situations, where the position is intended to wholly or partially offset another position in a related security or to limit portfolio exposure to a particular risk or risks. Selling securities short involves selling securities that the Fund does not own. In order to make delivery to its purchaser, the Fund must borrow securities from a third party lender. The Fund subsequently returns the borrowed securities to the lender by delivering to the lender securities purchased in the open market. The Fund must generally pledge cash with the lender equal to the sales proceeds of the borrowed securities as well as any additional cash or securities required as collateral under applicable margin regulations. The Fund will generally realize a profit (or a loss) as a result of a short sale if the price of the security decreases (or increases) between the date of the short sale and the date on which the Fund covers its short position, *i.e.*, purchases the security to replace the borrowed security, at a cost less than (or greater than) its cost of establishing and maintaining its short position.

*Options and Other Instruments.* The Fund may engage in various types of options transactions, including hedging positions in options on securities, indices and other investments, including both put and call options. In certain situations, the Fund may purchase put options as an alternative (in whole or in part) to establishing a short position. The Fund may write or sell options on securities and other instruments, whether or not such options are covered. An option written by the Fund is “covered” if (in the case of a call option) the Fund owns the security, currency or other instrument underlying the option or has a right to acquire such underlying instrument without additional cash consideration (or for additional cash consideration held in a segregated account) or (in the case of a put option) the Fund has an equivalent short position, or offsetting long put position, in the underlying instrument.

Although there is no absolute prohibition against uncovered options transactions by the Fund, the Investment Manager is fully cognizant of the risks associated with such transactions. Accordingly, uncovered options transactions will be engaged in on a limited basis and not as an integral or major part of the Investment Manager’s investment strategy.

*Forwards, Swaps, Other Derivatives and Securities Lending.* The Investment Manager may utilize forwards, swaps and a broad variety of derivatives and other financial instruments, and may engage in securities lending transactions, in furtherance of the Fund’s investment objective. One or more of these instruments and transactions may be employed in order to increase return, as a partial or complete hedge against other Fund positions or against certain market or interest rate risks or as part of arbitrage or other trading strategies. Such instruments and transactions will generally be established through a negotiated contract entered into by the Fund with a financial counterparty. Such instruments are generally illiquid with no trading market.

In connection with such instruments and transactions (other than those where the Fund is lending its portfolio securities to a counterparty), the Fund will generally be required to deliver eligible collateral to the counterparty, typically consisting of cash, securities or other instruments held in the Fund’s portfolio. In the event of a default by the Fund or other prescribed events, the counterparty may use, assign and/or liquidate the collateral and/or require the Fund to provide additional collateral.

With respect to those transactions where the Fund is lending its portfolio securities to a counterparty, the counterparty, rather than the Fund, is required to deliver eligible collateral, typically in cash or U.S. government securities, maintained on a current basis at an amount at least equal to the market value of the securities loaned by the Fund. In the event the counterparty encounters financial difficulties, or breaches its agreement with the Fund, there may be a loss, or a delay in the recovery, of the portfolio securities loaned by the Fund.

*Other Investment Techniques.* The Investment Manager Agreement authorizes the Investment Manager to utilize a broad variety of investment techniques in furtherance of the Fund’s investment strategy.

Accordingly, such possible investment techniques to be utilized by the Fund will not necessarily be limited to those described above.

## **Risk Management**

The Investment Manager applies risk controls in the management of the Fund's portfolio. The Investment Manager uses a variety of ongoing risk management policies and practices, including monitoring and adjustment of portfolio exposure and diversification; and real-time portfolio evaluation. Notwithstanding these risk management practices, the Fund's investment strategy inherently involves certain significant risks. See "*Risk Factors*" below. Moreover, there can be no assurance that the above practices will necessarily be applied in all cases, or if applied, will successfully limit risk to acceptable levels.

There is no assurance that the Fund's investment objective will be realized or that the Fund will be profitable.

## **RISK FACTORS**

*All securities investments risk the loss of capital. There can be no assurance that the Fund will be profitable or that it will not incur losses. Prospective investors should, among other matters, consider the risks summarized below before investing in Common Shares. An investment in the Fund is speculative, involves a high degree of risk, and is suitable only for persons who are willing and able to assume the risk of losing their entire investment.*

### **General Risks**

*Limited Operating History.* The Fund was incorporated on January 17, 2005 and made its first investment on April 28, 2005. The Fund has a limited operating history upon which basis potential investors may evaluate its future performance. As a recently formed enterprise, the Fund is subject to the typical risks attendant to any new business with a limited operating history, including limitations as to capital and operating resources. Although Messrs. Polykovskiy and Enneking, the principals of the Investment Manager, collectively have significant investment management experience in Russia and the Ukraine, including managing or co-managing other investment funds, any past success with the investment strategies employed by the principals of the Investment Manager with respect to such investment funds, or any other investment strategies of the principals, and the historical investment performance of such investment funds, or any other private investment vehicles or accounts managed by the principals, should not be construed as indicative of the future results of the Fund.

*Experience of Portfolio Fund Managers.* The success of the Fund is substantially dependent upon the skills of the Investment Manager in selecting, monitoring and changing Portfolio Fund Managers or Portfolio Funds. There can be no assurance that the Investment Manager will successfully identify superior Portfolio Fund Managers or that such Portfolio Fund Managers will not cause the Fund to experience investment losses. The investment performance of the Fund for the period since its inception should not be construed as necessarily indicative of future performance.

*Dependence on Principals of Investment Manager.* The success of the Fund critically depends upon the efforts of Messrs. Polykovskiy and Enneking as the principals of the Investment Manager and Directors of the Fund. In the event that either Mr. Polykovskiy or Mr. Enneking cease to be responsible for Fund investments for any reason, and although other personnel of the Investment Manager may be available to continue operations, the operations of the Fund could be adversely affected. See "*The Investment Manager*". Each of the principals of the Investment Manager may have significant business responsibilities in addition to those of the Fund. See "*Conflicts of Interest*".

*Prior Performance of Portfolio Funds and Portfolio Fund Managers.* Although the Portfolio Funds in which the Fund will invest will likely have performance histories, and certain performance information as to prospective Portfolio Fund investments may be furnished to prospective shareholders, such information should not be construed as necessarily indicative of the future performance of any Portfolio Fund or of the Fund generally.

*Alternative Investing.* The Fund is designed for investors seeking potential long-term growth from a variety of investment strategies, who do not require regular current income and who can accept a high degree of risk in their investments. In view of, among other things, the Fund's ability to invest in Portfolio Funds that invest in a wide range of securities and instruments and use a broad variety of investment techniques, the Fund may be deemed both speculative in nature and not a complete or totally diversified investment program. The Fund is intended for investment solely by sophisticated investors who are accustomed to, and fully understand the risks of, such investments and who are able to bear a substantial or complete loss of their investment in the Fund (including any appreciation thereto).

No assurance can be given that the Fund will achieve its goals or investment objectives.

*Economic Conditions.* The success of any investment activity, including the Fund and the Portfolio Funds, will be affected by general economic conditions, that may affect the level and volatility of interest rates and the extent and timing of participation in the equity markets. Unexpected volatility or illiquidity in the markets in which the Fund holds positions could impair the Fund's ability to carry out its business or cause it to incur losses. None of these conditions is within the control of the Investment Manager or the Portfolio Fund Managers and no assurances can be given that the Investment Manager or the Portfolio Fund Managers will anticipate these developments.

*Substantial Withdrawals.* Substantial withdrawals by investors in the Fund within a short period of time could require the Investment Manager to arrange for the securities positions of the Fund to be liquidated at an inappropriate time or on unfavorable terms, which could adversely affect the Net Asset Value of the Shares.

*Institutional Risk.* The institutions, including brokerage firms and banks, with which the Fund or the Portfolio Funds (directly or indirectly) do business, or to which securities have been entrusted for custodial and prime brokerage purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Fund or the Portfolio Funds. Brokers may trade with an exchange as a principal on behalf of the Fund or Portfolio Funds, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to all of the assets of the Fund or Portfolio Funds (for example, the transactions which the broker has entered into on behalf of the Fund or a Portfolio Fund as principal as well as the margin payments which the Fund or a Portfolio Fund provides). In the event of such broker's insolvency, the transactions which the broker has entered into as principal could default and the Fund or Portfolio Fund's assets could become part of the insolvent broker's assets, to the detriment of the Fund or Portfolio Fund. In this regard, the Fund or Portfolio Fund's assets may be held in "street name" such that a default by the broker may cause the Portfolio Fund's rights to be limited to that of an unsecured creditor.

## **Risks Relating to Investment Strategy**

### ***Use of Multi-Manager Approach***

*General.* Neither the Investment Manager nor the Fund have any control over the investments that the Portfolio Fund Managers make. The Investment Manager may, however, reallocate the Fund's investments among Portfolio Funds, but its ability to do so may be constrained by withdrawal limitations imposed by the Portfolio Funds. These withdrawal limitations may well prevent the Investment

Manager, and therefore the Fund itself, from reacting rapidly to market changes should a Portfolio Fund Manager fail to effect portfolio changes consistent with such market changes.

Although the Investment Manager will endeavor to monitor its investments in Portfolio Funds on an ongoing basis, the Investment Manager is unlikely to have access to information about the underlying portfolio positions of the Portfolio Funds on a daily or regular basis. Investors in such Portfolio Funds, moreover, typically have no right to demand such information of the Portfolio Fund Managers. Accordingly, the Investment Manager will not be in a position to analyze or respond to developments within any particular Portfolio Fund unless and until information relating thereto is disseminated by the Portfolio Fund Manager to its investors, including the Fund. Such information may not necessarily be timely or complete.

The Fund's multi-manager (*i.e.*, fund of funds) approach places certain constraints on the Investment Manager's ability to value the assets of the Fund. Portfolio Fund Managers may invest in securities with no current market or for which a market value is not readily determinable. The Fund will rely solely on the Portfolio Fund Managers' valuations of their Portfolio Funds and the Fund's interest therein. The Investment Manager will not be required to independently verify valuations or other performance information furnished by Portfolio Fund Managers.

Portfolio Fund Managers will trade wholly independently of each other and, at times, may hold economically offsetting positions. To the extent that the Portfolio Fund Managers do, in fact, hold such positions, the Fund, considered as a whole, cannot achieve any gain or loss despite incurring expenses. Gains achieved by one or more Portfolio Fund Managers may be partially or wholly offset by losses incurred by one or more other Portfolio Fund Managers.

Under certain circumstances, a Portfolio Fund Manager may be compelled to liquidate positions in order to generate funds needed to meet margin calls, to fund withdrawal requests or meet other capital requirements. Such liquidations could disrupt the Portfolio Fund Manager's trading system or method.

*Strategic and Portfolio Fund Manager Concentration.* The Fund is not limited in the amount of capital that it may commit to any one investment. Although the Investment Manager intends to invest the Fund's capital in more than one Portfolio Fund, the Fund will generally hold large positions in a relatively limited number of Portfolio Funds. Moreover, there are no fixed restrictions on the ability of the Investment Manager to invest Fund capital in Portfolio Funds that invest in similar types of securities, industries or markets and the Portfolio Funds are expected to invest primarily in CIS Countries and other countries in Eastern Europe. Accordingly, the Fund's investments may, and generally will, be concentrated in certain respects. Concentration can increase the relative risk and volatility of an investment vehicle as compared with one maintaining a high degree of diversification as to managers and investment strategies.

*Incentive Based Compensation Arrangements.* In investing in the Fund, which employs Portfolio Fund Managers, an investor will, in effect, incur the costs of two forms of investment management services, namely, the services provided by the Investment Manager in identifying and investing Fund capital with Portfolio Fund Managers and the services provided by Portfolio Fund Managers in selecting investments on behalf of their Portfolio Funds. Both the Investment Manager and the Portfolio Fund Managers will likely receive incentive-based compensation from, or with respect to, the Fund's investment in the Portfolio Funds. As a Portfolio Fund Manager will be compensated based on the performance of its own Portfolio Fund, a Portfolio Fund Manager may receive, in effect, incentive compensation from the Fund in respect of its investment in such Portfolio Fund for a particular period, even if the Fund's overall portfolio depreciated during such period. In addition, incentive-based compensation, including the Investment Manager's Performance Fee, may create an incentive for a Portfolio Fund Manager and the Investment Manager to make investments that are riskier or more speculative than would be the case in absence of such incentive-based compensation. Generally, the fee structure of Portfolio Fund Managers includes a 1% to 2%

management fee and a 20% to 25% performance or incentive fee or allocation of net profits. However, specific Portfolio Fund Managers may implement compensation arrangements that vary from (i.e., are greater or lesser than) such rates.

In the event that the Investment Manager decides to invest a portion of the Fund's assets in one or more Portfolio Funds that, like the Fund, employ multi-manager investment strategies, an investor will effectively incur the costs of at least three forms of investment management services; namely, the services provided by the Investment Manager in identifying Portfolio Fund Managers and their Portfolio Funds, the services provided by such Portfolio Fund Managers in selecting multi-manager investment vehicles in which to invest their Portfolio Funds' assets, and the services provided by the investment managers or advisors of such multi-manager vehicles in which Portfolio Fund assets are invested.

*Portfolio Fund Expenses.* Multi-manager investment vehicles, such as the Fund, necessarily incur a share of expenses of their underlying investment entities. Shareholders will bear their ratable share of the expenses (and fees, as described above in "*Incentive Based Compensation Arrangements*") of Portfolio Funds. Some Portfolio Funds may have significant operating expenses. Strategies utilized by certain Portfolio Fund Managers may require frequent trading, and, as a result, portfolio turnover and brokerage commission expenses may significantly exceed those of other investment entities of comparable size.

*Valuation Matters.* The Fund's multi-manager approach will place certain constraints on its ability to value Fund assets. While the Fund has invested, and seeks to invest, only in Portfolio Funds that invest in publicly traded securities, the Portfolio Fund Managers may also invest in securities and instruments with no current market or for which a market value is not readily determinable. The Fund will rely solely on the Portfolio Fund Managers' valuations of their respective Portfolio Funds and the Fund's interest therein. Although the Investment Manager, in evaluating potential Portfolio Fund Managers, will endeavor to assess the integrity and frequency of their reporting practices, the Investment Manager will not be required to, nor will it normally be in a position to, independently verify portfolio valuations, performance data or other information furnished by Portfolio Fund Managers.

*Investment of Capital.* The Fund may accept additional subscription capital from existing shareholders or admit new shareholders as of the first Business Day of a calendar month or at other times in the discretion of the Fund, and will permit redemptions by shareholders, in general, monthly. Some Portfolio Funds in which the Fund may invest, however, may not permit additional subscriptions or the admission of new investors, or redemptions by investors, on the same basis. As a result, the Fund may be delayed in investing its capital in, and in withdrawing Fund assets from, some Portfolio Funds. This delay may in turn dilute the interests of shareholders in the Fund's holdings of certain Portfolio Funds, may affect the ability of the Fund to effect timely redemptions by shareholders and may tend as well to affect the proportionate level of Fund investment in particular Portfolio Funds.

*Withdrawal Limitations.* Portfolio Funds in which the Fund will invest typically have a variety of limitations upon withdrawals of capital, with many permitting such withdrawals only at quarterly or annual intervals, in some cases only after a so-called "lock-up" period of a year or possibly longer. Withdrawal limitations of Portfolio Funds can impair the Investment Manager's ability to react rapidly to a variety of important events affecting the Fund and one or more Portfolio Funds, including poor performance by one or more Portfolio Fund Managers, significant market or economic developments, changes in asset class or sector outlook or other events dictating a re-allocation of Fund capital or a change in Portfolio Fund Managers. In addition, the Investment Manager's effectiveness in re-allocating capital among Portfolio Fund Managers will be affected by the timeliness and quality of information it obtains as to its Portfolio Fund Managers.

