

*This document comprises the private placement memorandum (the "Private Placement Memorandum") relating to the Class A and Class B participating redeemable preference shares (the "Shares") of Cardona Lloyd Hedge Portfolio Limited (the "Company").*

*The Directors whose names appear under "Directory" accept responsibility for the information contained in this Private Placement Memorandum. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Private Placement Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.*

**PRIVATE PLACEMENT MEMORANDUM**

**CARDONA LLOYD HEDGE PORTFOLIO LIMITED**

*(an open-ended investment company incorporated with limited liability under the laws of Guernsey)*

**Investment Manager**

**Cardona Lloyd & Co. Limited**

**Dated 21 November 2003**

\_\_\_\_\_  
*Name*

\_\_\_\_\_  
*Number*

The distribution of this Private Placement Memorandum and the offering of the Shares in certain jurisdictions may be restricted. Persons into whose possession this Private Placement Memorandum comes are required by the Company to inform themselves about and to observe any such restrictions. This Private Placement Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act") or qualified under any applicable state statutes, and the Shares may not be offered, sold or transferred in the United States of America (including its territories and possessions) or to or for the benefit of, directly or indirectly, any US Person, except pursuant to registration or an exemption. The definition of "US Person" is set out on page 39 of this document. The Company is not, and will not be, registered under the United States Investment Company Act of 1940, as amended (the "1940 Act") and investors will not be entitled to the benefit of such registration. The Company may at the sole discretion of the Directors, make a private placement of the Shares to a limited number or category of US Persons. The Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission or other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of these offering materials. Any representation to the contrary is unlawful.

This Private Placement Memorandum, and the Shares described herein are only available to a limited category of eligible investors in the United Kingdom. This Private Placement Memorandum is issued in the United Kingdom by Cardona Lloyd & Co. Limited.

The Guernsey Financial Services Commission has authorised the Company as a Class B Collective Investment Scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. It must be distinctly understood that in giving this authorisation the Commission does not vouch for the financial soundness or correctness of any of the statements made or opinions expressed with regard to the Company. Investors in the Company are not eligible for the payment of any compensation under the Collective Investment Schemes (Compensation of Investors) Rules 1988 made under the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

No person has been authorised to give any information or to make any representations, other than those contained in this Private Placement Memorandum, in connection with the offering of Shares and, if given or made, such information or representations must not be relied on as having been authorised by the Company. Neither the delivery of this Private Placement Memorandum nor the allotment or issue of Shares shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

**Investors should refer to the Section headed "Risk Factors" for a summary of risk factors before investing in the Company.**

Application was made to the Irish Stock Exchange Limited for the Class A and Class B Participating Redeemable Preference Shares (the "Shares") of Cardona Lloyd Hedge Portfolio Limited issued and to be issued to be admitted to the Official List. The admission became effective on 5 November 2003. The directors of the Company (the "Directors") do not anticipate that an active secondary market will develop in the Shares. No application has been made for the Shares to be listed on any other stock exchange.

A copy of this Private Placement Memorandum which includes the audited financial statements of the Company and the La Fayette Funds as at 31 March 2003 and 31 December 2002, respectively, comprises listing particulars for the purpose of the listing of the Shares on the Irish Stock Exchange and has been delivered to the Registrar of Companies in Ireland in accordance with Section 364 of the Irish Companies Act, 1963.

As at the date of this Private Placement Memorandum the Company has no loan capital (including term loans) outstanding or created but unissued, and no outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including liabilities under acceptances or acceptance credits, hire purchase or finance lease commitments, guarantees or other contingent liabilities save only that the Company has a bank overdraft facility under which it is permitted to draw up to US\$ 125,000.

The La Fayette Funds are, and the underlying investment entities in which they invest may be, empowered to borrow funds from brokerage firms and banks in order to increase the amount of capital available for investment and/or to fund redemptions.

However, the La Fayette Funds do not currently intend to borrow for any purpose other than on a temporary basis to fund redemptions or for other operational requirements. The La Fayette Funds may, however, wish to borrow for other purposes in the future.

Neither the admission of the Shares to the Official List nor the approval of the Private Placement Memorandum pursuant to the listing requirements of the Irish Stock Exchange Limited shall constitute a warranty or representation by the Irish Stock Exchange Limited as to the competence of the service providers to or any other party connected with the Company, the adequacy of information contained in the listing particulars or the suitability of the Company for 'investment purposes'.

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## **DIRECTORY**

### **Directors:**

**George Cardona**, 3 Chepstow Villas, London W11 3EE, United Kingdom

**Patrick Firth**, PO Box 211, La Tonnelle House, Les Banques, St Sampson's, Guernsey GY2 4BF

**John Renouf**, Deo Juvante, Saumarez Lane, Castel, Guernsey GY5 7TJ

### **Registered Office of the Company**

PO Box 211  
Butterfield House  
The Grange, St Peter Port  
Guernsey  
GY1 3NQ  
Channel Islands

### **Auditors**

BDO Guernsey Limited  
Chartered Accountants  
Elizabeth House  
St Peter Port  
Guernsey, GY1 3LL  
Channel Islands

### **Administrator**

Butterfield Fund Managers (Guernsey)  
Limited  
Butterfield House  
The Grange, St Peter Port  
Guernsey  
GY1 3NQ  
Channel Islands

### **Custodian**

Bank of Butterfield International (Guernsey)  
Limited  
Roseneath  
The Grange, St Peter Port  
Guernsey GY1 3AP  
Channel Islands

### **Manager**

Cardona Lloyd (Guernsey) Limited  
Butterfield House  
The Grange, St Peter Port  
Guernsey  
GY1 3NQ  
Channel Islands

### **Investment Manager**

Cardona Lloyd & Co. Limited  
8 Cromwell Place  
London  
SW7 2JN  
United Kingdom

### **Sponsor to the Irish Stock Exchange**

Goodbody Stockbrokers  
Ballsbridge Park  
Ballsbridge  
Dublin 4  
Ireland

### **Legal Advisers**

Carey Olsen  
7 New Street  
St Peter Port  
Guernsey GY1 4BZ  
Channel Islands

## DEFINITIONS

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

<b><i>Administration Agreement</i></b>	the agreement dated 17 December 2001 between the Administrator and the Company;
<b><i>Administrator</i></b>	Butterfield Fund Managers (Guernsey) Limited;
<b><i>Business Day</i></b>	any day (except Saturday and Sunday) on which banks in London and Guernsey are open for business;
<b><i>Class</i></b>	a class of Shares in the Company;
<b><i>Class Fund</i></b>	The segregated pool of assets attributable to a Class;
<b><i>Company</i></b>	Cardona Lloyd Hedge Portfolio Limited;
<b><i>Custodian</i></b>	Bank of Butterfield International (Guernsey) Limited;
<b><i>Custodian Agreement</i></b>	the agreement dated 17 December 2001 between the Custodian and the Company;
<b><i>Dealing Day</i></b>	the first Business Day of each month unless amended by the Directors as set out on page 20 under "Dealings";
<b><i>Director</i></b>	a director of the Company;
<b><i>Directors</i></b>	the board of directors from time to time of the Company including a duly authorised committee thereof;
<b><i>Investment Management Agreement</i></b>	the agreement dated 17 December 2001 between the Manager and the Investment Manager;
<b><i>Investment Manager</i></b>	Cardona Lloyd & Co. Limited;
<b><i>La Fayette Funds</i></b>	La Fayette Holdings (Euro) Fund Ltd. and La Fayette Regular Growth (Dollar) Fund Ltd.
<b><i>Law</i></b>	the Companies (Guernsey) Laws, 1994 to 1996 and any amendment or other statutory modification thereof and where in this document any provision of the Law is referred to, the reference is to that provision as modified by any law for the time being in force;

<b><i>Management Fee</i></b>	the monthly management fee payable to the Manager, calculated as described under "Fees and Expenses" on page 17;
<b><i>Manager</i></b>	Cardona Lloyd (Guernsey) Limited;
<b><i>Management and Marketing Agreement</i></b>	the agreement dated 17 December 2001 between the Company and the Manager;
<b><i>Net Asset Value</i></b>	the net asset value of a Class calculated as described under "Valuations and Possible Suspension" on page 20;
<b><i>Performance Fee</i></b>	the performance fee payable to the Manager, calculated as described under "Fees and Expenses" on page 17;
<b><i>Registrar Agreement</i></b>	the agreement entered into between the Custodian and the Administrator dated 17 December 2001;
<b><i>Shareholder</i></b>	a registered holder of a Share;
<b><i>Shares</i></b>	the Class A and Class B participating redeemable preference shares ("Class A Shares" and "Class B Shares" respectively) of the Company of par value €0.001 each (and any other classes of participating redeemable preference shares from time to time designated as the context may require);
<b><i>Underlying Fund</i></b>	any investment vehicle (including, but not limited to, mutual funds, investment funds, funds of funds, hedge funds, futures funds, investment trusts, unit trusts, managed accounts or commodity pools) invested in by the Company for the account of any Class as part of its investment objective, including any similar vehicle invested in by such investment vehicles as part of their respective investment objectives;
<b><i>United States</i></b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
<b><i>US Person</i></b>	as set out on page 39 of this document;
<b><i>US Taxpayer</i></b>	as set out on page 39 of this document;

***Valuation Point***

the time as at which the assets and liabilities of each Class will be valued for the purposes of calculating the Net Asset Value per Class. This is currently 5pm (United States Eastern Standard Time) on the Business Day preceding the Dealing Day;

***1933 Act***

the United States Securities Act of 1933, as amended; and

***1940 Act***

the United States Investment Company Act of 1940, as amended.

All references herein to "£" are to pounds sterling. All references to "dollars" or "\$" are to United States dollars. All references to "€" are to Euros.



## **PRINCIPAL FEATURES**

This summary is derived from and should be read in conjunction with the full text of this Private Placement Memorandum.