*Monitoring; Limited Available Information.* Although the Investment Manager will endeavor to monitor Portfolio Fund Managers on an ongoing basis as it deems appropriate, the Investment Manager may not, in the case of each Portfolio Fund invested in by the Fund, have access to information about the underlying portfolio positions on a regular basis and will be dependent upon information furnished

periodically to varying degrees by the Portfolio Fund Managers. Furthermore, Portfolio Fund Managers and Portfolio Funds will typically not be required under applicable laws to make public disclosures regarding their operations and performance; as a result, the amount of publicly available information that may be used by the Investment Manager in identifying and monitoring Portfolio Fund Managers and Portfolio Funds may be relatively small. Investors in Portfolio Funds typically have no right to demand immediate information from their Portfolio Fund Managers. Accordingly, the Investment Manager may not be in a position to analyze or respond to developments within any particular Portfolio Fund unless and until information relating thereto is disseminated by the Portfolio Fund Manager to its investors, including the Fund. Such information may not necessarily be timely, accurate or complete.

*Limited Regulation.* The Fund may employ Portfolio Fund Managers that are not subject to provisions or laws enacted by various jurisdictions that are designed to protect investors contracting with entities for the provision of money management services. Portfolio Funds eligible for investment by the Fund, like Portfolio Fund Managers selected to serve the Fund, will be subject to varying levels of regulation.

*Nature of Portfolio Fund Managers.* The Investment Manager anticipates that many Portfolio Fund Managers selected to serve the Fund will rely on the services of a small number of key personnel in managing the assets of their Portfolio Funds. The death, disability or departure of the key personnel of a Portfolio Fund Manager could adversely affect the Portfolio Fund Manager's ability to manage the Portfolio Fund's assets. Moreover, no assurance can be given that suitable replacement personnel will be retained by the Portfolio Fund Manager.

### ***Investments by Portfolio Fund Managers, Portfolio Funds and/or the Investment Manager***

There are a number of significant investment risks inherent in the investments of the Portfolio Funds in which the Fund invests and the strategies such Portfolio Funds may employ. In addition, there are risks inherent in the direct investments that may be made by, and other strategies that may be employed by, the Investment Manager and the Fund. Such risks include, but are not limited to, the following, all of which apply equally to direct investments by the Investment Manager and investments by Portfolio Fund Managers (the Investment Manager and the Portfolio Fund Managers are sometimes referred to collectively herein as "Managers"; the Fund and Portfolio Funds are sometimes referred to collectively herein as the "Funds"):

*General.* The assets of the Fund will be managed by a number of Portfolio Fund Managers investing in potentially a broad range of securities and other instruments. Each individual Portfolio Fund Manager is likely to have broad latitude in the types of investments and investment techniques to be employed. These may include many types of speculative or relatively high-risk instruments and approaches. As the Investment Manager relies upon a limited amount of information reported by the Portfolio Fund Managers themselves, it may have limited or no information on a current basis regarding such investments. The obligation of the Investment Manager will be to select Portfolio Fund Managers in good faith and with reasonable care under the circumstances, and in no event will the Investment Manager assume responsibility for the investment performance of the individual Portfolio Fund Managers.

*Equity Securities.* The Fund intends to invest primarily in Portfolio Funds that invest primarily in equity securities. Investments in equity securities by Managers may include a broad variety of issuers and instruments. There are no overall requirements with respect to earnings, revenues, market capitalization or other criteria applicable to all Portfolio Fund Managers, although individual Portfolio Fund Managers may be selected that limit themselves to particular types of equity investments. Accordingly, equity investments may include many securities that are speculative or are of higher risk than those of the most mature or prominent companies. Equity investments by the Fund may be in emerging growth companies, which can involve extensive periods of time before their investment potential is realized. Such issuers also involve generally a higher degree of investment risk than more seasoned companies.

*Debt Instruments.* From time to time, Managers may invest in debt securities. Debt instruments held by the Portfolio Funds or the Fund will, in general, be affected by changes in interest rates that will in turn result in increases or decreases in the market value of those instruments. The market value of debt instruments held by the Fund or a Portfolio Fund can be expected to vary inversely to changes in prevailing interest rates. Managers may invest in securities rated lower than investment grade. Low-rated and comparable unrated securities likely have quality and protective characteristics that, in the judgment of a rating organization, are outweighed by large uncertainties or major risk exposures to adverse conditions, and may be predominantly speculative.

*Price Volatility.* Stock prices are inherently volatile, which may result in the value of the Fund's assets fluctuating from time-to-time more greatly than that of other investment vehicles which are more diversified as to number of issuers or variety of asset classes. There can be no assurance that the Managers' investment strategy, including hedging techniques, or other investment strategies or techniques, will be effective in protecting the Fund from such price volatility.

*Futures.* From time to time, Managers may invest in futures. In the futures markets, initial margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures contract trading is typically accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 10% of the price of a futures contract is deposited as margin, a 10% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission and other transaction costs. Thus, like other leveraged investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

Futures positions may be illiquid because, for example, a commodity exchange may limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". When such rules are invoked, once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in such futures contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices in various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent a Portfolio Fund from promptly liquidating unfavorable positions and subject the Portfolio Fund to substantial losses. In addition, a Portfolio Fund may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or regulatory agency may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

Certain commodity exchanges and regulatory agencies have established limits referred to as speculative position limits or position limits on the maximum net long or net short position which any person or group of persons may hold or control in particular futures and options. Limits on trading in options contracts also have been established by the various options exchanges. It is possible that the trading decisions of a Portfolio Fund may have to be modified and that positions held by a Portfolio Fund may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could adversely affect the operations and profitability of a Portfolio Fund.

*Forwards, Swaps, Repos and Other Derivatives.* Managers may utilize forwards, swap contracts repurchase agreements ("repos") and other over-the-counter derivative instruments. Principal risks relating to the use of forwards and other such derivatives include, in the case of hedging strategies, the possible imperfect correlation between the derivative and the market value of the securities, currencies or other commodity position intended to be hedged; losses magnified by the degree of leverage (exposure) represented



by the derivative; lack of a liquid secondary market for closing out the position; losses resulting from interest rate or currency movements not anticipated by a Manager; and the risk of counterparty default.

The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order to either realize gains or to limit losses. Additionally, many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should a Manager require to sell such position may be materially different. Such differences can result in an overstatement of the net asset value of one or all of the Funds, and may have a materially adverse effect on the Funds, if required to sell derivative instruments in order to raise funds for margin purposes or to pay withdrawals.

The pricing relationships between derivatives and the underlying instruments on which they are based may not conform to anticipated or historical patterns, resulting in unanticipated losses.

The stability and liquidity of forwards, swaps, repurchase agreements, and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transaction. If there is a default by the counterparty to a transaction, the Funds may have contractual remedies pursuant to the agreements related to the transaction; however, exercising such contractual rights may involve delays or costs, or may not be successful, which could adversely affect the Funds. It is possible that in the event of a counterparty credit default, the Funds may not be able to recover all or a portion of their investment in such derivative instrument and may be exposed to additional liability (i.e., the obligations associated with what has become an unhedged position).

*Currencies.* The market for a particular forward currency contract held by a Portfolio Fund or the Fund may be limited. Trading in the foreign currency exchange market is speculative and volatile; should interest or exchange rates move in an unexpected manner, the Funds may not achieve the anticipated benefits of forward currency contracts or could realize losses. Forward currency contracts are generally not subject to daily price fluctuation limits so that adverse market movements could continue with respect to those contracts to an unlimited extent over a period of time.

The Funds' ability to dispose of positions in forward currency contracts will depend on the availability of active markets in those instruments. As a result, no assurance can be given that the Funds will be able to utilize these contracts effectively for the purposes described above. Forward currency contracts can expose the Funds to unlimited liability due to the volatility of the currency markets and the leverage factors associated with the contracts.

A Manager may invest on behalf of a Portfolio Fund or the Fund in contracts denominated in one currency while distributions, if any, and withdrawals will be made in another currency. A change in the value of one currency with respect to another currency such as the U.S. Dollar, for example, will result in a corresponding change in the U.S. Dollar value of a Portfolio Fund's assets denominated in those currencies. Foreign currency exchange rates are determined by forces of supply and demand in foreign exchange markets. These forces are, in turn, affected by international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. Foreign currency exchange rates may also be affected by affirmative government policies of intervention in the foreign exchange markets, and certain currencies may be affirmatively supported relative to the dollar by their or other governments. Changes in government policy, including a cessation of currency support intervention, may result in abrupt devaluations of such currencies.

*Non-U.S. Investments.* The Portfolio Funds selected by the Fund will invest predominantly in, and the Fund may invest directly in, non-U.S. markets or industries, in securities denominated in foreign currencies and/or traded outside of the U.S. or comparable Western nations. Such investments require consideration of certain risks typically not associated with investing in U.S. securities. Moreover, additional

costs could be incurred in connection with international investment activities. Foreign brokerage commissions generally are higher than in the U.S. Expenses also may be incurred on currency exchanges when a Portfolio Fund or the Fund effectively shifts investments from one country, or group of countries, to others. Increased custodian costs as well as administrative difficulties (such as the applicability of foreign laws to foreign custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in foreign jurisdictions. See also “—*Investments in CIS Countries*”.

*Convertible Arbitrage.* The success of convertible arbitrage strategies is dependent upon a number of factors, including the identification of paired senior and junior securities with price movement correlated in such a manner that, for example, in the event of a price decline in both securities, the price decline in the long position in the senior security will be more than offset by the gain in the short position in the junior security. In addition, successful convertible arbitrage positions often involve senior securities with sufficient yield so as to provide relative price stability. If such requisite elements of prospective positions are not properly analyzed, or unexpected events or price movements intervene, losses in such positions can occur, which can be magnified to the extent a Portfolio Fund Manager or the Investment Manager is employing leverage. Convertible arbitrage strategies often depend upon identifying favorable “spreads”, which can also be identified, reduced or eliminated by other market participants.

*Statistical Arbitrage.* In statistical trading systems, historical analysis may indicate probabilities of price movements which are not necessary or inevitable or which may not necessarily recur in the future in a manner which will support a profitable trading strategy. Moreover, under the so-called efficient market hypothesis, if and as the securities markets disseminate and absorb relevant information more rapidly, periods of temporary stock mispricings, such as those endeavored to be exploited by statistical arbitrage strategies, may become shorter, less frequent and of lesser quantitative significance. Managers employing such systems may effectively be competing in the marketplace with numerous institutional investors for the timely identification of such opportunities and the favorable execution of resultant transactions.

*Investments in Emerging Markets.* The Portfolio Fund Managers of the Portfolio Funds selected by the Fund will, and the Investment Manager may, invest in the financial markets of CIS Countries and countries in Eastern Europe, which are often referred to as emerging markets. The Fund may also invest, directly or indirectly, a small percentage of its assets in other emerging markets outside of the above regions. Such countries and regions are generally characterized as having less stable economic or political conditions than conditions in the largest mature Western economies, and investments in such emerging market countries are generally characterized as having higher levels of risk than in fully developed markets.

Emerging market investing involves certain considerations not usually associated with investing in securities of developed countries or of companies located in developed countries, including political and economic considerations such as (i) greater risks of expropriation, nationalization, confiscatory taxation and less social, political, legal and economic stability; (ii) the small size of certain stock exchanges and other markets for securities in such countries and the low volume of trading, resulting in lack of liquidity and price volatility; (iii) a greater likelihood of currency devaluations, (iv) fluctuations in the rate of exchange between currencies and costs associated with currency conversion; (v) more substantial state involvement in and control over the economy; (vi) substantially higher rates of inflation; (vii) less state supervision and regulations of the securities markets and market participants; (viii) controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (ix) certain government policies affecting investment and issues as to the orderly clearance and settlement of trades; and (x) certain government policies that may restrict the Fund’s profitability or investment opportunities, including, without limitation, restrictions on investing in issuers or businesses deemed sensitive to relevant national interests.

In addition, accounting and financial reporting standards that prevail in certain emerging market countries, such as the CIS Countries, generally are not equivalent to standards in more developed countries. There is also generally less regulation of the securities markets in such countries than there is in more developed countries. For example, placing securities with a custodian in a CIS Country may present considerable risks. In recent periods, investors in Russia, Eastern Europe, the Far East and other emerging markets, have experienced substantial losses, due in part to debt defaults, political turbulence and economic instability, which factors may be expected to continue. See also “—*Investments in CIS Countries*”.

*Distressed Securities.* Managers may invest in unrated or “distressed” securities, i.e., securities of companies that are experiencing significant financial or business difficulties, including companies involved in debt restructurings or in bankruptcy or other reorganization and liquidation proceedings. Managers may also purchase financial instruments of or make direct loans to companies of low credit quality or purchase loans that are in default and may also purchase trade claims of suppliers and others, both within or outside of insolvency or reorganization proceedings. Although such investments may result in significant returns, they typically involve a high degree of risk. Restructurings or reorganizations may fail to be completed or be substantially delayed and expected returns on their securities may never materialize. Nonperforming loans, by their nature, may prove uncollectible or not yield appreciable returns for considerable periods of time.

Successful distress investing requires considerable expertise and experience and performance results can vary dramatically among Managers utilizing distress strategies. The level of analytical sophistication, both financial and legal, necessary for successful investment in such companies, loans or claims is unusually high. There is no assurance that Managers will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or rehabilitation of a distressed issuer or adequate realization upon such loans and claims. A Portfolio Fund’s or the Fund’s performance may be substantially impaired by unsuccessful distressed or low credit investments.

*Securities With Limited or No Liquidity.* Portfolio Fund Managers may invest or concentrate their investments in securities with limited marketability, such as “micro”, small or mid-cap stocks, stocks traded on a limited basis, or in securities that are totally illiquid, such as privately placed securities or instruments otherwise not readily tradable in an organized market, such as distress securities. The Investment Manager itself may invest a portion of any capital it manages directly in restricted securities. Restricted securities, as well as other investments with limited or no market liquidity, present additional investment risks of possible inability to both realize gains on a timely basis as well as to limit losses. Disposition of such investments may be possible, if at all, only at substantial discounts from their purchase price or intrinsic value. Managers may or may not negotiate for registration rights or other means of achieving liquidity. Moreover, such securities are likely to be more speculative and subject to greater degrees of basic investment risk than marketable securities of more developed companies. Substantial holdings by Portfolio Fund Managers or the Investment Manager of illiquid securities may adversely affect their ability, and indirectly that of the Fund, to effect capital withdrawals on a satisfactory basis.

*Overall Investment Risk in Portfolio Funds.* All securities investments risk the loss of capital. Investing in one or more Portfolio Funds may be speculative and subject to significant risk, notwithstanding the efforts of the Investment Manager. While the Investment Manager will endeavor to select appropriate Portfolio Funds and allocate Fund capital accordingly, there can be no assurance that the Fund will be profitable or that it will not incur significant losses.

### ***Investments in CIS Countries***

*Political Considerations.* Russia and the other CIS Countries have over recent years undergone profound political change. Historically, such countries had a centrally-planned, socialist economy. More recently, the governments of Russia and other CIS Countries have enacted reforms lessening state control over the economic systems of such countries and have moved toward a more market-orientated economy.

However, this process has often resulted in economic and social disruption leading, in some cases, to inflation, currency depreciation and decreased productivity, which, in turn, has caused certain governments to reevaluate the nature and pace of such reforms. There can be no assurance that the economic and political reforms that have been adopted by certain CIS Countries will continue, that additional reforms will be adopted or that, if existing reforms continue or new reform initiatives are adopted, such efforts will be successful.