### **Company**

The Company is a multi-class umbrella investment company structured to operate in a similar manner to an open-ended unit trust or mutual fund and is a company formed under the laws of Guernsey.

The Directors have resolved initially to establish two Classes of Shares in which investors may invest, namely Class A Shares (priced in dollars) or Class B Shares (priced in Euros). The Directors may resolve to create additional Classes in the future.

### **Investment Objective**

The investment objective of the Company is to seek to achieve long term capital appreciation through investments in a select and limited number of listed or unlisted, regulated or unregulated investment entities (including, but not limited to, mutual funds, investment funds, funds of funds, hedge funds, futures funds, investment trusts, unit trusts, managed accounts and commodity pools) while seeking to minimise volatility. Initially, investment will be made solely in the La Fayette Funds. The proceeds of the Class A Shares are currently invested in La Fayette Regular Growth (Dollar) Fund and the proceeds of the Class B Shares are invested in La Fayette Holdings Euro Fund. The Class Funds therefore operate as feeder funds.

The Company and the La Fayette Funds have entered into an agreement dated 27 April 2003 (the “Master/Feeder Agreement”), whereby the investment objective and policies and restrictions of the Company will be adhered to by the La Fayette Funds for so long as the Company is listed on the Irish Stock Exchange and will not be changed for a period of three years from the date of listing of the Company without the prior consent of the Board of Directors of the Company and then only with the consent of a majority of the shareholders of the Company. In addition, the Master/Feeder Agreement provides that the following provisions will continue to apply and will not be changed without the prior consent of the Directors of the Company:

- (a) the La Fayette Funds will remain established in the British Virgin Islands and will continue to operate in conformity with the relevant laws and regulations and in compliance with the Master/Feeder Agreement;
- (b) the La Fayette Funds will demonstrate a “spread of risk” whereby they will not invest more than 20% of assets in the securities of any one issuer except for investments in securities issued or guaranteed by a government or government agency of any European Union (“EU”) or Organisation for Economic Co-operation and Development (“OECD”) member state or any supranational authority of which any EU or OECD member state is a member;
- (c) distributions on the shares of the La Fayette Funds will only be made by the La Fayette Funds in accordance with the requirements of the Irish Stock Exchange;
- (d) the Board of Directors of the Company will be notified of any conflict of interest of which the La Fayette Funds are aware, and suitable procedures will be implemented to avoid detriment to the Company or its shareholders;
- (e) The service providers to the La Fayette Funds will continue to comply with the regulations of the Irish Stock Exchange;
- (f) The La Fayette Funds will notify the Board of Directors of the Company if any of its consents or authorities are revoked; and
- (g) The Board of Directors of the Company will be notified of any qualifications in the auditors’ report on the financial statements of the La Fayette Funds.

The Company will seek to carry out its objective by following the "Investment Policy" set out on page 15.

### **Dividend Policy**

The Company will generally accumulate receipts and capital gains in each Class Fund and therefore not make any distributions. However, in the event that dividends are declared, such dividends will be paid out of accumulated net income plus the net of accumulated realised and unrealised gains and accumulated realised and unrealised losses.

### **Manager**

Cardona Lloyd (Guernsey) Limited.

### **Investment Manager**

Cardona Lloyd & Co. Limited.

### **Administrator**

Butterfield Fund Managers (Guernsey) Limited.

### **Custodian**

Bank of Butterfield International (Guernsey) Limited.

### **Fees and Expenses**

The Company will initially pay a Management Fee to the Manager out of each Class Fund equivalent to 0.50 per cent. per annum of the Net Asset Value of the Class concerned and payable monthly and a Performance Fee payable at a rate equivalent to 10 per cent. of any increase in Net Asset Value per Share of the relevant Class outstanding. Further information is set out on page 17.

The Manager will remunerate the Investment Manager out of its Management Fees and Performance Fees.

The Manager is also entitled to charge an initial fee of 5 per cent. of the amount subscribed prior to the issue of Shares and may use all or part of this to pay the fees of any approved intermediaries.

Shareholders may also be required to pay a redemption fee to the Company. Details of such fees are set out on page 18.

Other operating costs and expenses of the Company including the fees of the Directors, the Administrator and the Custodian are set out on page 18.

### **Taxation**

At the date of this Private Placement Memorandum, there is no Guernsey income, corporation, or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or its Shareholders, other than Shareholders ordinarily resident in the Bailiwick of Guernsey, other than Sark, (see "Tax Considerations" on page 25). The Directors intend to conduct the affairs of the Company in such a manner as to minimise its exposure to taxation.

### **Share Subscriptions**

Initial subscriptions were received by the Administrator in Guernsey by 5.00 p.m. (Guernsey time) on 21 December 2001. Thereafter, subscription applications and subscriptions proceeds for Class A and Class B Shares should be received by the Administrator by 5.00 p.m. (Guernsey time) on the fourth Business Day prior to the month end. Shares were issued on the relevant Dealing Day initially at \$100 per Share for Class A Shares and €100 per Share for Class B Shares (net of any initial fees and bank charges) and thereafter at an issue price calculated with reference to the Net Asset Value per Share of the respective Class.

### **Redemption of Shares**

Shareholders may redeem all or part of their Shares on any Dealing Day, subject to a notice period of 45 days. The redemption proceeds will be determined by reference to the Net Asset Value per Share of the relevant Class. The Company may impose a redemption fee as set out at page 18 on early redemptions to assist in the preservation of equity between redeeming and continuing Shareholders.

### **Minimum Subscription**

\$250,000 for Class A Shares and €250,000 for Class B Shares payable in full (net of any initial fees and bank charges). The Directors may, in any particular case, determine a lesser amount provided that such lesser amount is not less than \$12,500 for Class A Shares or €12,500 for Class B Shares on the date of subscription.

## INTRODUCTION

Except as indicated on page 19, this Private Placement Memorandum constitutes an invitation to investors to subscribe for Shares at the price per Share on the relevant Dealing Day. During the initial offer period ending on 21 December 2001, the price per Share was \$100 for Class A Shares and €100 for Class B Shares (in each case net of any initial fees and bank charges).

The Company, which is a multi-class umbrella investment company structured to operate in a similar manner to an open-ended unit trust or mutual fund, was incorporated with limited liability on 9 November 2001 (with registration number 38911) as a limited liability company under the Law. Six million Shares are authorised and available to be issued.

The investment objective of the Company is to seek to achieve long term capital appreciation through investments in a select and limited number of investment entities (including, but not limited to, mutual funds, investment funds, funds of funds, hedge funds, futures funds, investment trusts, unit trusts, managed accounts and commodity pools). Initially, investment will be made solely in the La Fayette Funds.

As of the date hereof, the Company has entered into the Management and Marketing Agreement, the Administration Agreement and the Custodian Agreement. Further particulars relating to the Manager, the Investment Manager, the Administrator and the Custodian and the agreements respectively entered into are given under "Manager" "Investment Manager", "Administrator" and "Custodian" below and under "Material Contracts" in Appendix I.

## DIRECTORS

The Directors of the Company are: -

**George Cardona** (British), Mr Cardona has been involved in all aspects of investment management. Between 1979 and 1981 Mr Cardona was special adviser to HM Treasury. From 1981 to 1984, Mr Cardona worked as a consultant advising a diverse range of clients and then in 1984 he joined Montagu Loeb Stanley as chief economist making recommendations and forecasts for the UK government securities market. He then worked for the Commonwealth Development Corporation as deputy head of a regional office where he managed and monitored private equity investments on behalf of the corporation. From 1985 to 2000, he worked for various companies within the HSBC Group including 5 years as head of group strategy. During that period, he had a key role in the acquisition of Midland Bank. Mr Cardona was also a director of HSBC Asset Management Limited from 1994 until 1996. As a general manager of HSBC Bank from 1997 to 2000, he was directly responsible for investment management operations in the Channel Islands, France, Spain, and Greece. He was also responsible for fund administration operations of subsidiaries in the Channel Islands and the Cayman Islands. He was personally responsible for managing a substantial portfolio for HSBC Bank of fixed income securities and equities. Since 2000, he has been engaged in creating the Manager and the Investment Manager, becoming Chief Executive Officer of the Investment Manager in 2001, and also giving advice to certain institutions in the financial services sector.

**John Renouf** (British), Mr Renouf joined Tektronix Limited, in 1975 as a financial analyst for the European operations centre and then as its international credit manager. After 12 years Mr Renouf became the company accountant for the Guernsey subsidiary of Aetna International. In 1990, Mr Renouf joined Royal Bank of Canada Offshore Fund Managers Limited and became a director in 1993 and assumed the position of managing director in 1996, a position he held until leaving the company on 31 August 2000. In this role he had overall responsibility for the management and administration of both Royal Bank of Canada's offshore funds together with funds managed and administered on a third party basis. Mr Renouf has been employed on a part-time basis by Collins Stewart since September 2000 and by Financial Risk Management since February 2003.

**Patrick Firth** (British), Mr Firth was appointed Managing Director of the Administrator in April 2002. A Chartered Accountant, he acquired experience in fund administration with Rothschild Asset Management from 1992 to 1999 and more recently with BISYS Fund Services from 1999 to 2002. He is also a director of the Manager.

All of the Directors will serve in a non-executive capacity.

None of the Directors has or had since incorporation any interest direct or indirect, in any transactions that are unusual in their nature or significant to the business of the Company, except as described in this document.

There is no age limit on the Directors of the Company.

None of the Directors has any unspent convictions, has been declared bankrupt or has been the subject of an individual voluntary arrangement or a receivership of any assets held by such person. None of the Directors was a director with an executive function of any company at the time of or within the 12 months preceding its bankruptcy, receivership administration, liquidation, administration, company voluntary arrangement or composition or arrangement with its creditors generally. There have been no public criticisms of any of the Directors by any statutory or regulatory authority and no Director has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company. No Director was a partner of any partnership at the time or within 12 months preceding its compulsory liquidation, administration or partnership voluntary arrangement. No Director has had a receiver appointed over any of his assets or of any of the assets of a partnership of which he was a partner within 12 months after he ceased to be a partner of that partnership.

A memorandum detailing the names of all companies and partnerships of which the directors of the Company have been a director or partner in the past five years, together with an indication of whether or not the individual is still a director or partner, is available for inspection at the Offices of Goodbody Stockbrokers, Ballsbridge Park, Ballsbridge, Dublin 4.

## **MANAGER**

The Manager has been appointed by the Company to supervise the performance of its investment objective and policy. In this regard the Manager has appointed the Investment Manager to undertake day-to-day investment management on behalf of the Company. The Manager is responsible for the fees of the Investment Manager.

The Manager was registered in Guernsey on 19 October 2001 and is beneficially owned by the shareholders of the Investment Manager. The Manager is responsible for providing investment management services to the Company. It is licensed in the conduct of investment business in Guernsey by the Guernsey Financial Services Commission. The Manager may delegate its functions to other parties and has delegated, subject to its responsibility and supervision, day-to-day investment management to the Investment Manager under the terms of the Investment Management Agreement.

The directors of the Manager are George Cardona, Patrick Firth and Nigel Carey. Details of Mr Firth and Mr Cardona are set out above. Mr Carey is a Guernsey Advocate and has been a partner in the firm of Carey Olsen (previously Carey Langlois) since 1977. He holds a degree in law from the University of Southampton and qualified as a solicitor of the Supreme Court of England and Wales in 1974. He was called to the Guernsey Bar in 1975 and was Chairman of the Guernsey Bar Council from 1997 to 1999. He is a director of a number of Guernsey based mutual fund companies and investment companies and is currently an Ordinary Member of the Guernsey Financial Services Commission.

The Manager and the Investment Manager will not deal in Shares.

## **INVESTMENT MANAGER**

The Manager has appointed the Investment Manager to manage the portfolio of investments of each Class on a discretionary basis. Under the terms of its appointment, the Investment Manager is responsible for the implementation of the Company's investment policy and has overall responsibility for the Company's investment activities.

The Investment Manager is a company incorporated in England and Wales on 13 October 2000. It is beneficially owned by its directors and one other individual. The Investment Manager was established as an independent investment manager and financial services house. The Investment Manager will also provide marketing services to the Company. The Company was the first client of the Investment Manager. As at the date of this memorandum, the Investment Manager has approximately \$ 11 million under management. The Investment Manager is regulated in the U.K. by the Financial Services Authority. The La Fayette funds have approximately \$ 850 million under management.

The Investment Manager's principal is Mr George Cardona. Mr Cardona is also a Director and a description of him may be found on page 11.

## **ADMINISTRATOR**

Under the Administration Agreement, the Administrator has agreed to serve as the Company's administrator, such services to include calculating the Net Asset Value of each Class, receiving and dealing with all applications for subscription and redemption, acting as Company Secretary and providing accounting services to the Company. The Administrator will keep the accounts of the Company in accordance with UK GAAP. The Administrator was registered in Guernsey on 11 October 1991 and is a wholly owned subsidiary of The Bank of N.T. Butterfield & Son Limited, registered in Bermuda. The Administrator is licensed to provide administrative and other services to collective investment schemes and other investment vehicles by the Guernsey Financial Services Commission.

## **CUSTODIAN**

Under the terms of the Custodian Agreement, the directors have appointed the Custodian as custodian of the assets of the Company. The Custodian was incorporated with limited liability in Guernsey on 26 July 1989 and is a bank licensed by the Guernsey Financial Services Commission under the provisions of the Banking Supervision (Bailiwick of Guernsey) Law, 1994. As at 31 December 2002, the Custodian's gross capital was £26.75 million represented by the issued and fully paid up capital. The main activities of the Custodian cover the provision of banking, custody and trustee services to private and corporate clients. The Custodian is also licensed by the Guernsey Financial Services Commission to undertake certain restricted investment activities, including custody, in relation to collective investment schemes and general securities. The ultimate holding company of the Custodian is the Bank of N.T. Butterfield & Son Ltd, a company incorporated in Bermuda which at 31 December 2002 had total assets of \$6.0 billion.

The Custodian will maintain all assets of the Company, including securities and assets other than cash, in a segregated client account and those assets will be separately identified and will be unavailable to the creditors of the Custodian in the event of its insolvency. Assets deposited as margin with a broker need not be segregated and may be available to the creditors of the broker.

The Custodian will keep, record and hold for the Company documents of title, documents relating to the transfer of each of the Company's direct investments and any legal opinions relating to the validity thereof and will arrange for the same to be deposited in the Custodian's vault or otherwise held by a sub-custodian.

The Custodian will exercise reasonable skill, care and diligence in the selection of sub-custodians. The custodian is responsible to the Company for the duration of any Agreement with a sub-custodian for satisfying itself periodically as to the ongoing suitability of such sub-custodian to provide custodial services to the Company. The Custodian will maintain an appropriate level of supervision over any sub-custodian and will make inquiries periodically to confirm that the obligations of any sub-custodian continue to be competently discharged

The Custodian is liable to the Company and its shareholders for any loss suffered by them as a result of its unjustifiable failure to perform its obligations or its improper performance of them. The Company has agreed to indemnify the Custodian against any losses suffered in acting as Custodian other than losses arising as a result of its unjustifiable failure to perform its obligations or its improper performance of them.

The Custodian/Investment Manager will be responsible for satisfying itself as to the adequacy of the custody arrangements entered into by the underlying Funds in which the assets of the Company are invested.

## **REGISTRAR AND PAYING AGENT**

The Custodian has delegated its responsibility under the Guernsey Collective Investment Schemes (Class B) Rules 1990 for keeping the register of Shareholders to the Administrator and the register may be inspected at the address of the Administrator given on page 4. The Administrator will not be separately remunerated under the Registrar Agreement. Details of the Registrar Agreement are given under Material Contracts in Appendix I.

## **INVESTMENT OBJECTIVE, POLICY AND RESTRICTIONS**

### **Investment Objective**

The investment objective of the Company is to seek to achieve long term capital appreciation through investments in a select and limited number of investment entities (including, but not limited to, mutual funds, investment funds, funds of funds, hedge funds, futures funds, investment trusts, unit trusts, managed accounts and commodity pools) while seeking to minimise volatility.

Investment will be made solely in the La Fayette Funds, except as set out below.

### **Investment Policy**

The Directors have resolved initially to establish two Class Funds represented respectively by Class A Shares (priced in Dollars) and Class B Shares (priced in Euro). The proceeds of the issue of the Shares of both Classes will be invested in one or more Underlying Funds that pursue alternative investment strategies. There are no geographical restrictions on the Underlying Funds and assets in which the Company may invest or in the investment strategy or geographical exposure of the Underlying Funds in which investment may be made. The Underlying Fund or Funds may themselves be funds of funds.

It is the policy of the Directors that each Class will be predominantly fully invested although the Investment Manager may invest in liquid assets, namely cash, near cash and/or money market investments and non-government and government debt securities, such as U.S. treasury bills, where this is perceived by the Investment Manager to be in the best interest of Shareholders. No rating criteria have been established for the debt securities in which a Class or the Underlying Funds may invest.

The Directors may utilise foreign exchange contracts, currency options and other derivative instruments for the account of any Class, where this is considered appropriate in order to achieve the investment objective and policy of the Class concerned including, but not limited to, the reduction of risk, the reduction of cost and generation of additional capital or income for the Class concerned.

The individual managers of the Underlying Funds in which the Company invests have to meet selection and diversification criteria and are only selected after research and valuation of quantitative and qualitative consideration. They will generally be assessed in relation to a number of criteria, including adherence to stated strategies; long term returns record; risk management practices; the extent of co-investment by the manager; and manageable growth of assets.

The multi-manager strategy of the Company and/or its Underlying Funds gives Shareholders access to different but complementary investment styles that can help to reduce risk.

The overall mix of managers of the Underlying Funds and/or the funds in which they invest will be re-evaluated on a regular basis, for example, to take into account any uncharacteristic risks or a change in the style of investing of the selected managers. Similarly, fund managers who grow their



funds uncontrollably, experience disruption to their organisation or whose funds under-perform for any extended period of time will also be re-evaluated. Periodic re-balancing may be required.

The Company intends to borrow on a temporary basis in order to keep each Class Fund fully invested or over invested by up to 5 per cent. of the assets of the Class concerned while accommodating subscription and redemption requests in respect of Shares where this is considered by the Directors to be in the best interests of the Company. Leverage however will be limited to 10 per cent. of Net Asset Value at the time of borrowing. The Company may borrow from banks or other lenders, including from the Manager, shareholders of the Manager, or investors in the Company.

The assets of each Class will be invested solely in the La Fayette Funds, unless there is a change in the senior management of La Fayette Investment Management (UK) Ltd or there is a sustained deterioration in the performance of the La Fayette Funds. Investment in the La Fayette Funds may vary over time. The Company may invest up to 100 per cent. of the assets of a Class in any one La Fayette Fund.

### **Investment Restrictions**

The Company will adhere to its investment objectives and policies for a period of 3 years from December 2001, the date the Class Funds commenced operations. No change will be within that period save in exceptional circumstances and then only with the consent of shareholders.