*Social and Other Considerations.* Russia and the other CIS Countries have over recent years undergone profound social change. Moreover, there has been a rise in organized crime and corruption in CIS Countries. Many businesses in CIS Countries are subject to theft or extortion and fraud. These issues, in addition to the civil unrest and war, ethnic tensions, and terrorism that from time to time affect the region are likely to continue for a significant period. The Fund or Portfolio Funds may have to cease or alter certain activities or liquidate certain investments as a result of criminal threats or activities or civil unrest.

*Corporate Legislation and Jurisprudence in CIS Countries.* Legal systems in CIS Countries have not fully adapted to the requirements and standards required to maintain advanced market economies. The volume of new legislation and breadth of the changes that have taken place in the legal systems of CIS Countries have resulted in a lack of confidence in the courts to give clear and consistent judgments. Moreover, the commercial laws of CIS Countries tend to be rudimentary and the judges' presiding over commercial cases typically lack experience and knowledge of market conventions, both of which make the outcome of any potential commercial litigation unpredictable. Moreover, many of the procedural remedies for enforcement and protection of legal rights usually found in Western courts are not available.

*Lack of Publicly Available Information; Accounting Matters.* The quality and reliability of official data published by the government and government agencies of CIS Countries and the information available, including both general economic data and information concerning the operations, financial results, capitalization and financial obligations, earnings and securities of specific enterprises, is generally not of the same standard as that of more developed Western countries. Certain foreign issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers.

*Lack of Mature Securities Markets and Securities Market Regulation.* Securities and other markets in CIS Countries, while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities and instruments traded on these markets are less liquid and their prices more volatile than securities and other instruments of comparable U.S. issuers. In addition, the settlement, clearing and registration of transactions in securities in these markets is slower, less systematic and more subject to failure than in U.S. markets. It is possible for the Portfolio Funds to lose their registration through fraud, negligence or oversight. Moreover, delays may occur in the collection of dividends, proceeds of sales, redemption monies and other cash sums, possibly causing currency exchange loss, and some monies may not be received. In addition, due to less-developed local postal and banking systems of certain CIS Countries, it cannot be guaranteed that all entitlements attaching to securities acquired by a Portfolio Fund, including in relation to dividends, can be realized.

There also is less extensive regulation of the markets in CIS Countries. For example, in Russia, where a substantial portion of the Fund's capital is currently indirectly invested, minority shareholders are offered very little protection under Russian regulatory controls and Russian laws on corporate governance. Russian disclosure requirements are, at best, minimal and the anti-insider trading legislation is very basic. At present, Russia has no reliable system or legal framework regarding the registration of titles; therefore, there is no assurance that Russian courts will recognize or acknowledge a Portfolio Funds' entitlement to any securities in which they have invested, or that they are the beneficial owner of any property or security held in the name of a nominee for the Funds.

## ***Managers' Investment Techniques***

In addition to the foregoing risks related to investments made by Managers, there will be investment risks inherent in the techniques typically utilized by such Portfolio Fund Managers with respect to their Portfolio Funds or that may be used by the Investment Manager. Such risks may include the following:

*Possible Concentration of Investments.* Unlike certain investment vehicles, such as diversified mutual funds, hedge funds and other investment funds, such as the Funds, are often relatively concentrated as to investments. Moreover, the Fund intends to invest in Portfolio Funds that invest primarily in Russia, other CIS Countries and other countries in Eastern Europe. Limitations as to region, strategy, amount of capital or analytical resources can lead to significant concentration practices among Portfolio Fund Managers as a group. Concentration of investments in a limited number of issuers or securities, industries or industry groups, or countries or regions, particularly in the context of event-related investing, can increase significantly investment risk and portfolio volatility. Moreover, the taking of positions in the same or similar securities by multiple Portfolio Fund Managers with which the Fund invests can inadvertently increase the Fund's overall level of concentration.

*Leverage; Interest Rates; Margin.* Managers may utilize leverage primarily for investment purposes to increase investment positions or to make additional investments. In addition, the Funds may borrow on a temporary basis to facilitate redemptions. Leverage may be employed by means of conventional margin arrangements, or through options, swaps, forwards and other derivative instruments.

While leverage (including the use of derivatives) presents opportunities for increasing the Funds' total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment, either directly or indirectly, could be magnified to the extent that leverage is employed. The effect of the use of leverage by the Funds in a market that moves adversely to the investments of the entity employing the leverage, could result in a loss to the Funds that would be greater than if leverage were not employed by the Funds. In addition, to the extent that the Funds borrow funds, the interest cost at which the Funds can borrow will affect the operating results of the Funds.

As a condition to providing the Funds with additional capital, the Funds' lenders ("Lenders") generally require the Funds to pledge all or a substantial portion of the Funds' assets as collateral. In addition, Lenders impose various covenants and restrictions on the Funds as a result of which they may exercise a substantial degree of control over the Funds' investment activities and the Funds' assets. Such covenants and restrictions may, among other things, have the effect of: restricting the ability of the Managers to fully implement the Funds' investment strategies in the manner that they deem appropriate; restricting the ability of the Funds to transfer and dispose of assets; restricting the ability of the Managers to take other actions to protect the Funds' assets; restricting the ability of the Funds to declare or make distributions of assets to shareholders; restricting the ability of the Funds' boards of directors, or other similar governing bodies, and shareholders to adopt and implement changes to the Funds' investment activities and organizational documents. The failure of the Funds to satisfy such covenants and restrictions could result in an event of default under a loan arrangement. Upon an event of default, a Lender may require the Fund to liquidate certain investment positions in an untimely or otherwise adverse manner, may be entitled to take possession of all or a portion of the Funds' assets, and/or may have the right to take other actions which could have an adverse impact on the Funds or their assets.

Generally, the rights of creditors to the assets of a debtor are prior to those of equity investors. As a creditor of the Fund, a financial institution would likely have a first priority claim on any assets held by the Fund, which could reduce or eliminate the liquidity available for shareholders seeking to redeem Shares from the Fund. These same considerations apply to the interests in the Portfolio Funds held by the Fund.

The Board of Directors may, from time to time without the consent of the Fund's shareholders, modify the terms of the Fund's loan arrangements. Furthermore, the Board of Directors, in its discretion, may obtain additional or alternative credit facilities or other loan arrangements on behalf of the Fund. Any such future modifications or additional or alternative loan arrangements may subject the Fund to additional covenants, agreements, restrictions and/or costs.

The use of short-term margin borrowings by the Funds may result in certain additional risks to the Funds. For example, should the securities that are pledged to brokers to secure the Funds' margin accounts decline in value, or should brokers from which the Funds have borrowed increase their maintenance margin requirements (*i.e.*, reduce the percentage of a position that can be financed), then the Funds could be subject to a "margin call," pursuant to which the Funds must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The broker will typically have the right to liquidate the Funds' portfolio in certain circumstances. In the event of a precipitous drop in the value of the assets of the Funds, the Funds might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices. Similar risks may arise in connection with longer-term borrowings and certain derivative transactions. See "*Derivatives*" below.

*Options.* The Funds may utilize options in furtherance of its investment strategy for both speculative and hedging purposes. Option positions may include long positions, where one of the Funds is the holder of put or call options, as well as short positions, where one of the Funds is the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a relatively higher level of risk. The writing (selling) of uncovered options involves a theoretically unlimited risk of a price increase or decline, as the case may be, in the underlying security. The expiration of unexercised long option positions effectively results in loss of the entire cost or premium paid for the option. Option premium costs, as well as the cost of covering options written by the Funds, can reduce or eliminate position profits or create losses as well. The Funds' ability to close out positions as a purchaser of an exchange listed option is dependent upon the existence of a liquid secondary market on option exchanges. On occasion the Funds may also utilize options which may have limited liquidity.

The seller ("writer") of a call option which is covered assumes the risk of a decline in the market price of the underlying security or other instrument below the purchase price of the underlying instrument, less the amount of premium received by the seller, and forgoes the opportunity for gain on the underlying instrument above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment (the premium paid) in the call option. If the buyer of a call option sells short the underlying security or other instrument, a loss on the call option itself may be offset, in whole or in part, by any gain on the short sale of the underlying position.

The seller ("writer") of a put option which is covered assumes the risk of an increase in the market price of the underlying security or other instrument above the sales price (in establishing the short position) of the underlying instrument, plus the premium received by the seller, and forgoes the opportunity for gain on the underlying instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment (the premium paid) in the put option. If the buyer of a put option holds a long position in the underlying security or other instrument, a loss on the put option itself may be offset, in whole or in part, by any gain on the underlying position.

*Derivatives.* The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order to either realize gains or to limit losses. Additionally, many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should the Managers be required to sell such position may be

materially different. Such differences may have a materially adverse effect on the Funds if required to sell derivative instruments in order to raise funds for margin purposes or to pay withdrawals.

The pricing relationships between derivatives and the underlying instruments on which they are based may not conform to anticipated or historical patterns, resulting in unanticipated losses.

The stability and liquidity of forwards, swaps, repurchase agreements, and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transaction. If there is a default by the counterparty to a transaction, the Funds may have contractual remedies pursuant to the agreements related to the transaction; however, exercising such contractual rights may involve delays or costs, or may not be successful, which could adversely affect the Funds. It is possible that in the event of a counterparty credit default, the Funds may not be able to recover all or a portion of their investment in such derivative instrument and may be exposed to additional liability (i.e., the obligations associated with what has become an unhedged position).

*Limitations on Shorting and Hedging Strategies.* Hedging against a decline in the value of a portfolio position through short selling or other techniques does not eliminate fluctuations in the values of portfolio positions, or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the overall portfolio value. Such hedge transactions, however, also limit the opportunity for gain if the value of the portfolio position should increase. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Insufficient correlation between hedged and hedging positions may not only result in failing to protect the Funds against the risks sought to be hedged but may actually increase the magnitude of overall loss in the event of losses in the hedging positions.

For a variety of reasons, the Managers may not seek or be able to establish a sufficiently accurate correlation between such hedging instruments and the portfolio holdings being hedged. Moreover, the Managers may not necessarily endeavor to hedge the Fund portfolios whatsoever. As a general matter, the Funds' portfolios will be exposed to basic issuer risk, overall equity market risk and other risks attendant to investment strategy and to particular positions, which risks will not be generally hedged.

*Short Selling.* Selling securities short creates the risk of losing an amount greater than the initial investment in a relatively short period of time and the theoretically unlimited risk of an increase in the market price of the securities sold short. There is also the risk that the securities borrowed by one of the Funds in connection with a short sale would need to be returned to the securities lender on short notice. If the request for return of securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Fund or a Portfolio Fund might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier. In addition, short selling can involve significant borrowing and other costs which can reduce the profit or create losses in particular positions.

*Overall Investment Risk.* All securities investments risk the loss of capital. The nature of the securities to be purchased and traded by the Fund and the investment strategies and techniques to be employed by the Fund may increase this risk. There can be no assurance that the Fund will not incur losses. Many unforeseeable events, including, but not limited to, actions by various government agencies, and domestic and international economic and political developments, may cause sharp market fluctuations which could adversely affect the Fund's portfolio or performance.

There can be no assurance that the investments or investment techniques employed by the Fund will achieve the Fund's investment objective or that the Fund will be profitable.

## Conflicts of Interest

There are several likely conflicts of interest between the Investment Manager, including its principals, Messrs. Polykovskiy and Enneking, and the Fund, including certain conflicts that could develop if the Investment Manager, or its affiliates, manage additional investment vehicles or accounts in the future. Among those which should be considered by each prospective shareholder are the following:

*Possible Conflicts with Other Investment Vehicles or Clients.* The Investment Manager and Messrs. Polykovskiy and Enneking may determine to form additional investment funds or accounts employing investment strategies similar to, or different from, that of the Fund. In addition to the Fund, the Investment Manager also currently manages Altima Universal Fund, a private equity fund. Furthermore, the Investment Manager and Messrs. Polykovskiy and Enneking may determine to engage in other businesses. The existence of such multiple entities, clients and accounts and businesses necessarily creates certain conflicts of interest.

With respect to the use of particular Portfolio Fund Managers, the Investment Manager may retain a particular Portfolio Fund Manager for the Fund or the account of other managed investment funds or clients. The Fund will not be entitled to priority of choice as among available Portfolio Fund Managers or Portfolio Funds and may not participate as a client of every Portfolio Fund Manager selected by the Investment Manager for its managed vehicles.

The existence of multiple investment vehicles or clients may also create conflicts as to time and resource commitments on the part of the Investment Manager's personnel, including Messrs. Polykovskiy and Enneking. While such persons intend to devote such time to the business of the Fund as they deem necessary, they may have other ongoing investment and business responsibilities which could have the effect of reducing the time they will devote to the investment activities of the Fund. The Investment Manager may retain additional personnel as it deems necessary.

*Possible Other Relationships With Portfolio Fund Managers.* Although the Investment Manager intends to employ numerous objective criteria in selecting Portfolio Fund Managers, it is possible that in certain situations a Portfolio Fund Manager retained by the Fund will have had prior investment relationships or other business dealings with the Investment Manager, the Portfolio Manager or other personnel or affiliates of the Investment Manager. While the Investment Manager will endeavor to approach such situations as objectively as possible, the fact of prior or continuing business relationships with a prospective Portfolio Fund Manager or Portfolio Fund will not necessarily disqualify them from consideration.

*New Investment Strategies and Related Products.* From time to time, the Investment Manager or its affiliates may determine to develop new investment strategies, with a view toward offering new managed account or investment fund products to investors. Such new investment strategies may be similar in certain or many respects to the investment strategies employed by the Investment Manager's existing clients, including the Fund, and may involve the purchase and sale of some or all of the securities and investments which comprise the portfolio of the Fund. Such new investment strategies may be "tested" by means of one or more newly established accounts or investment funds that are initially funded by capital of the Investment Manager and/or its affiliates. To the extent that the assets of a new investment account or fund remain solely attributable to affiliates of the Investment Manager, the investment account or fund will be treated as a personal account of the principals of the Investment Manager and will be required to comply with the personal account trading policy of the Fund subject to exceptions as may be determined by the Investment Manager and its affiliates from time to time. Such investment account or fund may be expected at times to engage in purchases and sales of securities contemporaneously with purchases and sales of the same securities by the Fund. In such event, it is anticipated that allocations of securities among such new investment account or fund and the Fund will generally be made as described below, but may, due to strategy related or other reasons, vary in the discretion of the Investment Manager. At all times, the Investment Manager intends to monitor the investment activities and allocations with respect to the new investment account or fund and the



Fund and intends to operate the new investment account or fund in a manner that will not negatively impact the Fund.

*Possible Conflicting Positions Among Strategies.* There may be significant differences between the investment strategies employed by the Fund and the investment strategies employed by new investment funds established by the Investment Manager. As a result of such differences, there may be times when the Fund maintains contrary positions in the same securities as such investment fund (i.e., such investment fund may be long in a particular security position and at the same time the Fund may be short the same security position, or vice versa). There may also be times when the Fund and such investment fund may engage in contrary trades in the same security (i.e., such investment fund may purchase securities and the Fund may sell the same securities, or vice versa). The Investment Manager intends to engage in such contrary investment activities only for legitimate investment reasons deemed consistent with the investment objectives and strategies of the Fund and any such other investment funds. It is also the intention of the Investment Manager to engage in such contrary investment activities in a fair and equitable manner so as to minimize, to the extent possible, the effect on the Fund.