The Company will observe the following restrictions in respect of each Class for so long as the Shares of the Company are listed on the Irish Stock Exchange:

1. With the exception of the investment of the Class Funds in the La Fayette Funds, no more than 20% of the gross assets of each Class Fund, will be lent to or invested in the securities of any one issuer (other than any OECD government or OECD governmental agency). In addition, no more than 20% of the gross assets of each Class Fund will be exposed to the creditworthiness or solvency of any one counterparty.
2. The Class Funds will not take or seek to take legal or management control of the issuer of any of its underlying investments.
3. The Investment Manager will adhere to the general principles of diversification with respect to the derivative transactions of the Company.
4. The Class Funds will not allocate in excess of 30% of the gross assets of the Class Funds to any one collective investment undertaking, with the exception of the investment of the Class Funds in the La Fayette Funds. The Investment Manager will monitor the underlying investments of any such collective investment undertakings to ensure that, in aggregate, the restriction in point 1 will not be breached. If this restriction is breached, the Investment Manager will take immediate corrective action. Such collective investment schemes will operate on the principle of risk spreading.
5. The Class Funds will not allocate in excess of 20% of the gross assets of each Class Fund, in aggregate, to any collective investment scheme whose primary objective is to invest in other collective investment schemes with the exception of the investment of the Class Funds in the La Fayette Funds.

The investment restrictions apply to any investment at the time when such investment is made. The Investment Manager will be responsible for monitoring the underlying investments to ensure that the

investment restrictions applicable to the Company are complied with and will report to the Directors accordingly. Where any restriction is breached, the Investment Manager will ensure that corrective action is taken immediately except where the breach is due to appreciations or depreciations in value, changes in exchange rates or by reason of the receipt of rights, bonuses or benefits in the nature of capital or any other action affecting holders of that investment.

The Directors have overall responsibility for investment philosophy and approach and authority to select investment managers.

### **Dividend Policy**

The Company will generally accumulate receipts and capital gains and therefore not make any distributions. However, in the event that dividends are declared, such dividends will be paid out of accumulated net income plus the net of accumulated realised and unrealised gains and accumulated realised and unrealised losses.

## **FEES AND EXPENSES**

### **Manager's Fees**

The Manager is entitled to a fee from each Class Fund for its services under the Management Agreement at an annual rate not exceeding 1 per cent of Net Asset Value (the "Management Fee"). The maximum rate at which the Management Fee is payable cannot be increased without the prior approval of a resolution of a general meeting of Shareholders passed by a majority of not less than three quarters of the votes recorded. The Manager has agreed with the Company that it will initially receive a monthly Management Fee in arrears from each Class Fund equivalent to 0.50 per cent. per annum of Net Asset Value calculated as of the relevant Valuation Point. The Manager shall not be entitled to increase this rate (subject to the maximum permitted rate of 1 per cent) without first giving to each Shareholder three months' written notice of its intention to do so.

The Manager is also entitled to receive a performance related fee (the "Performance Fee") from each Class Fund.

The Performance Fee is payable annually in arrears in respect of each period of twelve months ending on 31 March in each year (the "Performance Period").

The Performance Fee is calculated and accrued at each Valuation Point by taking 10 per cent. of the increase in Net Asset Value per Share of a Class over the Base Value per Share of the Class multiplied by the number of Shares in issue for the Class.

The Base Value represents the highest previous Net Asset Value per Share of a Class during that Performance Period.

In the event of the Net Asset Value per Share of a Class not exceeding the Base Value at any Valuation Point then no additional Performance Fee is accrued for the month or months in which the Net Asset Value was below the Base Value at the relevant Valuation Point. At the start of each Performance Period, the Base Value is reset to the final Net Asset Value per Share of the applicable Class for the previous Performance Period, or in the case of the first Performance Period the initial offer price of each Share of \$100 for Class A Shares and €100 for Class B Shares. The Base Value will be adjusted to take into account the declarations of dividends (if any).

Each of the Management Fee and Performance Fee are payable by the Company to the Manager within 10 days after it becomes due. The Manager will be responsible for the fees of the Investment Manager. The Manager is entitled to charge an initial fee of 5 per cent. of the amount subscribed as

set out under "Investing in the Company - Dealings" and may use all or part of this to pay the fees of approved intermediaries. The Directors may at their discretion waive the initial fee or charge the initial fee at a rate lower than 5 per cent.

### **Fees and Expenses of the Underlying Investment Funds**

As the investment objective of the Company will be achieved through investment in Underlying Funds, the Company will bear a proportion of the expenses attributable to those investments (whether directly or indirectly) including any fees or other charges which may be levied by such funds or their operators and investment managers and advisers. Details of such fees are set out in the attached listing particulars for La Fayette Regular Growth (Dollar) Fund and La Fayette Holdings (Euro) Fund.

Rebates in the standard management fees charged by certain Underlying Funds have been negotiated. It is intended in the future to negotiate rebates from other Underlying Funds. Such rebates will be apportioned such that the Manager will retain up to a limit of 0.75 per cent. per annum of the amount invested in the Underlying Fund concerned, with levels of rebate in excess of such amounts being retained by the Company.

### **Other Fees and Expenses**

For providing the accounting, valuation and administrative services as specified in the Administration Agreement, the Administrator is entitled to receive an *ad valorem* fee from each Class Fund payable monthly in arrears on a sliding scale basis commencing at 0.125 per cent. per annum of the aggregate Net Asset Value of the Class Funds for the time being in existence calculated as of the relevant Valuation Point, on net assets of €20,000,000, 0.10 per cent. for aggregate net assets between €20,000,000 and €50,000,000, reducing to 0.075 per cent. for aggregate net assets over €50,000,000. This fee is subject to a minimum of €4,000 per month plus investor transaction services at €20 per item after the first ten transactions per month. A termination fee of £3,000 will also be charged. These fees are subject to review annually.

The Custodian is entitled to receive an *ad valorem* fee from each Class Fund payable monthly in arrears on a sliding scale basis commencing at 0.075 per cent. of the aggregate Net Asset Value of the Class Funds for the time being in existence calculated as of the relevant Valuation Point reducing to 0.05 per cent. for net assets over €20,000,000. This fee is subject to a minimum of €10,000 in the first year, €30,000 in the second year and €40,000 per year thereafter (should the Custodian be appointed for less than one year, the minimum fee for the first year or part thereof will increase to €15,000) plus a transaction fee of €75 per transaction for transactions over and above 5 transactions per month. Any sub-custodian fees and risks will be met by the Company. All sub-custodian fees will be charged at normal commercial rates.

In addition, the Company will pay certain other costs and expenses incurred in its operation, including, without limitation, taxes, expenses for legal, auditing and consulting services, registration fees and other expenses due to supervisory authorities, insurance, interest, brokerage costs and all professional and other fees and expenses incurred in connection therewith and the cost of the publication of Net Asset Value. Where these fees are not attributable to a particular Class Fund, they will be borne by each Class in the proportion which the Net Asset Value of each such Class bears to the total Net Asset Value of all Classes as at the date that such costs, expenses or liabilities are incurred, or in such other manner as shall, in the opinion of the Directors, be most equitable.

In certain circumstances, as set out under "Investing in the Company – Redemptions", a redemption fee based on the value of Shares redeemed may be charged and retained by the Company for the benefit of continuing Shareholders.

## **INVESTING IN THE COMPANY**

### **Eligible Investors**

Each investor must represent and warrant to the Company that, among other things, he is able to acquire Shares without violating applicable laws. The Company will not knowingly offer or sell Shares to any investors to whom such offer or sale would be unlawful.

Investment in the Company is confined to professional investors, i.e. sophisticated investors who can provide the representations and warranties contained in the Disclosure Statement in the application form.

Measures aimed towards prevention of money laundering may require a subscriber to verify his/her/its identity to the Company. This obligation is absolute unless: (i) the application is being made via a regulated credit or financial institution; or (ii) payment is made to the Company from an account held in the subscriber's name with a banking institution, which in either case is in a country which is a member of the Financial Action Task Force. If alternative (i) applies, the Company may seek to obtain written assurance of the subscriber's identity from the relevant institution. The Administrator may also refuse to process a redemption request until proper information is provided.

The Administrator will notify applicants if proof of identity is required. By way of example, an individual may be required to produce a copy of a passport or identification card duly certified by a public authority such as a notary public or the police in their country of residence, together with evidence of their address such as a utility bill or bank statement. In the case of corporate applicants this may require production of a certified copy of the certificate of incorporation (and any change of name), memorandum and articles of association (or equivalent) and the names and addresses of all directors and/or beneficial owners.

The details given above are by way of example only. The Administrator reserves the right to request such documentation as it deems necessary to verify the identity of the applicant. Failure to provide the necessary evidence may result in applications being rejected or in delays in the despatch of documents and for the issue of Shares. The Administrator may also refuse to process a redemption request until proper information has been provided. The Administrator shall be held harmless by a potential subscriber against any loss arising as a result of a failure to process the subscription or redemption if such information as has been requested by the Administrator has not been provided by the applicant.

The Shares may not be offered, sold or transferred in the United States or to, or for the benefit of, directly or indirectly, any US Person (as that term is defined herein), except pursuant to 1933 Act registration or an exemption and applicants will be required to certify that they are not acquiring Shares for the benefit of, directly or indirectly, US Persons and that such applicants will not, subject to the conditions set forth under "Investing in the Company - Transfers", sell or offer to sell or transfer Shares to a US Person.

The Company reserves the right to accept future applications for Shares from certain qualified investors in the United States or a limited number of US investors if the Company receives evidence satisfactory to it that the sale of Shares to such an investor is exempt from registration under the securities laws of the United States, including, but not limited to, the 1933 Act, that such sale will not require the Company to register under the 1940 Act, and, in all events, that there will be no adverse tax or other regulatory consequences to the Company or its Shareholders as a result of such sale.

The Company reserves, and intends to exercise, the right at its sole discretion compulsorily to redeem or require the transfer of any Shares sold (or acquired) in contravention of these prohibitions or in the event that the continued ownership of any Shares by any person could result in adverse tax,

regulatory, legal, pecuniary or material administrative disadvantage to the Company or its Shareholders as a whole or, in particular, require the Company to register under the 1940 Act.

## **Dealings**

Applications to invest may be made for any Dealing Day in accordance with the methodology set out on page 23 *et seq.* The issue price will be calculated with reference to the Net Asset Value per Share of the respective Class as at the Valuation Point. However, as stated under "Fees and Expenses", the Manager is entitled to charge a fee of up to 5 per cent. of the amount subscribed prior to the issue of Shares.

Shareholders may redeem their Shares on any Dealing Day by delivering a completed redemption request to the Administrator, subject to a notice period of 45 days. Except in the case of a suspension of calculation of the Net Asset Value (when Share issues and redemptions will be delayed), all requests for the issue or redemption of Shares shall, save at the discretion of the Directors, be irrevocable.

Dealing Days may, at the discretion of the Directors be extended to include other Business Days. The Directors may also change or increase or decrease the number of such days. Twenty-one days' notice of any such change will be given to Shareholders by a resolution of the Directors notified in advance in writing to the registered address of the Shareholders.

All Shares issued will be in registered form and the Company's Share register will be the evidence as to ownership. Shares may only be acquired in non-certificated form and as such no share certificates will be issued and ownership will be evidenced by entry on the Share register. A subscription note will be issued to all Shareholders after receipt of all relevant registration details, confirming his holding and registration on the Share register.

The Directors have discretion to refuse to accept applications for Shares in whole or in part. The Directors may also limit the total number of Shares of a Class which may be redeemed on any Dealing Day to 10 per cent. of the total number of Shares of a Class then in issue in circumstances where the Directors believe that such an action would be in the overall interests of all Shareholders. Where this restriction is applied, Shares will be redeemed on a *pro rata* basis and any Shares which for this reason are not redeemed on any particular Dealing Day will be carried forward for redemption on the next Dealing Day and will then be redeemed in priority to redemption orders subsequently received by the Administrator.

## **Valuations and Possible Suspension**

The Directors have delegated the calculation of the Net Asset Value to the Administrator. The Administrator calculates the Net Asset Value of each Class and the Net Asset Value per Share of each Class as at the Valuation Point. The Valuation Point in respect of each Dealing Day is currently 5pm (United States Eastern Standard Time) on the preceding Business Day. The Net Asset Value will be notified to the Irish Stock Exchange immediately upon calculation.

The Net Asset Value per Share of each Class is determined by dividing the Net Asset Value of the relevant Class by the number of Shares in that Class in issue or deemed to be in issue as at the relevant Valuation Point.

For these purposes, Shares of a Class to be redeemed on the Dealing Day will be included in the Shares of that Class in issue while Shares of a Class to be issued on the Dealing Day will be excluded from the Shares of such Class in issue. In calculating the value of the Company's assets: -

- (a) the value of any units, shares or other security of any Underlying Fund shall be derived from the latest published prices, whether final or estimated;
- (b) other securities traded on a stock exchange are to be valued generally at the price of the last reported trade quoted on such exchange or, if not available, at the mean between the exchange quoted bid and asked prices;
- (c) other unlisted securities will be valued initially at cost and thereafter with any reduction or increase in value (as the case may be) in a manner determined by the Directors (after consultation with the Administrator and the Investment Manager) to reflect the true value thereof;
- (d) the value of forwards, futures, options, swaps and any other derivatives instruments held by the Company and traded on exchange will be valued at last reported trading price. Where such instruments are traded over the counter they will be valued in a manner determined by the Directors (after consultation with the Administrator and the Investment Manager) to reflect the true value thereof;
- (e) the value of any cash in hand or on deposit and accounts receivable, prepaid expenses and cash dividends accrued and not yet received shall be deemed to be the full amount thereof, unless it is unlikely to be paid or received in full, in which case the value thereof shall be arrived at after making such discount as the Directors may consider appropriate to reflect the true value thereof; and
- (f) there will be deducted all liabilities of the Company and such provisions and allowances for contingencies (including tax) as the Directors think appropriate and accrued costs and expenses payable by the Company.

In determining the Net Asset Value of a Class, assets will be valued at the latest available prices as set out in (a) to (f) above, except in the event of a compulsory redemption of Shares when they may be valued at the latest available "bid" prices for long positions or "asked" prices for short positions less any fiscal charges, fees and expenses incurred as a result of such redemption. If the latest available bid price or asked price is not available for a particular security then that security will be valued in a manner determined by the Directors in their sole discretion (after consultation with the Administrator and the Investment Manager) to best reflect the true value thereof.

The Directors are entitled to exercise their reasonable judgement in determining the values to be attributed to assets and liabilities and, provided they are acting *bona fide* in the interest of the Company as a whole, such valuation is not open to challenge by current or previous Shareholders of the Company.

In valuing the assets and liabilities of the Company, the Administrator may, with the consent of the Directors, follow some other prudent method of valuation if it considers that in the circumstances such other method of valuation should be adopted to reflect more fairly the value of any investment.

The Directors are empowered temporarily to suspend the calculation of the Net Asset Value for any one Class or for all Classes, which will automatically lead to the suspension of subscriptions and redemptions for Shareholders in the Class or Classes suspended, and may do so in any of the following events: -

- (a) when one or more stock exchanges or markets which provide the basis for valuing a substantial portion of the assets of the Class concerned are closed other than for, or during, holidays or if dealings therein are restricted or suspended or where an Underlying Fund in which the Company invests suspends the calculation of its NAV;

- (b) when, as a result of political, economic, military or monetary events or any circumstances outside the control, responsibility and power of the Company, disposal of the assets or the underlying assets of the Class concerned is not reasonably practicable without being seriously detrimental to Shareholders' interests or if, in the opinion of the Directors, a fair price cannot be calculated for those assets of the Class concerned;
- (c) in the case of a breakdown of the means of communication normally used for the valuing of any investment of the Class concerned or if, for any reason, the value of any asset of the Class concerned may not be determined as rapidly and accurately as required;
- (d) if, as a result of exchange restrictions or other restrictions affecting the transfer of funds, transactions on behalf of the Class concerned are rendered impracticable or if purchases, sales, deposits and withdrawal of any assets cannot be effected at the normal rates of exchange; or
- (e) if a resolution calling for the liquidation, dissolution or merger of the Company or Class has been adopted.

The Directors reserve the right to withhold payment from persons whose Shares have been redeemed prior to such suspension until after the suspension is lifted. Such right will be exercised in circumstances where the Directors believe that to make such payment during the period of suspension would materially and adversely affect the interests of existing Shareholders. Notice of any suspension will be given without delay to any Shareholder tendering his Shares for redemption and to the Irish Stock Exchange. The Directors will take all reasonable steps to bring any period of suspension to an end as soon as possible. If the request is not withdrawn, the redemption will take place as of the first Business Day following the termination of the suspension.

In addition, the Directors have the right to postpone any Dealing Day in respect of a Class for up to one Business Day without the requirement to give notice to Shareholders when, in the opinion of the Directors, a significant proportion (which is likely to be 5 per cent. or more) of the assets of the Class concerned cannot be valued on an equitable basis and such difficulty is expected by the Directors to be overcome within that period.

## Purchases

The initial subscription price was \$100 for Class A Shares and €100 for Class B Shares (net of initial fees and bank charges).

Shares may be subscribed for on any Dealing Day at a subscription price per Share calculated with reference to the Net Asset Value of the applicable Class (net of initial fees and bank charges) as at the Valuation Point. Subject to the Directors' discretion to determine otherwise, subscription applications and subscription proceeds in respect of Class A and Class B Shares should be received by the Administrator by 5.00 p.m. on the fourth Business Day prior to the month end. Applications for Shares should be made in the same denomination as that of the Class in which the Shares are to be purchased (save for the Directors' discretion to accept individual subscriptions in any other currency as they may see fit). Share subscriptions will normally be processed on the Dealing Day utilising the subscription proceeds.

The Company may add to the subscription price such sum as it may consider represents the appropriate provision for duties and charges which would be incurred on the assumption that all the investments held were to be acquired on that relevant Dealing Day and, if in the opinion of the Directors not to do so would cause an inequity between Shareholders, the Net Asset Value of the Class may be determined on the basis of bid prices for long positions and asked prices for short positions when calculating the issue price. The value so obtained will be divided by the number of Shares in issue of the Class concerned and will be rounded to the nearest three decimal places.

Subject to the Directors' discretion to determine otherwise, subscriptions received less than four Business Days before the month end will not be dealt with on the Dealing Day at the beginning of the following month but will be held over until the next following Dealing Day and Shares will then be issued at the price applicable to that Dealing Day. The Administrator will send to the investor an acknowledgement of his purchase. Shares will be issued to three decimal places.

The Directors reserve the right to accept subscriptions for any Class Fund by way of *in specie* transfer of assets. In exercising their discretion, the Directors will take into account the investment objective, philosophy and approach of the Company in respect of the Class Fund concerned and whether the proposed *in specie* assets comply with those criteria including the permitted investments of the Class concerned. Any *in specie* subscription that meets the investment criteria will be valued by the Administrator (at the cost of the subscriber) in accordance with the valuation procedures of the Company set out at page 20 *et seq.* and such valuation will be independently verified by the Auditors within 14 days of that valuation. Upon receipt of that verification and a properly completed application form, the Administrator will allot the requisite number of Shares in the normal manner. The Directors reserve the right to decline to register any person on the register of Shareholders until the subscriber has been able to prove title to the assets in question. The subscriber shall be responsible for all custody and other costs involved in changing the ownership of the relevant assets unless the Directors otherwise agree.

Application for an initial purchase of Shares must be for an amount of not less than \$250,000 for Class A Shares or €250,000 for Class B Shares payable in full (net of any initial fees and bank charges). The Directors may, in any particular case, determine a lesser amount provided that such lesser amount is not less than \$12,500 for Class A Shares or €12,500 for Class B Shares on the date of subscription. Further applications by existing Shareholders can be made for any amount. Details of the most recent subscription and redemption prices may be obtained on any Business Day from the Administrator.

The Manager is entitled to an initial fee of up to 5 per cent. of the amount subscribed prior to the Administrator applying the subscription to the purchase.