*Valuations and Other Matters.* The Fund's Administrator, under the direction of the Board of Directors and in consultation with the Investment Manager, calculates the value of the Fund's assets and the net asset value per share of each series of each class of the Shares. In making such calculations, the Administrator relies on the Portfolio Fund Managers' (or their authorized agents' or administrators') valuations of their respective Portfolio Funds and the interest of the Fund therein, and in certain cases may rely on the value of any such Portfolio Fund as reported to the Administrator by the Investment Manager, some of which values may be estimated. With respect to any investments in securities and instruments other than Portfolio Funds, the Administrator will rely on values reported to it by third parties including the Investment Manager. Such valuations will affect both reported investment performance of the Shares as well as the calculation of the Performance Fee payable to the Investment Manager with respect to the Shares. Under the Fund's Articles of Association, certain investments held by the Fund, such as securities that are not readily marketable or securities that lack a quoted value, are to be valued by the Board of Directors, which will afford the Board of Directors considerable discretion in determining the valuation methodology applicable to such securities.

Notwithstanding a good faith valuation estimate by a Portfolio Fund Manager, the Investment Manager or other third party, the actual value of an investment by the Fund in a Portfolio Fund or any other asset held by the Fund may prove significantly different and such event may materially affect the Net Asset Value per Share. Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio positions could have an adverse effect on the assets of the Fund. In no event and under no circumstances shall the Administrator, the directors or officers of the Fund, the Investment Manager, or their respective agents and employees, incur any individual liability or responsibility for any determination made or other action taken or omitted to be taken by them so long as they act in good faith.

*Conflicts Regarding Fees Payable to Investment Manager.* The annual Performance Fee payable to the Investment Manager is determined and paid annually, based upon the increase, if any, in the Net Asset Value of each Share over the Net Asset Value per Share of the Fund during each year. See "*Fees and Expenses – Performance Fee*". Since the Performance Fee is determined on both realized and unrealized gains, the Investment Manager may receive a fee reflecting unrealized gains at the end of a year that are not subsequently recognized by the Fund. In general, the fact that the Performance Fee is based on capital appreciation of the Fund's Shares may create an incentive for the Investment Manager to make investments that are more speculative than would be the case in the absence of such a performance-based incentive fee. The Investment Manager will have the right to agree to reductions in the Performance Fee chargeable to particular shareholders, for such consideration (if any) as it deems appropriate, without notice or offering any similar opportunity to other shareholders. See "*The Investment Manager Agreement*".

*New Issues.* Under the Fund's current policy, shareholders that are "restricted persons", within the meaning of FINRA Rule 2790 (the "New Issue Rule"), generally do not participate in profits and losses resulting from the Fund's investment in any underwritten initial public offerings of equity securities ("New Issues"). The Fund may modify its policy with respect to New Issues, in its sole discretion. As permitted by the New Issue Rule, the Investment Manager is entitled to receive its 20% Performance Fee on any profits derived in connection with the Fund's New Issue purchases. Such an arrangement may be regarded as creating a financial conflict of interest between the Investment Manager and the shareholders. In particular, non-restricted shareholders bear the risk of possibly speculative investments in New Issues, in which the Investment Manager would have no portion of its own capital at risk but receives a Performance Fee as to any profits derived from such investments.

*Possible Conflicts Regarding Brokerage Allocations.* In the event that the Fund engages in direct investments, the Investment Manager may allocate brokerage on the basis of the broker's agreement to pay all or part of certain research-related expenses of the Fund, the Investment Manager and/or their respective affiliates, provided such expenses qualify for a "safe harbor" provision under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, to the extent such allocations resulted in the payment by such brokers of expenses that would otherwise be borne by the Investment Manager or its affiliates, the Investment Manager would realize an economic benefit from such allocations and might be deemed to have a financial conflict of interest with the Fund.

*Possible Agreements with Certain Shareholders and Other Investors.* The Fund and the Investment Manager may from time to time enter into agreements with one or more shareholders whereby in consideration for agreeing to invest certain amounts in the Fund and other consideration deemed material by the Investment Manager, such shareholders may be granted favorable rights not afforded to other shareholders or investors, generally. Such rights may include one or more of the following: special rights to make future investments in the Fund, the other investment funds or managed accounts, as appropriate; special liquidity terms relating to frequency, notice and/or other terms of redemption (subject to the fiduciary obligations of the Board of Directors to act in the best interests of all shareholders and to treat all shareholders fairly and to any provisions regarding the modification of shareholder rights in the Articles of Association of the Fund); rights to receive reports from the Fund on a more frequent basis or that include information not provided to other shareholders (including, without limitation, more detailed information regarding positions); rights to receive reduced rates of the Performance Fee; rights to receive a share of the Performance Fee, or other amounts earned by the Investment Manager or its affiliates; and such other rights as may be negotiated between the Fund and such shareholders. The Fund and the Investment Manager may enter into such agreements without the consent of or notice to the other shareholders.

In addition, the Investment Manager may from time to time enter into similar agreements with one or more managed account investors. It should be noted that managed account investors are typically provided with additional transparency with respect to the investment positions of the managed accounts and may be provided with real-time, direct access to the managed accounts portfolio positions, on a negotiated, case-by-case basis.

*Information Provided by the Investment Manager.* Factual information contained in this Memorandum, including without limitation, the investment strategy and policies, biographical and certain other information, has been furnished largely by the Investment Manager and its affiliates and in general has not been independently confirmed or verified. Therefore, shareholders should seek to confirm such information, seek additional information or conduct further investigation as they deem appropriate in connection with a decision to invest in the Fund.

*Board Participation.* Messrs. Polykovskiy and Enneking, the principals of the Investment Manager, are the only members of the Board of Directors of the Fund. The Board of Directors of the Fund is responsible for a variety of important matters affecting the Fund. The approval of the calculation of value

of the securities and other investments held by the Fund is determined by the Board of Directors. Valuation of securities affects both Fund performance and the calculation of fee compensation payable to the Investment Manager. See “-- *Valuations and Other Matters*”.

*Conflicts Regarding Role of Counsel.* U.S. counsel to the Fund has represented, and continues to represent, the Investment Manager in certain matters. Such counsel does not purport to represent the separate interests of the shareholders of the Fund and has assumed no obligation to do so. Accordingly, such shareholders will not have had the benefit of independent counsel in the structuring of the Fund or determination of the relative interests of the shareholders and the Investment Manager and directors of the Fund.

### **Limited Liquidity**

Common Shares of the Fund are significantly less liquid than many other securities investments, as there is highly unlikely to be an active secondary trading market for the Common Shares. A shareholder has the right to cause the Fund to redeem his Common Shares, but only as of the end of a calendar month and upon at least thirty (30) days’ prior written notice. In addition, any redemptions of Common Shares during the first six months following the initial subscription of such Common Shares are subject to a 5% early redemption fee, which is payable to the Fund. In the case of a partial redemption, the Net Asset Value of the Common Shares redeemed must be at least U.S.\$5,000 and the redeeming shareholder’s remaining Common Shares must have an aggregate Net Asset Value as of the date of redemption equal to or greater than the lesser of the amount of his initial investment or U.S.\$10,000. The Fund has the right to suspend redemptions under certain conditions, including situations where the Fund is restricted in its ability to make comparable withdrawals from one or more Portfolio Managers. See “*Redemption of Common Shares*”. There are certain limitations on transfer of the Common Shares, including those involving transferees who may be “U.S. Persons”. See “*Description of Common Shares – Restrictions on Ownership and Transfer*”.

### **No Distributions**

The Fund does not anticipate paying dividends or making other distributions to its shareholders. To the extent gains and income are realized by the Fund, the Investment Manager is likely to reinvest the same on behalf of the Fund.

### **Lack of Participation by Shareholders**

Fund shareholders have no right to participate in the day-to-day operations of the Fund and some of their actions as shareholders are subject to extraordinary voting requirements for approval. In addition, the Subscription Agreement provides for the grant by the subscriber of a revocable proxy to the Administrator for voting the Common Shares, except for certain limited corporate transactions. See “*Description of Common Shares*”.

### **Currency Fluctuations**

The Investment Manager does not presently intend to invest any material portion of the assets of the Fund in securities denominated in currencies other than the U.S. dollar, and the Fund’s accounts are stated in U.S. dollars. There is no way to reliably predict future currency fluctuations involving the U.S. dollar or other foreign currencies and the effect of such fluctuations on the financial situation of each shareholder. Although the Investment Manager may consider, in its investment process, a Portfolio Fund Manager’s strategy with regard to currency hedging, there is no intended policy at the Fund level to protect against currency fluctuations relative to the home currency of each shareholder and prospective investors are urged accordingly to seek such protection to the extent they deem appropriate.

## Certain U.S. Tax Risks

The Fund is a passive foreign investment company (a “**PFIC**”) as defined in Section 1297 of the Internal Revenue Code of 1986, as amended (the “Code”). Accordingly, U.S. Persons who are investors in the Fund, other than tax-exempt entities, will, as a general matter, be subject to taxation pursuant to a so-called “excess distribution” regime, under which (a) the entire gain realized upon a sale or redemption of Participating Shares of the Fund will be allocated ratably to all days in the investor’s holding period and subjected to taxation as ordinary income at the highest rate of tax for the year to which such gain is allocated, without regard to any otherwise available offsets deductions, losses and expenses, and (b) the resulting amount of taxes will be subject to an interest charge at the rates applicable to an underpayment of taxes. The Fund does not presently intend to provide any U.S. Person that is an investor in the Fund with a PFIC Annual Information Statement that would enable such investor to make an election to treat the Fund as a “qualifying electing fund.” See *“Certain Tax Considerations -- Certain U.S. Income Tax Considerations – Taxation of U.S. Taxable Investors – Passive Foreign Investment Company.”*

Prospective investors in the Fund should recognize that certain categories of income (the broadest and most important of which is “fixed or determinable annual or periodical gains, profits, and income” received by the Fund from a U.S. source), are subject to tax at a flat rate of 30% imposed on a gross basis. See *“Certain Tax Considerations -- Certain U.S. Income Tax Considerations -- Taxation of the Fund – FDAP Income.”*

A U.S. tax-exempt entity should be aware that income received by it from the Fund will be deemed to be “unrelated business taxable income” if and to the extent that such entity incurs indebtedness to acquire Participating Shares of the Fund.

The summary of certain U.S. federal income tax principles applicable to an investment in the Fund that is set forth in this Memorandum, see “Certain Tax Considerations -- Certain U.S. Income Tax Considerations,” is considered to be a correct interpretation of existing laws and regulations in force as of the date of this Memorandum; however, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with such interpretations or that changes in such laws and regulations will not occur. Any such changes may or may not be retroactive with respect to transactions consummated prior to the date such changes are announced. This summary is not intended as a substitute for careful tax planning, and prospective investors in the Fund are urged to contact their own tax advisors with respect to the tax consequences to them of an investment in the Fund.

## Other Tax Risks

The summary of certain of the material tax principles applicable to an investment in the Fund that is set forth in this Memorandum, see *“Certain Tax Considerations,”* is considered to be a correct interpretation of existing laws and regulations in force as of the date of this Memorandum; however, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with such interpretations or that changes in such laws and regulations will not occur. Any such changes may or may not be retroactive with respect to transactions consummated prior to the date such changes are announced. This summary is not intended as a substitute for careful tax planning, and prospective investors in the Fund are urged to contact their own tax advisors with respect to the tax consequences to them of an investment in the Fund.

Prospective investors in the Fund should recognize that certain categories of income (the broadest and most important of which is “fixed or determinable annual or periodical gains, profits, and income” received by the Fund from a U.S. source), are subject to tax at a flat rate of 30% imposed on a gross basis. See *“Certain Tax Considerations – Certain U.S. Income Tax Considerations – Taxation of the Fund”.*

A Qualified U.S. Tax-Exempt Entity should be aware that income received by it from the Fund will be deemed to be “unrelated business taxable income” if and to the extent that such entity incurs indebtedness to acquire shares of the Fund.

### **Limited U.S. Regulation**

The Fund and the Investment Manager are subject in certain respects to regulation by the U.S. Securities and Exchange Commission (the “SEC”). However, the Fund has not registered under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”) or the U.S. Investment Advisers Act of 1940, as amended, and the Shares are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or any similar state law, all in reliance upon various exemptions. Accordingly, shareholders do not have the benefit of certain regulatory protections of such laws afforded by such registration.

In the event the Fund were to invest in regulated futures contracts or options thereon, the Investment Manager may be required to register as a commodity pool operator under the U.S. Commodity Exchange Act, as amended. The Investment Manager does not intend to engage in any such investments unless and until it is so registered, or an exemption from registration is available.

Although the Fund may be subject to securities laws of certain jurisdictions in which Common Shares may be offered for sale, there can be no assurance that the Fund will be subject to significant regulation under the securities laws of any particular jurisdiction. In general, there may be other aspects of current or future regulation of investment funds, investment advisers and their affiliates or associated persons which could have an impact upon the Fund’s investment activities or operations

In recent periods both the SEC and the U.S. Congress have devoted increased attention to the issue of whether hedge funds and other private investment vehicles should be subject to increased or different modes of regulation. It is not currently practicable to predict the form or extent of such future regulation. Changes in applicable securities laws or regulations could impose additional compliance or financial burdens upon the Fund or its constituent Portfolio Funds or affect their operations in other respects.

### **Limitation of Liability of the Investment Manager, the Administrator and Directors; Indemnification**

The Investment Manager Agreement and Administration Agreement (as defined herein) provide for certain limitations respectively on the liability of the Investment Manager, in connection with the performance of its duties under the Investment Manager Agreement, and on the liability of the Administrator, in connection with the performance of its duties under the Administration Agreement. In addition, pursuant to the Investment Manager Agreement, the Administration Agreement and the Articles of Association of the Fund, the Fund has agreed to indemnify the Investment Manager, the Administrator and the directors and officers of the Fund, respectively, from and against certain losses, damages, liabilities and expenses incurred by such parties in the course of performing their duties for the Fund.

## **THE INVESTMENT MANAGER**

Pursuant to the terms of the Investment Manager Agreement, the Fund has retained Altima Asset Management, an asset management company organized as an exempted company limited by shares, with limited liability, under the laws of the Cayman Islands (the “Investment Manager”), as investment manager for the Fund, with full discretionary authority and responsibility to implement the investment objectives of the Fund and to manage the assets of the Fund. Alexander Polykovskiy and Timothy Enneking

serve as the principals of the Investment Managers. As such, Messrs. Polykovskiy and Enneking are the individuals primarily responsible for directing the investment of the Fund's assets.

The Investment Manager or certain of its affiliates may serve as general partner, investment adviser and/or investment manager to a number of other investment funds and managed accounts, certain of which may employ investment strategies that are substantially similar to the investment strategy employed by the Fund. The Investment Manager and its affiliates, including Messrs. Polykovskiy and Enneking, may participate in or sponsor other investment vehicles, and possibly have additional advisory clients and managed accounts, in the future. In addition to the Fund, the Investment Manager also currently manages Altima Universal Fund, a private equity fund. The Investment Manager, Messrs. Polykovskiy and Enneking and their affiliates may also determine to engage in other businesses. See "*Risk Factors – Conflicts of Interest*".

The following is a summary of the business and educational background of Messrs. Polykovskiy and Enneking, who, as principals of the Investment Manager, are responsible for all Fund investment decisions on behalf of the Investment Manager.

**Alexander Polykovskiy**, 49, is a co-founder of the Fund and currently serves as a Director of the Fund. Mr. Polykovskiy also currently serves as a principal and the managing director of the Investment Manager. Mr. Polykovskiy has been managing investments and business in Russia since 1992. Mr. Polykovskiy is a graduate of the Moscow Production Technology Institute and has a DBA in Business Administration from the American University. In 1993, Mr. Polykovskiy co-founded the Alan Group of companies; which includes logistics and construction companies. He sold the companies in 2005 and currently serves as a director of the Alan Group.