## **Transfers**

All transfers of Shares must be effected by written instrument signed by the transferor and containing the name and address of the transferee and the number of Shares being transferred, or in such other manner or form and subject to such evidence as the Directors shall consider appropriate. The transfer will take effect on registration of the transferee as holder of the relevant Shares. The transferee will be required to give the warranties contained in the Application Form and receive Shares with a minimum value of \$12,500 for Class A Shares or €12,500 for Class B Shares and must also provide such information as the Administrator deems necessary to verify the identity of the transferee before registration of the transferee as holder of the relevant Shares can take place.

The Directors intend to restrict transfers of Shares to any US Persons. Further, the Directors may also be entitled to require the transfer or redemption of Shares which are held by any US Person and any person holding Shares where such Shares are owned directly or beneficially by any person who, by virtue of the holding concerned gives rise to a regulatory, pecuniary, legal, taxation or material administrative disadvantage to the Company or Shareholders as a whole.

## **Redemptions**

Shareholders may redeem their Shares on any Dealing Day provided that the request is received by the Administrator at least 45 days prior to the relevant Dealing Day. If a redemption request is received by fax, the original must follow by post. Shares will be redeemed in Euros or dollars (as applicable) at a redemption price per Share by reference to the Net Asset Value of the relevant Class at the Valuation Point for the relevant Dealing Day. Except in the case of a suspension of calculation of the Net Asset Value (when redemptions will be delayed), all redemptions will, save at the discretion of the Directors, be irrevocable. Subject to the Directors' discretion to determine otherwise, requests received less than forty five days prior to the Dealing Day will be held over until the next Dealing Day and Shares will then be redeemed at the price applicable to that next Dealing Day.

The Company may deduct from the redemption price such sum as it may consider represents the appropriate allowance for duties and charges in relation to the realisation of all the investments held on that Dealing Day. If in the opinion of the Directors that not to do so would cause an inequity between Shareholders, the Net Asset Value of a Class may be determined on the basis of bid prices when calculating redemption proceeds. The Net Asset Value so obtained will be divided by the number of Shares of the Class concerned in issue and rounded to four decimal places.

No redemption requests will be accepted unless in writing. Redemption proceeds will be paid as soon as practicable provided a valid redemption request has been received, by transfer to a pre-designated bank account. Where a written request is received without the relevant redemption form, provisional redemption will be made but the proceeds of redemption will be held by the Company (without payment of interest) until the original completed redemption request has been received. If a redemption request is received by fax, the original must follow by post.

Partial redemptions of Shares may be effected. The Company will have the right compulsorily to redeem any shareholding where the Net Asset Value of that holding is less than \$12,500 for Class A Shares or €12,500 for Class B Shares. The Company also has the right to make a compulsory redemption in the circumstances set out at page 25.

An early redemption fee based on the value of Shares redeemed may be charged and retained by the Company for the benefit of continuing Shareholders. The time period is calculated from the date of issue, or the date of acquisition if acquired in the secondary market, of the relevant Shares and the percentage is of the value of the Shares redeemed. The redemption fee is 1 per cent. for redemptions

within six months of investment. In making the calculation where not all of a shareholding is redeemed, Shares first acquired will be deemed to be the Shares first redeemed.

If on any Dealing Day the aggregate Net Asset Value of all the Class Funds for the time being in existence has, as at each Valuation Point within the previous period of 3 months, been less than \$10 million (or Euro equivalent), the Directors may on that Dealing Day (or such other Dealing Day within three months thereafter as the Directors may determine) redeem at the redemption price on the relevant Dealing Day all (but not some) of the Shares not previously redeemed. In such a case the redemption price will, for each Share, be equal to a *pro rata* share of the assets of the respective Class less an attributable portion of all liabilities including those accrued to or contingent upon the liquidation of the Company. The Directors will also have the right to compulsorily redeem all the Shares of a Class falling below \$2 million or Euro equivalent in value.

### ***In Specie* Redemptions**

If the number of Shares of a particular Class falling to be redeemed on any Dealing Day is equal to one-tenth or more of the total number of Shares of the Class concerned in issue, the Directors may in their absolute discretion elect to satisfy the redemption in whole or in part by way of the transfer in specie of assets. The costs of such transfer shall be borne by the relevant Shareholders. Where such an election is made, the Directors or the relevant Shareholder(s) may further elect for the relevant assets to be held in a segregated account and for the proceeds of disposal of such assets, less costs, to be distributed to the relevant Shareholder. Any redemptions *in specie* will not materially prejudice the interests of remaining shareholders.

### **Share Conversions**

Share conversions are not permitted.

### **TAX CONSIDERATIONS**

The statements on taxation below are intended to be a general summary of certain Guernsey and United Kingdom tax consequences that may result to the Company and its Shareholders. The statements relate to Shareholders holding Shares as an investment (as opposed to an acquisition by a dealer) and are based on the law and practice in force in the relevant jurisdiction at the date of this document. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position prevailing at the time an investment in the Company is made will endure indefinitely.

**Prospective Shareholders should familiarise themselves with and, where appropriate, take advice on the laws and regulations (such as those relating to taxation and exchange controls) applicable to the subscription for, and the holding and realisation of, Shares in the places of their citizenship, residence and domicile. The tax consequences for each Shareholder of acquiring, holding, redeeming or disposing of Shares will depend upon the relevant laws of any jurisdiction to which the Shareholder is subject. Investors and prospective investors in the Company should seek their own professional advice as to this, as well as to any relevant exchange control or other laws and regulations.**

The Company may be subject to local withholding taxes in respect of income or gains derived from its investments in certain countries and within Underlying Funds. Taxation law and practice and the levels and bases of and reliefs from taxation relating to the Company and to its Shareholders may change from time to time.

## **Guernsey**

The Company qualifies for exemption from liability to income tax in Guernsey and has applied to the States of Guernsey Income Tax Authority for such exemption for the current year, Exemption must be applied for annually and will be granted, subject to the payment of an annual fee which is currently fixed at £600, provided that the Company continues to qualify under the applicable legislation for exemption. It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it continues to qualify. No capital gains or similar taxes are levied in Guernsey on realised or unrealised gains resulting from the Company's investment activities.

Shareholders (unless they are resident in Guernsey for tax purposes) will not suffer any income tax in Guernsey on any distributions to them. There are no death duties, capital inheritance, capital gains, gifts, sales or turnover taxes levied in Guernsey in connection with the acquisition, holding or disposal of Shares. No stamp duty is chargeable in Guernsey on the issue, transfer, or redemption of Shares.

The Company will deduct tax at the standard rate of 20 per cent. (as at the date of this document) from any dividends payable to Shareholders resident within the Islands of Guernsey, Alderney and Herm. No deduction will be made from any dividends payable to any Shareholder not resident within these Islands, provided that the Shareholder in question does not carry on business in any of them through a permanent establishment. Such dividends may be paid and received free of Guernsey income tax.

## **United Kingdom**

### ***The Company***

The Directors intend that the affairs of the Company should be managed and conducted so that it does not become resident in the U.K. for U.K. taxation purposes. Accordingly, and provided that the Company does not carry on a trade in the U.K. through a branch or agency situated therein that constitutes an assessable "U.K. Representative" for U.K. taxation purposes, the Company will not be subject to U.K. corporation tax on income and capital gains arising to it. The Directors intend that the affairs of the Company will be conducted so that no such assessable "U.K. Representative" will arise insofar as this is within their control, but it cannot be guaranteed that the conditions necessary to prevent any such assessable "U.K. Representative" coming into being will at all times be satisfied.

Interest and other income received by the Company which has a U.K. source may be subject to withholding taxes in the U.K.

### ***Shareholders***

Subject to their personal circumstances, Shareholders resident in the U.K. for taxation purposes will be liable to U.K. income tax or corporation tax in respect of dividends paid or other distributions of income made by the Company, whether or not such distributions are reinvested.

Except in the case of a company owning directly or indirectly not less than ten per cent. of the share capital of the Company, no credit will be available against a Shareholder's U.K. taxation liability in respect of income distributions of the Company for any taxes suffered or paid by the Company on its own income.

Chapter V of Part XVII of the Income and Corporation Taxes Act 1988 of the U.K. (the "Taxes Act") provides that if an investor who is resident or ordinarily resident in the U.K. for taxation purposes holds a "material interest" in an overseas company that constitutes an "offshore fund" and that company does not qualify as a "distributing fund" throughout the period during which the investor

holds that interest, any gain accruing to the investor upon the sale, redemption or other disposal of that interest will be taxed at the time of such sale, redemption or disposal as income and not as a capital gain. Shares will constitute "material interests" in an "offshore fund" for the purposes of these provisions.

The Directors intend that the Company will not seek to be certified in respect of any of its accounting periods as a distributing fund. Accordingly, Shareholders who are resident or ordinarily resident in the U.K. for taxation purposes may be liable to U.K. income tax in respect of gains arising from the sale, redemption or other disposal (which may include, where applicable, compulsory redemption by the Company or an *in specie* redemption) of their Shares. Such gains may remain taxable notwithstanding any general or specific U.K. capital gains tax exemption or allowance available to an investor and cannot be reduced by use of indexation allowance. In addition, individual and other non-corporate Shareholders will not be able to take advantage of recent reforms to the U.K. capital gains tax system which enable the proportion of chargeable gains subject to taxation to be reduced where shares are held over a period of years. Accordingly, this may result in longer-term investors incurring a proportionately greater U.K. taxation charge due to the non-availability of capital gains tax taper relief.