**Mr. Timothy Enneking**, 49, is a co-founder of the Fund and currently serves as a Director of the Fund. Mr. Enneking is also the founder, chairman of the board of directors, and a principal of the Investment Manager. Prior to founding the Fund, Mr. Enneking was the Director of Corporate Development for Optim Advisors, which manages over U.S.\$50 million in assets of the Diversified Property Fund ("DPF"), a fund focused on Russia, as well as the president of Optim Advisors' Metals Group and the president of Magnesium.com, which include all of DPF's metal production and trading activities. Since 2005, he has served as the chairman of the board of directors of Amerim. Prior to joining Optim Advisors in 2004, Mr. Enneking was the president of Tera Finance, a financial consulting firm, and the chief executive officer of Baytree International, a B2B internet company. From 1997 to 2001, he worked for Global TeleSystems, Inc. (GTS), as the Vice President, M&A. While with GTS, he was one of the principal executives who took GTS, and its major subsidiary (now Golden Telecom, Inc.), public on the Nasdaq Stock Market in the U.S. Mr. Enneking has been the principal executive in charge of over 50 M&A transactions throughout Europe and the CIS Countries, with an aggregate transaction value of over U.S.\$10 billion and has extensive analysis and transactional experience in Russia. He speaks near-native Russian and French. He has four advanced degrees: a M.B.A. in international business from the University of Baltimore, a J.D. and LL.M. in international law from Georgetown University, and a B.A. in Soviet Area Studies from the University of Maryland.

In addition to the principals, the Investment Manager may hire additional full-time and/or part-time personnel, including portfolio research personnel. The number of personnel may change from time to time in the discretion of the Investment Manager. All personnel and related expenses are the responsibility of the Investment Manager.

The Investment Manager is an "excluded person" under The Fourth Schedule of the Securities Investment Business Law (2004 Revision) of the Cayman Islands and has registered with the Cayman Islands Monetary Authority ("CIMA") as such under Part III of the Securities Investment Business Law (2004 Revision) of the Cayman Islands.

## **THE INVESTMENT MANAGER AGREEMENT**

### **Services**

Pursuant to the terms of the Amended and Restated Investment Manager Agreement, dated as of December 1, 2007, by and between the Fund and the Investment Manager (the "Investment Management Agreement"), the Investment Manager has full investment discretion and authority to implement the investment objectives of the Fund and to manage the assets of the Fund. The Investment Manager is responsible for the selection of brokers-dealers to effect portfolio transactions for the Fund and of other parties to render services to the Fund. The Investment Manager will also furnish the Administrator with appropriate information for purposes of preparing reports to shareholders regarding the Fund's performance.

### **Term**

The current term of the Investment Manager Agreement will end on December 31, 2010, and is automatically renewed for a further period of two (2) years thereafter unless either party gives notice of its desire not to renew, provided that the Investment Management Agreement shall be terminable as of the end of a calendar month by either party upon one (1) year's written notice to the other party, provided that any such termination by the Fund shall be effective only if, prior thereto, such termination shall have been approved by the affirmative vote of the holders of at least two-thirds (2/3) of the issued and outstanding voting Management Shares.

The Investment Manager, in its discretion, may delegate as appropriate any of its duties and obligations pursuant to the Investment Manager Agreement, at any time, to one or more persons or entities.

### **Liability**

The Investment Manager shall not be liable to the Fund or its shareholders for any losses, damages, expenses or claims occasioned by any act or omission of the Investment Manager in connection with the performance of its services under the Investment Management Agreement taken in good faith, other than as a result of the Investment Manager's negligence, willful default, fraud or dishonesty in the performance or non-performance of any of its obligations or duties under the Investment Management Agreement or as otherwise required by applicable law.

The Fund has agreed to indemnify and hold harmless the Investment Manager, and its directors, officers, employees and shareholders (the "Indemnitees") against any and all losses, damages, expenses and liabilities arising out of or connected with any services or transactions contemplated by the Investment Manager Agreement, provided, however, that the Fund shall not be obligated to indemnify or hold harmless the Investment Manager or the Indemnitees insofar as the losses, damages, expenses or liabilities incurred by the Investment Manager or the Indemnitees in any action have arisen out of gross negligence, bad faith, willful or feckless misfeasance, breach of fiduciary duty by, or on, the part of the Investment Manager or the Indemnitees or the disregard of any of obligations of the Investment Manager under the Investment Management Agreement. To the extent permitted by law, the Fund may advance the expenses of defending any such claim.

The Investment Manager has also agreed to indemnify the Fund under certain circumstances.

## **FEES AND EXPENSES**

The following is a summary of the fees and expenses which are borne by the Fund.

### **Performance Fee**

Pursuant to the Investment Management Agreement, the Fund will pay to the Investment Manager a performance fee (the “Performance Fee”), determined and payable for each fiscal year (or partial year) of the Fund, in an amount, determined separately as to each series of Shares outstanding during the year, equal to twenty percent (20%) of the increase in the Net Asset Value of each Share over the Net Asset Value per Share of the Fund during each year. The Performance Fee will be payable at the end of each calendar year in cash or Shares, at the election of the Investment Manager. No Performance Fee with respect to a Share will be due, however, as to a Net Asset Value increase with respect to such Share unless, and only to the extent that, such increase in Net Asset Value on the date of valuation exceeds the lesser of the Net Asset Value per Share at the time of subscription for such Share or the Net Asset Value per Share at the time the last Performance Fee was assessed against such Share. The Investment Manager will have no obligation to restore to the Fund any Performance Fee previously earned and paid, notwithstanding a loss in a subsequent period.

The Investment Manager will be paid its Performance Fee within 10 days after the end of each fiscal year for which such Performance Fee was earned, or, if applicable, within 10 days after each redemption of Shares, if other than the last day of a fiscal year. Payment of the Performance Fee is subject to adjustment upon completion of the audit of the Fund's annual financial statements for the fiscal year in which the Performance Fee accrues. If the audit shows that the Performance Fee previously paid to the Investment Manager was lower than the Performance Fee that actually was due, the Fund will pay the shortfall to the Investment Manager. If the audit shows that the Performance Fee paid to the Investment Manager was higher than the Performance Fee that actually was due, the Investment Manager will refund the excess to the Fund, with payment being made within 10 days after completion of the audit. The Investment Manager will be paid the Performance Fee in cash or in Shares of the Fund, at a price per share equal to the then current Net Asset Value per Share, at the election of the Investment Manager.

The Investment Manager has the right, in its discretion, to charge differing Performance Fees to different Shares or series of Shares or to reduce, rebate, waive or eliminate all or any part of the Performance Fees chargeable to any Shares or series of Shares; provided, however, that in no event shall the Performance Fee charged to any Share exceed a rate of twenty percent (20%) of the increase in Net Asset Value thereof without the express consent of the holder of such Share.

### **Management Fee**

The Investment Manager will not receive a separate management fee for the management and administrative services it provides to the Fund.

### **Administrator's Fees**

The Administrator is entitled to remuneration from the Fund, which will be commensurate with its customary fees for the performance of such services, as a percentage of the Net Asset Value of the Fund (subject to a minimum monthly fee) at rates set out in the Administration Agreement. Fees of the Administrator are payable quarterly in arrears. The Administrator is also entitled to reimbursement of its out-of-pocket expenses and to additional remuneration in respect of exceptional matters in such amounts as may be agreed between the Fund and the Administrator.



## **Organizational Expenses**

All business expenses incurred in the organization and formation of the Fund have been borne by the Investment Manager.

## **Other Fund Expenses**

The Fund will bear the Operating Expenses.

## **AGENTS OF THE FUND**

### **Administrator**

Maples Finance Limited, a licensed trust company and mutual fund administrator headquartered in the Cayman Islands, is the administrator of the Fund (the "Administrator"). The Administrator is wholly owned by Maples and Calder, the Fund's Cayman Islands legal counsel.

The Administrator has been appointed pursuant to an Administration Agreement, dated November 14, 2007, between the Administrator and the Fund (the "Administration Agreement"). In accordance with the Administration Agreement, the Administrator is responsible (under the ultimate supervision of the Fund) for a range of administrative functions, including: (i) processing of the issue, transfer and redemption of Shares, (ii) maintenance of the Fund's Register of Members, (iii) calculating the Net Asset Value of the Fund and Net Asset Value per Share; (iv) performing Cayman Islands anti-money laundering procedures in respect of shareholders and prospective shareholders in the Fund (provided that the Fund shall ultimately be responsible for ensuring appropriate compliance with all relevant anti-money laundering obligations); (v) sending notices of meetings, reports, financial statements and other materials to shareholders and responding to shareholder inquiries; and (vi) performing such other services as may be agreed in connection with the administration of the Fund.

Under the terms of the Administration Agreement, the Administrator shall not be liable for any damage, loss, claims, proceedings, demands, liabilities, costs or expenses whatsoever ("Losses") suffered or incurred by the Fund at any time from any cause whatsoever unless arising directly as a result of the Administrator's actual fraud or willful default, or that of any of its directors, officers or employees, as the case may be. The Administrator shall be entitled to appoint such agents or delegates to perform its services under the Administration Agreement, provided that the Administrator may not delegate or subcontract any of its services to any person who is not an affiliate of the Administrator without the prior consent of the Fund. The Administrator shall not be liable for any loss occasioned by any agent or delegate appointed pursuant to the Administration Agreement provided that the Administrator has exercised reasonable skill and care in the selection of that agent or delegate. However, where the Administrator delegates or sub-contracts the services provided under the terms of the Administration Agreement to an affiliate (as defined in the Administration Agreement), the Administrator shall remain liable for any loss caused by such affiliate but only to the extent that it would have been liable for such loss under the Administration Agreement if such loss were caused by the Administrator itself. The Administrator is not responsible in any circumstances for the appointment of the Investment Manager.

For the purpose of calculating the Net Asset Value of the Fund, the Administrator may rely (without further inquiry) on information supplied to it by or on behalf of the Fund, the Investment Manager, or another service provider, including brokers used by the Investment Manager. The Administrator shall not (in the absence of actual fraud or willful default on its part) be liable for any loss suffered by the Fund or any shareholder by reason of any error in the calculation of Net Asset Value resulting from any inaccuracy in any such information.

The Administrator is not responsible or liable in any circumstances for: (i) any trading decisions of the Fund (all of which will be made by the Investment Manager); (ii) monitoring the investment objectives and restrictions of the Fund; (iii) monitoring any of the functions carried out by the board of directors of the Fund, the Investment Manager, or any other service provider appointed by the Fund; or (iv) the Fund's investment performance.

The Administrator is a service provider to the Fund and is not responsible for the preparation of this Information Memorandum and, other than the information contained in this Information Memorandum with respect to the Administrator, accepts no responsibility for any information contained in this Information Memorandum.

The Fund has agreed to indemnify and hold harmless the Administrator, for itself and as trustee for each of its directors, officers, employees and agents, against all Losses which they or any of them may incur or be subject to in consequence of the Administration Agreement or as a result of the performance of the services to be provided thereunder, except to the extent that the same arise as a result of the actual fraud or willful default of the party seeking such indemnity.

The Administration Agreement can be terminated by either party on not less than ninety days' written notice or in the other circumstances detailed in the Administration Agreement.

The Administrator is licensed in the Cayman Islands as a Mutual Fund Administrator under the Funds Law and as a Trust Company under the Banks and Trust Companies Law (2007 Revision) of the Cayman Islands.

#### **Board of Directors**

The Board of Directors of the Fund has overall responsibility for the business and affairs of the Fund, to the extent provided by the laws of the Cayman Islands. The directors of the Fund are Mr. Polykovskiy and Mr. Enneking. All directors receive reimbursement from the Investment Manager for travel and other costs incurred in connection with their services as directors.

The Articles of Association of the Fund provide that no director or officer of the Fund shall be liable for any loss, damage or misfortune that may happen to be incurred by the Fund in the execution of such director's duties or in relation thereto, provided that any such liability did not arise from such director's willful default or actual fraud.

#### **Registered Office**

Maples Corporate Services Limited (the "Registered Office"), with a mailing address of PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, serves as the registered office for the Fund in the Cayman Islands with such responsibilities as are prescribed under the laws of the Cayman Islands.

### **OFFERING PRICE**

Shares may be subscribed for at a price per Share equal to the Net Asset Value (as defined herein) per Share (the "Offering Price"). Shares may be subscribed for as of the first Business Day of a calendar month (or at other times, in the discretion of the Fund), in separate series at each issue date, at the Offering Price, subject to any sales or subscription charges. Shares will be offered in a separate series for each purchase date. The primary purpose for such separate series is to assure that the Investment Manager's Performance Fee attributable to such Shares will be based solely upon appreciation in such Shares from the

time of purchase to the applicable date of calculation. However, separate series may be issued for other purposes in the Fund's discretion. The number of Shares to be purchased will be the amount of the purchaser's subscription funds, divided by the Offering Price per Share. The minimum initial subscription by a shareholder is U.S.\$10,000. The Fund reserves the right to reject a subscription, or any portion thereof, or to terminate the offering of Common Shares at any time. See "*Description of Common Shares*".

## **REDEMPTION OF COMMON SHARES**

A holder of Common Shares has the right to redeem all or, if the Directors consent, any part of such Common Shares on the last Business Day of any calendar month or such other Business Day as the Board of Directors may determine in their sole discretion (a "Redemption Date"), at a redemption price per Common Share equal to the Net Asset Value per Share as of the close of business on the redemption date after deduction of any Performance Fee accrued for the year in which the redemption takes place ("Redemption Price"). In the case of redemptions as of a date other than the last Business Day of a fiscal year, a Performance Fee accrual will be determined in the same manner as that in which the annual Performance Fee is computed at the end of each fiscal year and will be deducted from the Net Asset Value of the Common Shares redeemed in determining the redemption price.

A redemption request, specifying the desired Redemption Date, must be received in writing by the Administrator at least thirty (30) days prior to such Redemption Date together with the Share certificate(s) (if issued to the shareholder) representing the Common Shares to be redeemed. The Fund may, in its discretion, reduce or waive the prior notice required for any redemption request. Subject to the receipt of the original redemption request by the Administrator, payment for Common Shares so redeemed shall be made not later than thirty (30) days following such Redemption Date; except that the Board of Directors may elect in their sole discretion to make payment with respect to 90% of the value of the Common Shares so redeemed no later than thirty (30) days following such Redemption Date, with the balance paid within ninety (90) days after the Redemption Date. No interest will be paid on any redemption amounts from the Redemption Date to the date of full payment.

The Fund will redeem Shares by a shareholder prior to six months from the date of his initial purchase of Common Shares, but such redemptions will be subject to an early redemption fee equal to 5% of the amount redeemed, which fee will be deducted from the redemption payment. All redemption fees shall be paid to the Fund. Except as aforesaid, no redemption penalty or administrative fee will be charged for a redemption on a Redemption Date. In the event of a partial redemption of Shares by a holder who has purchased his or her Shares at different times, the Fund will deem Shares purchased first as the Shares to be redeemed first for the purposes of assessing the redemption fee.

A redemption of a portion of a holder's Common Shares will only be permitted if (i) such Common Shares being redeemed have a total Net Asset Value of not less than U.S.\$5,000; and (ii) immediately after such redemption, the aggregate Net Asset Value of the remaining Common Shares owned by the holder is at least equal to the lesser of the total Net Asset Value of the holder's Common Shares at the time of purchase or U.S.\$10,000, unless such restrictions are waived by the Fund's directors in their discretion.

Common Shares are subject to mandatory redemption at any time for any reason that the Board of Directors may determine at a Redemption Price equal to the Net Asset Value Per Share upon thirty (30) days notice from the Fund. See "*Description of Common Shares – Restrictions on Ownership and Transfer*". The Redemption Price for Common Shares subject to mandatory redemption will be payable within twenty (20) days of the effective date of redemption.

The Fund has the right to make payment of the Redemption Price in cash, or (if deemed by the directors of the Fund to be in the best interest of the Fund) partially in cash or in securities held by the Fund or wholly in such securities, as such securities may be selected by the Investment Manager and valued in the same manner as in determining Net Asset Value.