Chapter II of Part IV of the Finance Act 1996 ("FA 1996") provides that, if at any time in an accounting period a corporate investor within the charge to U.K. corporation tax holds a material interest in an offshore fund within the meaning of the relevant provisions of the Taxes Act, and there is a time in that period when that fund fails to satisfy the "non-qualifying investments test", the material interest held by such a corporate investor will be treated for the accounting period as if it were rights under a creditor relationship for the purposes of the rules relating to the taxation of most corporate debt contained in FA 1996 (the "Corporate Debt Regime"). The Shares will (as explained above) constitute material interests in an offshore fund. In circumstances where the test is not satisfied (for example if the Company invests in cash, securities or debt instruments and the market value of such investments exceeds sixty per cent. of the market value of all its investments), the Shares will be treated for corporation tax purposes as within the Corporate Debt Regime. As a consequence and where the test is not met in successive accounting periods or a disposal occurs during such accounting period, all returns on the Shares in respect of each corporate investor's accounting period (including gains, profits and deficits) will be taxed or relieved as an income receipt or expense on a "mark to market" basis. Accordingly, a Shareholder may, depending on its own circumstances, incur a charge to corporation tax on an unrealised increase in the value of its holding of Shares (and, likewise, obtain relief against corporation tax for an unrealised reduction in the value of its holding of Shares). In addition, it is understood that in such circumstances the Shares would also be regarded as a "qualifying asset" for the purposes of taxing foreign exchange movements under the Finance Act 1993 so that differences in the sterling accrued equivalent of the initial dollar or Euro investment would be taxable as a non-trading income receipt or loss as the case may be. The provisions relating to non-distributing funds (outlined above) and those relating to holdings in controlled foreign companies (outlined below) would not then apply to Shareholders.

The attention of individuals ordinarily resident in the U.K. for taxation purposes is drawn to the provisions of Section 739 and Section 740 of the Taxes Act under which the income accruing to the Company may be attributed to such a Shareholder and may render them liable to taxation in respect of undistributed income and profits of the Company. This legislation will, however, not apply if such a Shareholder can satisfy the Inland Revenue that either:

- (i) the purpose of avoiding liability to UK taxation was not the purpose or one of the purposes of their investment in the Company; or
- (ii) the investment was a *bona fide* commercial transaction and was not designed for the purpose of avoiding UK taxation.

Chapter IV of Part XVII of the Taxes Act subjects U.K. resident companies to tax on the profits of companies not so resident in which they have an interest. The provisions, broadly, affect U.K. resident companies which hold, alone or together with certain other associated persons, shares which confer a right to at least 25 per cent. of the profits of a non-resident company which is controlled by persons who are resident in the U.K. and is subject to a lower level of taxation in its Territory of residence. The legislation provides for certain exceptions including an exception for a company which implements an acceptable distribution policy as defined in the legislation. As the Company may not make significant distributions, this legislation may be relevant to certain corporate Shareholders. The legislation is not directed towards the taxation of capital gains.

The attention of persons resident or ordinarily resident in the U.K. for taxation purposes (and who, if individuals, are also domiciled in the U.K. for those purposes) is drawn to the provisions of section 13 of the Taxation of Chargeable Gains Act 1992 ("section 13"). Section 13 applies to a "participator" for U.K. taxation purposes (which term includes a Shareholder) if at any time when any gain accrues to the Company which constitutes a chargeable gain for those purposes if, at the same time, the Company is itself controlled by a sufficiently small number of persons so as to render the Company a body corporate that would, were it to have been resident in the U.K. for taxation purposes, be a "close" company for those purposes. The provisions of section 13 could, if applied, result in any such person being treated for the purposes of U.K. taxation of chargeable gains as if a part of any chargeable gain accruing to the Company had accrued to that person directly, that part being equal to the proportion of the gain that corresponds to that person's proportionate interest in the Company as a "participator". No liability under section 13 could be incurred by such a person however, where such proportion does not exceed one-tenth of the gain.

## **United States**

The following discussion is a general summary of certain U.S. federal tax consequences that may result to the Company and its Shareholders in connection with their investment in the Company. The discussion does not purport to deal with all of the U.S. federal income tax consequences applicable to the Company or to all categories of investors, some of whom may be subject to special rules. The discussion assumes that the Company will not hold any interests (other than as a creditor) in any "United States real property holding corporations" as defined in the U.S. Internal Revenue Code. Furthermore, the discussion assumes that no U.S. Taxpayer will own directly or indirectly, or will be considered as owning by application of certain tax law rules of constructive ownership, any Shares. Investors should consult their own tax advisors regarding the tax consequences to them of an investment in the Company in light of their particular circumstances.

**An investor may be a "U.S. Taxpayer" but not a "U.S. Person". For example, an individual who is a U.S. citizen residing outside of the United States is not a "U.S. Person" but is a "U.S. Taxpayer". Definitions of a "U.S. Person" and a "U.S. Taxpayer" may be found in Appendix I on page 39.**

## ***The Company***

The Company intends to conduct its affairs so that it will not be deemed to be engaged in trade or business in the United States and, therefore, none of its income will be treated as "effectively connected" with a U.S. trade or business carried on by the Company. If none of the income of the Company is effectively connected with a U.S. trade or business carried on by the Company, certain categories of income (including dividends and certain types of interest income) derived by the Company from U.S. sources will be subject to a U.S. tax of 30 per cent., which tax is generally withheld from such income. Certain other categories of income, generally including interest on certain portfolio debt obligations (which may include United States Government securities), capital gains (including those derived from options transactions), original issue discount obligations having an original maturity of 183 days or less, and certificates of deposit, will not be subject to this 30 per

cent. tax. If, on the other hand, the Company derives income which is effectively connected with a U.S. trade or business carried on by the Company, such income will be subject to U.S. federal income tax at the graduated rates applicable to U.S. domestic corporations, and the Company may also be subject to a branch profits tax.

### ***Shareholders***

The U.S. tax consequences to Shareholders of distributions from the Company and of dispositions of Shares generally depends on the Shareholder's particular circumstances, including whether the Shareholder conducts a trade or business within the United States or is otherwise taxable as a U.S. Taxpayer.

The Company is a "passive foreign investment company" within the meaning of Section 1297 of the U.S. Internal Revenue Code. **Prospective investors that are U.S. Taxpayers should consult their professional tax advisors prior to investing.**

## APPENDIX I - GENERAL INFORMATION

### Incorporation and Share Capital

1. The Company was registered in Guernsey on 9 November 2001 under the provisions of the Law, as a company limited by shares (registered number 38911) under the name of Cardona Lloyd Hedge Portfolio Limited. The Company has an authorised share capital of €6,100 divided into 100 Management Shares of €1 each, ("Management Shares") all of which have been allotted and issued to the Manager credited as fully paid up and 6,000,000 million Unclassified Shares of €0.001 each ("Unclassified Shares"). The Unclassified Shares may be allotted and issued as participating redeemable preference shares ("Shares") or as nominal shares ("Nominal Shares") and the Articles provide that the Shares may be divided into such Classes of such designations as the Directors may from time to time determine. Under the Law, only preference shares are redeemable and the Management Shares have been created in order that the Shares may have a preference over some other class of share capital.
2. Save as disclosed above, and with the issue of Class A and Class B Shares to investors, no share or loan capital of the Company has been issued or agreed to be issued and no such capital of the Company is proposed to be issued or is under option or agreed conditionally or unconditionally to be put under option.

### Memorandum of Association

1. The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as an investment holding company.
2. The objects of the Company are set out in full in Clause 3 of the Memorandum of Association that is available for inspection as stated at paragraph 13 below.

### Articles of Association

The following is a summary of the principal provisions of the Articles of Association of the Company in so far as they have not been described earlier in this document.

#### (1) *Variation of Class Rights and Alteration of Capital*

- (a) Subject to the provision of the Law, all or any of the special rights for the time being attached to any class of shares for the time being issued may (unless otherwise provided by the terms of issue of the shares of that class or the Articles) from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-quarters of the issued shares of that class or with the sanction of a resolution passed by a majority of three-quarters of the votes cast at a separate general meeting of the holders of such shares. All the provisions of the Articles as to general meetings of the Company shall *mutatis mutandis* apply to any such separate general meeting but so that the necessary quorum shall be two members holding or representing by proxy a total in aggregate of not less than ten per cent, of the issued shares of the class, and any holder of shares of the class shall be entitled on a poll to one vote for every such share held by him and any holder of shares of the class present in person or by proxy may demand a poll.

- (b) the rights attached to the Shares shall be deemed to be varied by the creation or issue of any shares (other than Shares) ranking *pari passu* with or in priority to them as respects participation in the profits or assets of the Company.
- (c) Subject to the preceding paragraph, the special rights attached to any class of shares having preferential rights shall (unless otherwise expressly provided by the conditions of issue of such shares) be deemed not be varied by:
  - (i) the creation, allotment or issue of further shares ranking *pari passu* therewith; or
  - (ii) the creation, allotment or issue of Management shares; or
  - (iii) the creation of Unclassified Shares; or
  - (iv) the allotment, issue or redemption of Nominal Shares; or
  - (v) the conversion of Nominal Shares into Shares as provided for in the Articles of Association.
- (d) The Company may from time to time by ordinary resolution increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.
- (e) Subject to the provisions of Guernsey law, the Company may by special resolution from time to time reduce its share capital in any way, and in particular, without prejudice to the generality of the foregoing power, may:-
  - (i) extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or
  - (ii) with or without extinguishing or reducing liability on any of its shares either cancel any paid-up share capital which is lost, or which is not represented by available assets or pay off any paid-up capital which is in excess of the requirements of the Company, and may, if and so far as is necessary, alter its Memorandum by reducing the amount of its share capital and of its shares accordingly.
- (f) The Company may by ordinary resolution from time to time alter its share capital by:-
  - (i) consolidating and dividing all or any of its share capital into shares or larger amount than its existing shares;
  - (ii) sub-dividing its shares, or any of them, into shares of a smaller amount than that fixed by its Memorandum of Association so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived;
  - (iii) cancelling any shares which, at the date of the passing of the ordinary resolution in that behalf have not taken, or agreed to be taken, by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.