The Fund has the right to suspend redemptions. See “*Calculation of Net Asset Value Per Share – Suspension of Redemptions and Calculation of Net Asset Value Per Share*”.

## **CALCULATION OF NET ASSET VALUE PER SHARE**

### **Method of Calculation**

*General.* The Administrator calculates the Net Asset Value of the Fund in U.S. dollars as of the last Business Day of each calendar month and any other valuation date.

The Net Asset Value per Share is determined by calculating the total Net Asset Value of the Fund allocable to each class or series of Shares as of a valuation date, adjusting the amount so calculated to reflect any adjustments that are properly attributable to a specific class or series, and dividing that total by the total number of Shares in each class or series outstanding at such valuation date. From and after the date of issuance of any series of Shares, the Net Asset Value per Share will be calculated separately for each series to reflect the separate Performance Fee accrual, if any, for such series.

“Net Asset Value” of the Fund means the value of all assets of the Fund (including accrued interest and dividends), reduced by the amount of all liabilities of the Fund (including but not limited to accrued expenses and the Operating Expenses) and estimated costs of realization determined as of the valuation date, with such adjustments as are described below. In making any such determinations, the value of assets of the Fund consisting of interests in Portfolio Funds is valued as provided in the constituent instruments of the Portfolio Fund. In determining the value of other instruments held by the Fund, such value will generally be determined by the Administrator in accordance with the Fund’s governing documents, as described below:

(a) *Investments in Portfolio Funds.* The Fund’s assets that are invested in Portfolio Funds will be valued as reported by the Portfolio Funds’ Portfolio Fund Managers to the Investment Manager or Administrator in accordance with the Portfolio Funds’ respective constituent documents or as otherwise agreed by the Fund. The Investment Manager and Administrator shall have no obligation to independently verify such reported valuations in connection with the calculation of the value of such assets or Net Asset Value per Share, and shall bear no responsibility or obligation to independently verify such values which shall be deemed final and conclusive.

(b) *Direct Investments.* To the extent that the Fund’s assets are managed directly by the Investment Manager, such assets shall be valued as follows:

(i) Listed Portfolio Securities. Listed portfolio securities will be valued (i) at the last reported sale price of the security on the primary exchange on which such security is traded on the date of determination, or in case there has been no sale of such security on such date, then at the mean between the last reported “bid” and “ask” price for such security.

(ii) Securities that are not Readily Marketable. Securities that are not readily marketable or securities for which there is no quoted value will be valued as the Board of Directors of the Fund in their sole discretion may determine.

(iii) Other Securities. All other securities will be assigned a value that the Board of Directors of the Fund, in good faith, determines to reflect the fair market value thereof.

(iv) Liabilities Generally. All liabilities of the Fund, including appropriate accruals for the Performance Fee, the Administrator's fees and, to the extent not borne by the Investment Manager pursuant to the Investment Management Agreement, other expenses, the monthly amortization of organization costs, audit and legal fees, and any reserve or reserves deemed appropriate by the Administrator, in consultation with the Investment Manager, for any contingent liabilities, will be subtracted from total assets to determine net assets.

The Board of Directors of the Fund may use methods of valuing securities other than those set forth above if the Board believes the alternate methods are preferable in determining the fair market value of such securities. In connection with each determination of the Net Asset Value per Share, the Administrator may consult with and is entitled to rely in good faith upon any determination of the Fund's directors and/or recommendations of the Investment Manager. In no event and under no circumstances will the Administrator, the directors or officers of the Fund, the Investment Manager, or their respective agents and employees, incur any individual liability or responsibility for any determination made or other action taken or omitted to be taken by them so long as they act in good faith.

### **Suspension of Redemptions and Calculation of Net Asset Value Per Share**

The Fund may suspend the redemption of Shares and/or the calculation of Net Asset Value per Share during the following circumstances: (i) one or more exchanges or other markets on which a significant amount of the Fund's investments are traded or quoted are closed for any reason other than that of an ordinary holiday, or transactions at these exchanges are restricted or suspended; (ii) the existence of any state of affairs that constitutes an emergency as a result of which the determination of the price, value or disposition by the Fund of investments owned by it is not reasonably practicable or would be seriously prejudicial to shareholders; (iii) any breakdown in the means of communication normally employed in determining the price or value of any of the Fund's investments, or of current prices in any market, or when for any other reason the prices or values of any investments owned by the Fund cannot reasonably be promptly and accurately ascertained; (iv) in the opinion of the Directors, the effect of redemption would be to seriously impair the Fund's ability to operate or result in the violation of any provision of applicable law or the rules of any regulatory organization; or (v) the exercise of the Fund's rights to withdraw from any Portfolio Fund may be suspended or restricted, or payment of the proceeds of such withdrawal may be delayed or cannot be effected at normal rates of exchange, or when there is any continuing default or delay in obtaining payments due to the Fund from banks, brokers or other persons who may have custody or control of the assets of the Fund, or when remittance of money that will or may be involved in the realization of, or in the payment of, any of the Fund's investments is not possible.

The Fund will take all reasonable measures to notify the Fund's shareholders of any such suspension of redemptions or calculation of Net Asset Value per Share.

## **DESCRIPTION OF COMMON SHARES**

### **General**

The Fund is authorized to issue 5,000,000 common shares, which are divided into 100 non-participating voting common shares, U.S.\$0.01 par value (each, a "Management Share") and 4,999,900 Redeemable, Participating, Non-Voting undesignated Common Shares, U.S.\$0.01 par value. As of November 30, 2007, the Board of Directors had issued 9,464.5 shares of Redeemable, Participating, Non-Voting undesignated Common Shares, U.S.\$0.01 par value as Class A Common Shares (the "Shares" or

“Common Shares”). Each class of Shares may be issued in an unlimited number of series, with each class designated alphabetically and each series designated as Series numerically (unless the context otherwise indicates, the use of the terms “Shares” and “Common Shares” in this Memorandum includes Shares of all classes and series). Series A1 Common Shares will generally be issued as the initial offering of Shares, upon the conversion of other series (as described below) and at the beginning of a fiscal year. The remaining series may be issued on a monthly (or other basis) during a fiscal year. The primary reason for use of different series is to equitably reflect any differing Performance Fees attributable to each series (whether by reason of differing issue dates during the fiscal year, and any agreed reduction or waiver of such fees or otherwise). The Fund may issue additional series if needed in connection with additional issuance dates or for any other reason, in the discretion of the Directors.

If at the end of a particular fiscal year Shares of more than one series of a class are outstanding which are subject to a Performance Fee for such year and bear the same rate of Performance Fee, such series of Shares will be converted automatically immediately after the close of business on the last day of such fiscal year into Series A1 Shares of such class, on the basis of the relative Net Asset Value per Share of the particular series being converted and of the Series A1 Shares. Any such conversion will be deemed effected by the Fund acquiring the Shares of the series to be converted from the holder of such Shares at their Net Asset Value and applying the proceeds of such acquisition to purchase new Shares of Series A1 (or another applicable series) without any required action on the part of such holder. Shares of the series so converted will revert to the status of authorized and unissued Shares and may be reissued.

By subscribing for Shares, a subscriber will be deemed to have irrevocably authorized and directed the Fund to convert such Shares (if not previously redeemed) into Series A1 (or another series) Shares as hereinabove provided. Other than such automatic conversions, there are no conversion or preemptive rights in connection with any Shares. All Shares of the Fund, when duly issued and paid for as provided in the Memorandum and Articles of Association of the Fund, will be deemed fully paid and nonassessable.

The net profits or net losses of the Fund for any fiscal period will be allocated to the Shares and to each respective series thereof in accordance with their relative Net Asset Values at the end of each fiscal period.

The Fund’s Board of Directors has the authority to designate different rights and restrictions for different classes or series of Shares of the Fund. Each series of Shares will generally have equal dividend, distribution and liquidation rights with other Shares of the same series, with Shares of different series having dividend, distribution and liquidation rights in proportion to their relative Net Asset Values.

### **Voting Rights**

The Class A Common Shares do not carry the right the vote, except in limited circumstances. Each holder of Management Shares is entitled to one vote for each Management Share held.

Amendments to the Fund’s Memorandum or Articles of Association generally require approval by special resolution of the holders of Shares entitled to receive notice of, and vote, at meetings of the Fund. The Board of Directors has the authority to create new classes or series of Shares without seeking the consent of the shareholders, provided that the rights attaching to the new Shares do not affect the rights of the existing issued shares of the Fund.

### **New Issues**

To enable the Fund to purchase securities that meet the definition of a “new issue” (“New Issue Securities”) set forth in Rule 2790 (the “New Issue Rule”) of the Rules of Conduct of the Financial Industry Regulatory Authority, formerly the National Association of Securities Dealers, Inc. (“FINRA”), the

Board of Directors, in its discretion, may allocate any item of cost, expense, profit, gain, income or loss with respect to such New Issue Securities (a “New Issue Item”) to shareholders in a manner that is consistent with the New Issue Rule.

Notwithstanding the foregoing, pursuant to the Fund’s current policy with respect to New Issue Securities, shareholders that are “restricted persons” under the New Issue Rule (“Restricted Persons”) will not be allocated, except as set forth below, any New Issue Items. Furthermore, the Fund may treat shareholders that are organized as private investment funds, such as so-called “fund of funds,” as Restricted Persons if those investment entities have beneficial owners who are Restricted Persons. The Fund expects to allocate New Issue Items to: (a) all shareholders that are not Restricted Persons; and (b) certain shareholders that are Restricted Persons if the Fund determines that those shareholders can be allocated New Issue Items under the New Issues Rule without imposing significant administrative or other burdens on the Fund and the Investment Manager. In connection with the foregoing, the Fund intends to allocate New Issue Items to any shareholder that is a private investment funds (or other collective investment account) that represents to the Fund and the Investment Manager that such shareholder allocates no more than 10% of New Issue Items to such shareholder’s beneficial owners who are Restricted Persons. The Fund reserves the right to modify its policy with respect to New Issue Securities, in its sole discretion.

In order to comply with the New Issue Rule and the foregoing policy, the Board of Directors has the power and authority to establish a “new issues account” (“New Issues Account”) on the books of the Fund, as well as a separate brokerage account or accounts reflecting the same, to which New Issue Items will be allocated. In order to implement the New Issues Account and to comply with the New Issue Rule, the Board of Directors has the further power and authority to (i) issue, and/or subdivide, the Common Shares of the Fund into two further sub-series, to be denominated Sub-series A and Sub-series B Shares; (ii) make effective provision whereby the Sub-series A Shares will be held solely by Persons who are not Restricted Persons; (iii) allocate New Issue Items from the New Issues Account and the securities held therein, solely to the holders of the Sub-series A Shares; (iv) provide for the debiting and crediting of such sums, as between the Sub-series A and Sub-series B Shares, if any, as is deemed equitable by the Board of Directors to reflect the benefit of use of funds to purchase New Issues; and (v) take such other action as may be deemed necessary or appropriate to comply with the New Issue Rule.

### **Shares Issued in Book-Entry Form**

Unless a holder requests a share certificate, Shares will be registered on the books of the Fund and held in book-entry form. If the Board of Directors resolves to issue share certificates, share certificates will be issued to shareholders only upon written request. Shares for which a certificate has been issued may be redeemed only after the Fund, as transfer agent for the Shares, receives the certificate, duly executed for transfer or with an executed stock power attached, and proper payment instructions duly signed. In light of the above, shareholders may wish to consider the same before requesting certificates.

### **Liquidation and Dissolution**

The Fund has been formed for an unlimited period. However, the Fund may be dissolved and liquidated at any time upon a special resolution of the holders of Shares entitled to receive notice of, and vote at, meetings of the Fund.

The Investment Manager or other appointed liquidator of the Fund will, upon the dissolution of the Fund, endeavor to realize the Fund assets in the best interests of the shareholders and, upon instructions given by the Investment Manager or liquidators, as the case may be, the Fund will distribute the net liquidation proceeds to the shareholders in each series pro rata in proportion to the number of Shares held by each of them in that series, after deduction of liquidation fees and expenses, all subject to and in accordance with applicable law.

## **Restrictions on Ownership and Transfer**

The Shares have not been registered under the Securities Act nor has the Fund been registered under the Investment Company Act, in reliance upon exemptions from such registration. Except in a transaction which does not violate such laws, the Shares may not be offered or sold directly or indirectly in the U.S. or any of its territories or possessions or areas subject to its jurisdiction. Benefit Plan Investors are further limited to owning less than 25% of any outstanding class of Shares of the Fund. For the definition of a Benefit Plan Investor, see "*Certain ERISA Considerations*" below.

The Memorandum and Articles of Association of the Fund provide, in substance, that the Fund may refuse to issue or transfer Shares for any reason. Such reasons may include, but are not limited to the following: (i) the transferor and/or the transferee does not provide the Fund with the documentation requested for the transfer; (ii) the transferee is a U.S. Person who is not an "accredited investor", as defined in Rule 501 of Regulation D promulgated under the Securities Act; (iii) such transfer would result in Benefit Plan Investors holding in the aggregate 25% or more of any outstanding class of Shares of the Fund; (iv) such transfer would require the Fund to register under the Investment Company Act or to register the Shares under the Securities Act, or to register or take other action under the laws of any other jurisdiction deemed unduly burdensome by the Board of Directors of the Fund; (v) the transferee would not qualify as a "qualified purchaser" as defined under the Investment Company Act; or (vi) the ownership of the Shares by the intended transferee would be unlawful or may adversely affect, in the sole discretion of the Board of Directors of the Fund, the Fund, its shareholders or the Investment Manager. In addition, transferees must complete a subscription agreement and provide all documentation that would be required were the transferee to be subscribing for shares in the Fund.

## **CERTAIN TAX CONSIDERATIONS**

The following is a summary of certain of the material tax principles applicable to an investment in the Fund. While this summary is considered to be a correct interpretation of existing laws and regulations in force as of the date of this Memorandum, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with such interpretations or that changes in such laws and regulations will not occur. Any such changes may or may not be retroactive with respect to transactions consummated prior to the date such changes are announced.

**The following summary is not intended as a substitute for careful tax planning, and prospective investors in the Fund are urged to contact their own tax advisors with respect to the tax consequences to them of an investment in the Fund.**

### **Cayman Islands Taxation**

#### Taxation of the Fund.

The Fund has been advised by its Cayman Islands counsel, Maples and Calder, that the Fund will not be subject to any income, withholding or capital gains taxes in the Cayman Islands. The Fund applied for and obtained on February 1, 2005 an undertaking from the Governor-in-Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands that for a period of twenty years from the date of the grant of the undertaking, no law which is thereafter enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations will apply to the Fund or its operations; and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax will be payable on or in respect of the shares, debentures or other obligations of the Fund, or by way of the withholding in whole or in part of any relevant payment as



defined in Section 6(3) of The Tax Concessions Law (1999 Revision). No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Common Shares.

### **Certain U.S. Income Tax Considerations**

The following is a summary of certain U.S. federal income tax principles applicable to the Fund. To the extent such summary discusses matters of law, it is based upon the Code, rules and regulations promulgated thereunder, published rulings and court decisions, as in effect on the date of this Memorandum. No assurance can be given that future legislative changes or administrative interpretations or court decisions will not significantly modify the statements, opinions or analyses expressed herein. Any such changes may or may not be retroactive with respect to transactions consummated prior to the date such changes are announced. The Fund has not sought a ruling from the U.S. Internal Revenue Service (the “**Service**”) or any other federal, state or local agency with respect to any of the tax issues affecting the Fund.

#### Taxation of the Fund

*Tax Status.* The Fund will be treated as an association taxable as a corporation for U.S. federal income tax purposes. However, the Fund does not expect to be subject to taxation by the United States, except with respect to so-called FDAP Income, which is subject to tax at a flat rate of 30% imposed on a gross basis. See “— *FDAP Income*.”

*FDAP Income.* When a non-U.S. corporation such as the Fund receives income from a U.S. source that is not connected with the conduct of a trade or business in the United States, certain categories of such income (the broadest and most important of which is “fixed or determinable annual or periodical gains, profits, and income” from a U.S. source (“**FDAP Income**”)) are subject to tax at a flat rate of 30% (or lower tax treaty rate) imposed on a gross basis. FDAP Income is generally defined as income of a fixed or determinable annual or periodical nature, such as dividends and certain interest income.<sup>1</sup> There is presently no tax treaty between the United States and the Cayman Islands which would eliminate or reduce this tax.

Certain types of income are specifically exempted from the 30% tax and thus withholding is not required on payments of such income to a non-U.S. corporation. The 30% tax is not imposed on U.S. source capital gains (whether long- or short-term), on interest paid to a non-U.S. corporation on its deposits with U.S. banks or on interest which qualifies as portfolio interest. The term “portfolio interest” generally includes interest on an obligation in registered form which has been issued after July 18, 1984 and with respect to which the person who would otherwise be required to deduct and withhold the 30% tax receives the required statement that the beneficial owner of the obligation is not a U.S. person within the meaning of the Code. Under certain circumstances, interest on bearer obligations may also be considered portfolio interest.

*Effectively Connected Income.* Income of the Fund that was deemed to be “effectively connected with the conduct of a trade or business” within the United States (“**ECI**”), including FDAP Income if and to the extent that it was deemed to be ECI, would be taxed by the United States, first, on a net basis at regular U.S. corporate rates and, second, on the basis of an additional “branch profits” tax. If the Fund were deemed to be engaged in a U.S. trade or business, all of the Fund’s income that was deemed to be “effectively connected” with such trade or business would be subject to U.S. income and branch profits taxes as ECI.

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<sup>1</sup> Although FDAP Income is generally defined as income of a fixed or determinable annual or periodical nature, it includes many types of income, such as certain gains from notional principal contracts, that one might not normally consider to be “fixed or determinable annual or periodical.” In addition to FDAP Income, the 30% tax is imposed on other types of U.S. source income, such as payments on the sale or retirement of original discount obligations that do not constitute portfolio interest.

In order to avoid earning ECI, the Fund expects to take advantage of a safe harbor provided by Section 864(b)(2) of the Code (the “**Safe Harbor**”). Under the Safe Harbor, a non-U.S. company (other than a dealer in securities) will not be deemed to be engaged in a U.S. trade or business solely because it trades in stock or securities (including contracts or options to buy or sell securities) for its own account. In addition, under the Safe Harbor, a non-U.S. company (other than a dealer in commodities) will not be deemed to be engaged in a U.S. trade or business solely because it trades in commodities for its own account provided that “the commodities are of a kind customarily dealt in on an organized commodity exchange and the transactions are of a kind customarily consummated at such place.”

The Fund expects that it will conduct its activities in a manner that does not constitute the conduct of a trade or business in the United States, whether through application of the Safe Harbor or otherwise, and that the Fund will not invest in securities the income of which is treated, for U.S. federal tax purposes, as arising from the conduct of trade or business in the U.S.

#### Taxation of U.S. Taxable Investors

*Passive Foreign Investment Company.* The Fund is a passive foreign investment company (a “**PFIC**”) as defined in Section 1297 of the Code. Accordingly, U.S. Persons who are investors in the Fund, other than tax-exempt entities, will, as a general matter, be subject to taxation, under Sections 1291 through 1298 of the Code, pursuant to a so-called “excess distribution” regime, under which (a) the entire gain realized upon a sale or redemption of Shares of the Fund will be allocated ratably to all days in the investor’s holding period and subjected to taxation as ordinary income at the highest rate of tax for the year to which such gain is allocated, without regard to any otherwise available offsets deductions, losses and expenses, and (b) the resulting amount of taxes will be subject to an interest charge at the rates applicable to an underpayment of taxes.<sup>2</sup> As a general matter, in order to avoid being taxed pursuant to the excess distribution regime, an investor in a PFIC may elect to treat the PFIC as a “qualifying electing fund,” in which event, provided that the PFIC has provided the investor with a “PFIC Annual Information Statement” that satisfies the requirements of Treasury Regulation 1.1295-1(g), the investor will, regardless of whether it has received any distributions from the PFIC, be obligated to include in its taxable income each year (a) as ordinary income, its pro rata share of the PFIC’s ordinary income and (b) as long-term capital gains, its pro rata share of the PFIC’s net capital gain. The Fund does not presently intend to provide any U.S. Person that is an investor in the Fund with a PFIC Annual Information Statement that satisfies the requirements of Treasury Regulation 1.1295-1(g). Accordingly, U.S. persons subject to U.S. federal income tax should assume that they will be subject to the excess distribution regime.

*Controlled Foreign Corporations.* As a general matter, a non-U.S. corporation, such as the Fund, will be a “controlled foreign corporation” as defined in Section 957 of the Code (a “**CFC**”) if “United States shareholders” collectively own more than 50% of the total combined voting power or total value of the corporation’s stock. A U.S. shareholder (a “**U.S. Shareholder**”) is defined by the Code as meaning a U.S. person (which includes a U.S. trust) who owns, directly or indirectly (applying certain attribution rules), 10% or more of the total combined voting power of all classes of stock of a CFC. A U.S. Shareholder of a CFC must currently include in income its *pro-rata* share of certain income of the CFC (“**Subpart F Income**”), even if such income has not been distributed by the CFC. The Fund is not currently a CFC, and it does not expect to be a CFC in the future. However, if the Fund were to become a CFC, a U.S. Shareholder of the Fund would be required to include in income its pro-rata share of the Fund’s Subpart F Income. U.S. investors in the Fund, other than U.S. Shareholders and tax-exempt entities, would not be subject to the CFC rules, but rather would still be subject to the “excess distribution” regime that is applicable to PFICs. See “– *Passive Foreign Investment Company*.”

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<sup>2</sup> Actual distributions received by the investor from the Company during a year would also be subject to taxation pursuant to the excess distribution regime if and to the extent that they exceeded 125% of the average amount of distributions received by the investor from the Company during the lesser of the investor’s holding period or the three preceding years.

## U.S. Tax-Exempt Investors

*General.* U.S. shareholders of the Fund that are tax-exempt organizations generally will not directly be subject to U.S. income tax unless such shareholders incur “unrelated business taxable income” (“**UBTI**”). As discussed immediately below, income distributed from the Fund to non-leveraged tax-exempt investors should not constitute UBTI. However, as discussed above (see “*Taxation of the Fund*”), the Fund may be subject to U.S. taxation. Therefore, the returns received by U.S. tax-exempt shareholders may be indirectly reduced due to such U.S. taxation.

UBTI generally includes (1) income derived by a tax-exempt organization from an “unrelated trade or business” regularly carried on (less allowable deductions and subject to certain modifications) and (2) certain income derived from property (“**Debt-Financed Property**”) with respect to which the investor holds “acquisition indebtedness” (as such term is defined in Section 514(c) of the Code). An “unrelated trade or business” is defined in the Code as any trade or business, the conduct of which is not substantially related to the performance of a tax-exempt entity’s purpose or function. By definition, UBTI does not include dividends and gains derived from the sale, exchange or other disposition of securities held by a tax-exempt entity for investment, provided such dividends and gains are not attributable to securities that constitute Debt-Financed Property in the hands of such entity.

Generally, where a tax-exempt entity holds an interest in a corporation (such as the Fund), the character of the corporation’s income for UBTI purposes does not flow through to its shareholders. Therefore, even if the Fund’s income would constitute UBTI if received directly by a tax-exempt investor in the Fund, the income will not constitute UBTI when it is effectively realized by a tax-exempt investor through a dividend or gain from the sale, exchange or other disposition of the investor’s unleveraged interest in the Fund, because such dividends and gains will not constitute UBTI.

As discussed above, a U.S. Shareholder of a CFC must currently include in income its *pro-rata* share of the CFC’s Subpart F Income, even if such income has not been distributed by the CFC. See “*Taxation of U.S. Taxable Investors—Controlled Foreign Corporations.*” The Fund is not currently a CFC, and it does not expect to be a CFC in the future. However, the Fund believes, based upon the advice of its U.S. counsel, that if the Fund were to become a CFC, the character of the income deemed to be received by a tax-exempt entity that was a U.S. Shareholder of the Fund should be determined for UBTI purposes as if such income were a dividend which, as discussed above, does not, by definition, constitute UBTI.<sup>3</sup>

Accordingly, the Fund believes that, regardless of whether the Fund is or is not deemed to be a CFC, a U.S. tax-exempt investor that makes an unleveraged investment in shares of the Fund should not be deemed to have received UBTI for federal income tax purposes by reason of its investment, whether by reason of a receipt by the Fund of income attributable to its investments that would constitute UBTI if received directly by such U.S. tax-exempt investor or a receipt by such U.S. tax-exempt investor of distributions from the Fund (including distributions made in redemption of shares of the Fund), including distributions that might be deemed to have been paid, in whole or in part, out of income received by the Fund that would constitute UBTI if received directly by such U.S. tax-exempt investor. Nonetheless, U.S. tax-exempt persons are urged to consult their own tax advisors concerning the U.S. tax consequences of an investment in the Fund.

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<sup>3</sup> In this connection, it is noteworthy that, in 1996, the U.S. Congress amended the Code so as to add Section 512(b)(17), which expressly provides that certain insurance income that is earned by a CFC and included in the income of a U.S. Shareholder under the CFC rules, is to be treated by the U.S. Shareholder as UBTI. In its Report on the Small Business Job Protection Income Act, of 1996, the House Ways and Means Committee took the position that, except as provided in Section 512(b)(17), income inclusions under the CFC rules generally should be characterized as dividends for UBTI purposes. H. Rep. No. 586, 104<sup>th</sup> Cong., 2d Sess. 136 (1996), n. 14.

*Passive Foreign Investment Companies.* As discussed above (see “ – Taxation of U.S. Taxable Investors – Passive Foreign Investment Company”), an investment in a foreign corporation that is classified as a PFIC will cause U.S. taxable investors to be subject to taxation under Sections 1291 through 1298 of the Code. However, because the PFIC provisions of the Code do not, by regulation, apply to U.S. tax-exempt organizations, these provisions of the Code should not be relevant to a U.S. tax-exempt organization that makes an investment in the Fund.

#### Reporting Requirements for Certain U.S. Investors

A U.S. investor in the Fund may be required to file an information return with the Service concerning its investment in the Fund. The requirement to file an information return applies in several circumstances. For example, as a general matter, any U.S. person within the meaning of the Code owning 10% or more (directly, indirectly or by attribution) of either the total combined voting power or total value of all classes of the shares of a non-U.S. corporation such as the Fund is required to file an information return with the Service (see Form 5471). In addition, a U.S. person within the meaning of the Code that transfers cash to a non-U.S. corporation may be required to report the transfer to the Service if (i) immediately after the transfer, such person holds (directly, indirectly or by attribution) at least 10% of the total voting power or total value of such corporation or (ii) the amount of cash transferred by such person (or any related person) to such corporation during the twelve-month period ending on the date of the transfer exceeds U.S.\$100,000 (see Form 926).

#### Taxation of Non-U.S. Investors

*General.* Because the Fund will be treated as a non-U.S. corporation, distributions (including distributions made in connection with the redemption of shares) by the Fund to shareholders who are not U.S. persons within the meaning of the Code (“**non-U.S. shareholders**”) should not be directly subject to U.S. income tax (and such non-U.S. shareholders should not have to file any U.S. tax returns) unless such non-U.S. shareholders are otherwise engaged, directly or by attribution, in the conduct of a trade or business in the U.S.. However, as discussed above (see “– Taxation of the Fund”), the Fund may be subject to U.S. income taxation. Therefore, the financial returns received by non-U.S. shareholders may be indirectly reduced due to such U.S. taxation.

*Nonresident Alien Individuals.* It should be noted that any non-U.S. investor who is present in the U.S. for 183 days or more during the taxable year may be subject to U.S. federal income taxation on his or her worldwide income or, alternatively, may be subject to a flat tax of 30% (or lower tax treaty rate) on his or her net capital gains deemed to be from U.S. sources. Each potential individual shareholder who anticipates being present in the U.S. for 183 days or more (in any taxable year) should consult his or her tax advisor with respect to the possible application of this rule.

#### **Taxation of the Fund by Other Jurisdictions.**

Interest, dividend and other income realized by the Fund from non-U.S. sources, and capital gains realized on the sale of securities of non-U.S. issuers, may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced. It is impossible to predict the rate of foreign tax the Fund will pay since the amount of the assets to be invested in various countries and the ability of the Fund to reduce such taxes, are not known.

**IRS CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE SERVICE, WE INFORM YOU THAT (I) ANY U.S. FEDERAL TAX ADVICE CONTAINED IN THIS COMMUNICATION (INCLUDING ANY ATTACHMENTS) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE AND (II) ANY SUCH TAX ADVICE IS WRITTEN IN CONNECTION WITH THE PROMOTION OR**

**MARKETING OF THE MATTERS ADDRESSED HEREIN. PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT ADVISOR.**

**CERTAIN ERISA CONSIDERATIONS**

Fiduciaries of benefit plan investors, as defined in Section 3(42) of ERISA (“**Benefit Plan Investors**”)<sup>4</sup>, in consultation with their advisors, should carefully consider the impact of ERISA, the Code and the regulations, rules, procedures and judicial decisions thereunder on an investment in the Fund. Among other matters, a fiduciary of a Benefit Plan Investor should consider (a) whether the investment is prudent and in accordance with the documents and instruments governing such Benefit Plan Investor; (b) the composition of the Benefit Plan Investor’s portfolio with respect to diversification; (c) the cash flow needs of the Benefit Plan Investor and the effect thereon of the illiquidity of the investment; (d) the Benefit Plan Investor’s funding objectives; (e) the tax effects of the investment described in this Memorandum under “*Certain Tax Considerations -- Certain U.S. Income Tax Considerations*”; (f) the fact that the investors may consist of a diverse group of investors and that the Fund will not take the particular objectives of any investor or class of investors into account; (g) the risks of an investment in the Fund discussed in this Memorandum under “*Risk Factors*”; and (h) the fact that, as discussed below, it is expected that Benefit Plan Investors will not be permitted to invest in the Fund if such investment would cause the Fund to be deemed to be holding plan assets and, therefore, that none of the Fund, the Investment Manager or any of their respective principals, employees, affiliates, agents or consultants will be acting as a fiduciary under ERISA or the Code with respect to the Benefit Plan Investor, either with respect to the Benefit Plan Investor’s purchase or retention of its investment or with respect to the management of the business and investments of the Fund. None of the Fund, the Investment Manager or any of their respective principals, employees, affiliates, agents or consultants makes any representation with respect to whether an investment in Shares would be a suitable investment for any Benefit Plan Investor.

As discussed below, it is expected that, following the issuance of Shares pursuant to this offering, the Fund will not be deemed to hold plan assets. If, however, the Fund were deemed to hold plan assets, ERISA’s prudence and other fiduciary standards (and/or comparable provisions of the Code) would apply to, and might materially affect, the operations of the Fund. Furthermore, any transaction involving the Fund would be deemed to be a transaction with each Benefit Plan Investor that was an investor in the Fund, and the Investment Manager would be a fiduciary of each such Benefit Plan Investor under ERISA and/or the Code. Such treatment would subject the actions of the Fund to the conflict of interest and other restrictions applicable to fiduciaries under ERISA and/or the Code. In addition, unless a statutory or an administrative exemption were available, such treatment would generally prohibit the Fund from entering into transactions with parties in interest to any of the Benefit Plan Investors.

If the Fund were deemed to hold plan assets and any actions of the Fund were deemed to constitute a breach of fiduciary duty, then other fiduciaries, including fiduciaries of the Benefit Plan Investors which purchase Shares, could be held liable, either directly or as co-fiduciaries of the Fund, if, for example, such fiduciaries had knowledge of the breach or failed to act in accordance with the standards of care

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<sup>4</sup> For purposes of Section 3(42), the term “benefit plan investor” means “an employee benefit plan subject to part 4 [of ERISA], any plan to which section 4975 of the [Code] applies, and any entity whose underlying assets include plan assets by reason of a plan’s investment in such entity.” The term “benefit plan investor” includes, therefore, but is not limited to, employee pension benefit plans and employee welfare plans maintained by United States domestic companies, 401(k) plans, individual retirement accounts, medical benefit plans and education savings accounts. The term does not include (a) a government plan (as defined in Section 3(32) of ERISA), (b) a foreign employee benefit plan, but only if such plan is maintained outside of the United States primarily for the benefit of persons substantially all of whom are neither citizens of nor residents in the United States, and (c) a church plan (as defined in Section 3(33) of ERISA), but only if no election has been made under Code Section 410(d).

applicable to fiduciaries under ERISA and/or the Code in causing the Benefit Plan Investor to invest in the Fund. In addition, if the Fund were deemed to hold plan assets, individual retirement account investors could lose their tax-exempt status under Section 408(e)(2) of the Code if the Fund engaged in certain transactions with the individual retirement account beneficiaries.

Pursuant to Section 3(42) of ERISA and U.S. Department of Labor Regulations Section 2510.3-101, none of the assets of the Fund will be treated as plan assets for purposes of ERISA and/or the Code if less than 25% of the total value of each class of equity interest in the Fund is held by Benefit Plan Investors (excluding, for purposes of calculating such 25% threshold, the value of any equity interest held by a person (other than such a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the entity or any person who provides investment advice for a fee (direct or indirect) with respect to such assets, or any affiliate of such a person).

No Benefit Plan Investor may acquire Shares if after giving effect thereto the assets of the Fund would be plan assets for the purposes of ERISA and/or the Code. In addition, if the Fund concludes that it is probable that the continuation of any Benefit Plan Investor as an investor in the Fund would result in all or any portion of the assets of the Fund being deemed to constitute plan assets of such investors for the purposes of ERISA and/or the Code, the Fund will take such actions as it deems necessary or appropriate to mitigate, prevent or cure such adverse consequences, taking into account the interests of all investors and of the Fund as a whole. Such actions may include, in the Fund's discretion, causing an immediate redemption of some or all of any Benefit Plan Investor's Shares.

## **REPORTS, FINANCIAL STATEMENTS AND REGULATION**

The Fund will cause the Administrator to provide each shareholder with reports that will include net asset value information per Share, on a monthly basis, or more often at the Fund's discretion.

An audited financial statement will be sent to all shareholders as promptly as practicable following the end of each fiscal year of the Fund, which has been determined to be the calendar year ending December 31. The Board of Directors of the Fund has the authority to change such fiscal year and to request audited financial statements as of different dates or periods.

The Investment Manager or the Administrator may furnish such other reports to shareholders when an event occurs about which in their judgment shareholders should be informed.

The Fund falls within the definition of a "mutual fund" under the Funds Law and, accordingly, is regulated under the Funds Law. The Fund is required to be licensed or to employ a licensed mutual fund administrator because the minimum initial subscription is less than U.S.\$50,000 or its equivalent in any other currency. Accordingly, the Fund is subject to continuing obligations to (i) file with CIMA prescribed details of any changes to this Memorandum; (ii) file annually (within 6 months of the end of each fiscal year) with CIMA accounts audited by an approved auditor; and (iii) pay a prescribed annual fee (currently CI \$3,000 (US \$3,658.54)).

The Fund is subject to the supervision of CIMA and CIMA has wide supervisory powers under the Funds Law in that regard, including the power to instruct the Fund to have its accounts audited and to submit them to CIMA within such time as CIMA specifies. Failure to comply with any supervisory requests by CIMA may result in substantial fines. In addition, CIMA has wide powers to take action if certain events occur, such as the Fund not being able to meet its obligations when they come due or the Fund carrying on its business in a manner that is prejudicial to its shareholders or creditors. The powers of CIMA in these circumstances include the power to require the substitution of a member of the Board of Directors and, at the expense of the Fund, to appoint a person to advise the Fund on the proper conduct of its affairs;

and, at the expense of the Fund, to appoint a person to assume control of the affairs of the Fund including, but not limited to, having the ability to terminate the business of the Fund. There are other remedies available to CIMA including the ability to apply to the courts of the Cayman Islands for approval of other actions or requiring the Fund to reorganize its affairs in a manner specified by CIMA.

## **AUDITORS**

The Board of Directors has retained McGladrey & Pullen, Cayman to serve as the Fund's independent certified public accountants. Such firm will audit the annual financial statements of the Fund, in accordance with generally accepted accounting principles as applied in the U.S. The auditor has given, and has not withdrawn prior to the delivery of a copy of this Memorandum for filing with CIMA, its written consent to act as the auditor to the Fund. The Board of Directors of the Fund has the right to change its selection of accounting firms, provided that any new auditor selected be an auditor approved under Cayman law.

## **COUNSEL**

Finn Dixon & Herling LLP, Stamford, Connecticut, serves as U.S. counsel to the Fund and to the Investment Manager in connection with certain post-organizational U.S. legal matters. Maples and Calder, Cayman Islands, has acted as Cayman Islands counsel to the Fund in connection with certain organizational matters with respect to Cayman Islands law. Such firms are not representing, nor purporting to represent, any prospective shareholder in regard to the offering of Shares made hereby and prospective investors must rely accordingly upon their own legal advisors, as to tax matters and otherwise, in connection with their investment decision.

## **ELIGIBLE INVESTORS**

The Shares are being offered from time to time on a private basis only to a select number of institutional and individual investors which meet certain eligibility requirements. Any investor who is a "U.S. Person" must be an "accredited investor", as defined in Securities and Exchange Commission (the "SEC") Regulation D promulgated under the Securities Act, and a "qualified purchaser", as defined in Section 2(a)(51) of the Investment Company Act. In addition, every investor must meet certain Standards of Suitability requirements, as defined below. The Fund reserves the right to determine conclusively whether any person meets the Fund's investor eligibility requirements. The Fund may determine to limit or restrict ownership by a non-qualifying shareholder after an investment in the Fund is made and to redeem Shares held by such a shareholder.

As used herein, the term "U.S. Person" means: (i) Any United States citizen or a resident of the United States of America (as defined for purposes of the federal income tax laws of the United States); (ii) any corporation, partnership, trust or other legal entity organized or created under the laws of any United States jurisdiction; (iii) any organization or entity controlled, directly or indirectly, by a person or persons described in (i) or (ii) or of which such person or persons described are known to be the owners, directly or indirectly, of a majority of the beneficial interests therein; or (iv) any other person or entity which is a "U.S. Person" within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the "Code"); Regulation S, or any successor provision, as in effect at the time under the Securities Act.

The offer and sale of Shares will not be registered under the Securities Act in reliance upon exemptions provided by SEC Regulation S (with respect to non-U.S. Persons) and Regulation D (with respect

to U.S. Persons). As such, subscribers who are U.S. Persons must qualify as “accredited investors”, as defined in SEC Rule 501 of Regulation D, the definition of which is summarized in Annex A of the Subscription Agreement which accompanies this Memorandum.

The Fund will not be registered as an investment company under the Investment Company Act in reliance upon an exemption provided in Section 3(c)(7) thereof. As such, subscribers who are U.S. Persons must qualify as “qualified purchasers”, as that term is defined in Section 2(a)(51) of the Investment Company Act. In order to be a “qualified purchaser” under the Investment Company Act, Qualified U.S. Tax-Exempt Entities must generally own not less than U.S.\$25 million in “investments” at the time of purchase of Shares and natural persons must generally own not less than \$5,000,000 or more in net investments. The definition of “qualified purchaser” (including a description of the term “investments”) is summarized in Annex B of the Subscription Agreement which accompanies this Memorandum.

In addition every investor (and their adviser, if applicable) must meet the Fund’s standards of suitability (“Standards of Suitability”). In general an investor meeting the Fund’s Standards of Suitability will have: (i) such knowledge and experience in financial matters that the investor is capable of evaluating the relative risks and merits of an investment in the Fund; (ii) it can bear the economic risk of losing its entire investment in the Fund; and (iii) had extensive experience in investments of the type represented by the Shares.

## **SUBSCRIPTION FOR COMMON SHARES**

Subscriptions for Common Shares will be made pursuant to the Subscription Agreement in the form accompanying this Memorandum. All subscriptions must be irrevocable, must be made upon and subject to the terms and conditions of this Memorandum, and must specify the following information:

- (i) the total amount (in U.S. Dollars) of the subscription (which must be a minimum of U.S.\$10,000), and
- (ii) the name and address of the subscriber and, if appropriate, the name and title of the person making the subscription on the subscriber’s behalf.

Together with each subscription, the subscriber must pay the full amount of the subscription amount, by wire transfer in U.S. dollars, by bank telegraphic transfer, pursuant to wire transfer instructions set forth in the attached Subscription Agreement. A sales charge of two percent (2%) of the subscription amount will normally be payable upon subscription of the Shares. This sales charge may be paid to introducing agents and may be waived at the sole discretion of the Investment Manager.

A duly completed Subscription Agreement must be received by the Administrator not less than five (5) business days prior to the desired purchase date for Shares, first by facsimile with the original to follow by courier, together with subscription funds delivered by wire transfer received by the Administrator not less than two (2) business days prior to the desired purchase date for Shares, unless other payment arrangements are expressly accepted by the Fund. In connection with subscriptions the Administrator may require certain information from subscribers for purposes of complying with “anti-money laundering” regulations. See “*Anti-Money Laundering Laws and Procedures*” below.

Subscribers should review carefully the Subscription Agreement, which contains certain representations and warranties required of each Subscriber.



All subscriptions for Shares will be subject to acceptance by the Board of Directors of the Fund, in its absolute discretion. The Board of Directors may reject a subscription, including that of an existing holder of Shares, for any reason.

The Investment Manager may utilize third parties to assist in the solicitation of new investors in the Fund. Unless a selling commission is expressly agreed to by an investor, any fees paid to such parties for such services will be borne by the Investment Manager and will not reduce the investment of any purchaser of Shares. All subscribed funds will be invested in the Fund.

## **ANTI-MONEY LAUNDERING LAWS AND PROCEDURES**

### **Cayman Islands**

In order to comply with legislation or regulations aimed at the prevention of money laundering the Fund is required to adopt and maintain anti-money laundering procedures, and may require subscribers to provide evidence to verify their identity and source of funds. Where permitted, and subject to certain conditions, the Fund may also delegate the maintenance of its anti-money laundering procedures (including the acquisition of due diligence information) to a suitable person.

The Fund, and the Administrator on the Fund's behalf, reserve the right to request such information as is necessary to verify the identity of a subscriber. In some cases the Directors, or the Administrator on the Fund's behalf may be satisfied that no further information is required since an exemption applies under the Money Laundering Regulations (2009 Revision) of the Cayman Islands, as amended and revised from time to time (the "Regulations"). Depending on the circumstances of each application, a detailed verification of identity might not be required where:

- (a) the subscriber makes the payment for their investment from an account held in the subscriber's name at a recognised financial institution; or
- (b) the subscriber is regulated by a recognised regulatory authority and is based or incorporated in, or formed under the law of, a recognised jurisdiction; or
- (c) the application is made through an intermediary which is regulated by a recognised regulatory authority and is based in or incorporated in, or formed under the law of a recognised jurisdiction and an assurance is provided in relation to the procedures undertaken on the underlying investors.

For the purposes of these exceptions, recognition of a financial institution, regulatory authority or jurisdiction will be determined in accordance with the Regulations by reference to those jurisdictions recognised by the Cayman Islands Monetary Authority as having equivalent anti-money laundering regulations.

In the event of delay or failure on the part of the subscriber in producing any information required for verification purposes, the Fund, or the Administrator on the Fund's behalf, may refuse to accept the application, in which case any funds received will be returned without interest to the account from which they were originally debited.

The Fund, and the Administrator on the Fund's behalf, also reserve the right to refuse to make any redemption payment to a Shareholder if the Directors or the Administrator suspect or are advised that the payment of redemption proceeds to such Shareholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is

considered necessary or appropriate to ensure the compliance by the Fund or the Administrator with any such laws or regulations in any applicable jurisdiction.

If any person resident in the Cayman Islands knows or suspects or has reasonable grounds for knowing or suspecting that another person is engaged in criminal conduct or is involved with terrorism or terrorist property and the information for that knowledge or suspicion came to their attention in the course of business in the regulated sector, the person will be required to report such knowledge or suspicion to (i) the Financial Reporting Authority of the Cayman Islands, pursuant to the Proceeds of Crime Law, 2008 of the Cayman Islands if the disclosure relates to criminal conduct or money laundering, or (ii) a police officer of the rank of constable or higher pursuant to the Terrorism Law (2009 Revision) of the Cayman Islands if the disclosure relates to involvement with terrorism or terrorist financing and property. Such a report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.

### **United States**

As a result of anti-money laundering legislation enacted by the U.S. federal government (known as the “PATRIOT Act”), and any future amendments to such legislation, the Investment Manager and/or the Fund may be required to establish an anti-money laundering program which, among other things, may require the Investment Manager and/or the Fund, as applicable, to take measures to verify the identities of existing and prospective Fund shareholders and to identify the source of funds invested in the Fund. In the event that the Investment Manager, the Administrator or the Fund determines, in its discretion, that verification of identity of an existing or prospective shareholder or identification of the source of funds is required, the applicable shareholder will be required to provide the Fund with all requested information and documentation. By way of example, an individual may be required to produce, among other things, a copy of a passport or identification card duly certified by a public authority such as a notary public, the police or the ambassador in his or her country of residence, together with evidence of his or her address such as a utility bill or bank statement. In the case of corporate applicants, production of a certified copy of charter documentation, as well as the names and addresses of all directors, officers and/or beneficial owners may be required.

The Administrator, the Investment Manager and the Fund each reserves the right to request any documentation and information that is deemed by it to be necessary in order for it to comply with applicable anti-money laundering laws and any anti-money laundering program established by it. This may result in Shares being issued on a date subsequent to the issuance date on which an investor initially wished to have Shares issued to him or her. Furthermore, the Administrator or the Fund may, in its discretion, effect a mandatory redemption of a shareholder, or reject a subscription for Shares or process a redemption request by a shareholder, in the event that the Administrator or the Fund does not receive satisfactory information or documentation, or if the Administrator or the Fund believes that it would be a violation of applicable anti-money laundering laws or an established anti-money laundering program for such person to remain a shareholder or be admitted to the Fund, as applicable.

It is further acknowledged that the Administrator, the Fund and the Investment Manager, including their affiliates, agents and employees, in the performance of their respective duties, will be held harmless by the subscriber against any loss arising as a result of a failure to process any subscription or redemption request if such information as has been requested by the Administrator, the Fund or the Investment Manager, as the case may be, has not been timely furnished or is inaccurate or incomplete in any respect.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents of the Fund, which may be amended from time to time, may be inspected during usual business hours on any Business Day at the office of the Administrator, at Boundary Hall, Cricket Square, PO Box 1093, Grand Cayman, Cayman Islands, BWI.

1. Memorandum and Articles of Association
2. Administration Agreement
3. Investment Manager Agreement

Investors or their representatives may contact the Administrator and/or the Investment Manager to discuss the operations of the Fund.

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