(2) ***Issue of Shares***

All shares in the Company for the time being unissued are under the control of the Directors who may only allot and dispose of the same on the terms set out in the Articles and summarised in this Private Placement Memorandum. Shares do not carry any rights of pre-emption. Except with the consent of the majority of votes cast at a separate general meeting of the holders of Shares, no shares in the capital of the Company, other than Participating Shares, Management Shares and Nominal Shares shall be issued.

(3) ***Classes of Shares***

***Management Shares***

The Management Shares may only be issued at par and to the Manager for the time being of the Company. The rights attaching to the Management Shares are as follows: -

*Voting Rights:*

The Management Shares carry no voting rights.

Dividends and distribution of assets on a winding up:

The Management Shares do not carry any right to dividends. In the event of a liquidation, they rank *pari passu inter se* but only for return of the nominal amount paid up on them.

*Redemption:*

The Management Shares are not redeemable.

***Nominal Shares***

The Nominal Shares may only be issued to the Manager at par and only for the purpose of providing funds for the redemption of the Shares. The rights attached to the Nominal Shares are as follows:

*Voting Rights:*

The Nominal Shares shall carry no voting rights.

*Dividends and distribution of assets on a winding up:*

The Nominal Shares do not carry any right to dividends. In the event of a liquidation they rank *pari passu inter se* but only for a return of the nominal amount paid up on them (after the return of the nominal amounts paid up on the Shares).

*Redemption:*

Subject to the Guernsey law, the Company may from time to time redeem at par all or any of the Nominal Shares for the time being issued and outstanding which may lawfully be applied for the purpose.

## ***Shares***

The rights attaching to the Shares are as follows: -

### *Voting Rights:*

On a show of hands, every holder who (being an individual) is present in person shall have one vote and, on a poll, every holder present in person or by a proxy or by a duly authorised representative shall have one vote for every Share held.

### *Dividends:*

The Shareholders of a Class may from time to time declare dividends payable to holders of Shares of the Class concerned up to an amount recommended by the Directors. The Directors may from time to time, if they think fit pay interim dividends on Shares of any particular Class if justified by the profits of the Company. (See further, the section headed "Dividends" below).

### *Winding Up:*

The Shares carry a right to a return of the nominal capital paid up in respect of such Shares, in priority to any distribution on the Nominal Shares. Surplus assets remaining after the return of capital paid up on the Shares and Nominal Shares are distributed to the holders of the Shares *pro rata*.

### *Redemption:*

The Shares may be redeemed by Shareholders on a Dealing Day at a price based on the Net Asset Value of such Shares.

## ***Unclassified Shares***

These may be issued as Shares or as Nominal Shares.

### **(4) *Transfer and Compulsory Redemption of Shares***

The instrument of transfer of a Share shall be in writing in any usual or common form in use in Guernsey or in any other form which the Directors may sanction or allow and shall be signed by or on behalf of the transferor. The Directors may also decline to register the transfer of a Share: -

- (a) if the transfer would result in the transferor or the transferee being the holder of less than the minimum number of Shares or minimum amount in value of a holding of Shares;
- (b) if it appears to the Directors that the transferee is not qualified to hold shares in the Company or that the registration of the transferee as a Shareholder will or may result in the Company incurring any liability to taxation or suffering any regulatory, pecuniary, legal or other material administrative disadvantage which the Company might not otherwise have incurred or suffered or the classification of the Company as an "investment company" under the 1940 Act;
- (c) if the transferee fails or refuses to furnish the Director with such information or declarations as they may require.

The Directors shall not be bound to register more than four persons as joint holders of any Share.

The Directors have the power under the Articles in their absolute discretion compulsory to redeem at any time the Shares of any investor (i) who holds Shares directly or beneficially in breach of any law or requirement of any country governmental or regulatory authority or (ii) whose existence as a Shareholder causes or threatens to cause the Company to incur any liability to taxation or to suffer any pecuniary or other disadvantage in any jurisdiction which it would otherwise not have expected to incur or suffer or (iii) whose existence as a Shareholder may cause the Company to be classified as an "investment company" under the United States Investment Company Act of 1940.

(5) ***Directors***

- (a) Unless otherwise determined by the Company in general meeting, the quorum necessary for the transaction of business by the Directors may be fixed by the Directors, and unless so fixed by the Directors, if there shall be two or more Directors shall be two Directors and if less than two Directors shall be one or their proxies or alternates provided that at any transaction of business of the Directors there shall be at least a majority of Directors who are not resident in the United Kingdom. No person resident in the United Kingdom shall be appointed a proxy of or an alternate of, a non United Kingdom resident Director.
- (b) the Directors shall not be required to hold any qualification shares.
- (c) The Directors and alternative Directors may be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors of general meetings of the Company or in connection with the business of the Company. The Directors shall be entitled to be paid by way of remuneration for their services or such other sum as may be voted to them by the Company in general meeting which shall be divided between them as they shall agree, or failing agreement, equally. Such remuneration will accrue from day to day. The Directors may grant extra remuneration to any Director who is called on to perform any special or extra services for or at the request of the Company.
- (d) A Director may be a director, managing director, manager or other officer, employee or member of any company in which the Company may be interested, which may be promoted by the Company or with which the Company has entered into any transaction, arrangement or agreement and no such Director shall be accountable to the Company for any remuneration or other benefits received thereby.
- (e) Provided the nature and extent of any material interest of his is or has been declared to the other Directors, a Director notwithstanding his office:-
  - (i) may be a party to, or otherwise interested in, any transaction or arrangement with the company, or in which the Company is otherwise interested;
  - (ii) may act by himself or through his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;

- (iii) may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, a Shareholder of or otherwise directly or indirectly interested in, any body corporate promoted by the Company or with which the Company has entered into any transaction, arrangement or agreement or in which the Company is otherwise interested; and
- (iv) shall not by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

(6) ***Borrowing powers***

Subject as described under "Investment Policy" on page 15 of this Private Placement Memorandum, the Directors may exercise all the powers of the Company to borrow money for the account of any Class and hypothecate, mortgage, charge or pledge the assets and property of the Class concerned or any part thereof and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(7) ***Dividends***

- (a) Subject to the Law, the Shareholders of a Class may from time to time declare dividends on Shares to be paid to Shareholders of that Class according to their respective rights and interests in the profits available for distribution, but no dividend will be declared in excess of the amount recommended by the Directors. However, in the event that dividends are declared, such dividends will be paid out of accumulated net income plus the net of accumulated realised and unrealised gains and accumulated realised and unrealised losses. The Directors have the right to recommend the payment of dividends at their discretion provided that dividends will only be payable to the extent that they are covered by assets of the relevant Class that may be lawfully distributed as dividends.
- (b) The Directors may, with the sanction of the Shareholders, satisfy any dividend, in whole or in part, by distributing in *specie* any of the assets of the relevant Class provided that no such distribution shall be made which would amount to a reduction of capital save with the consents required under Guernsey law.
- (c) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the relevant Class until claimed. No dividend shall bear interest against the Company. Any dividend unclaimed after a period of six years from the date of declaration thereof will be forfeited and will revert to the Class to which it relates and the payment by the Directors of any unclaimed dividend or sum payable on or in respect of a Share into a separate account will not constitute the Company a trustee in respect thereof.

(8) ***Winding up***

The Company may be voluntarily wound up at any time by special resolution. The Directors are bound to convene an extraordinary general meeting for the purpose of passing a special resolution for the winding up of the Company if the Company's authorisation under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 is revoked (unless the Guernsey Financial Services Commission otherwise agrees). On a winding up a liquidator will be

appointed firstly to pay the debts of the Company and then to distribute its assets amongst Shareholders, according to the rights attached to their Shares.

## **Report and Accounts**

The financial year of the Company ends on 31 March, with the first accounting period ending on 31 March 2002. The financial year of the La Fayette Funds ends on 31 December. Audited financial statements and a semi-annual report, with unaudited financial information for the Company and the La Fayette Funds will be sent to Shareholders and to the Irish Stock Exchange within four months of the end of the period to which they relate. The Classes are denominated in dollars and Euros however, the Company's base currency is Euros and therefore the Company will present its accounts in that currency in accordance with UK GAAP together with Class accounts in the relevant currency of account. A copy of the most recent financial statements will, when available, be sent to Shareholders and prospective Shareholders on request.

## **General Meetings**

The annual general meeting of the Company will be held in Guernsey or elsewhere if the Directors consider that this would be more convenient for Shareholders (save that no such meetings may take place in the United Kingdom). Notices convening the general meeting in each year will be sent to Shareholders at their registered addresses or given by advertisement not later than 21 days before the date fixed for the meetings. Other general meetings may be convened from time to time by the Directors by sending notices to Shareholders at their registered addresses or by Shareholders requisitioning such meetings in accordance with Guernsey law, and may be held in Guernsey or elsewhere (excluding the United Kingdom).

## **Material Contracts**

The following contracts, not being contracts in the ordinary course of business, were entered into by the Company on or about the date hereof and are, or may be, material. They contain limitations of liability and indemnities operating in favour of parties other than the Company in the absence of such party's fraud, wilful default, or negligence. Information in relation to fees is contained under "Fees and Expenses".

1. The Management and Marketing Agreement between the Company and the Manager whereby the Manager has been appointed to oversee the Company's investment objective and policy. The agreement may be terminated on 12 months' written notice by any party (or sooner if agreed by all parties).
2. The Secretarial and Administration Agreement between the Company and the Administrator whereby the Administrator has agreed to provide secretarial, transfer agency, accounting and other administrative services to the Company. The agreement may be terminated by either party giving the other not less than 60 days' notice in writing given so as to expire on the last day of any calendar month save that the agreement may be terminated forthwith if: (a) either party has broken or is in breach of any of the terms of the agreement and, if such breach is capable of remedy, shall not have remedied such breach within thirty days after service of notice requiring the same to be remedied; (b) either party has gone into liquidation or an order has been made or a resolution has been passed to put either party into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation); or (c) either party has been declared *en désastre* under the laws of the Island of Guernsey; or (d) the Administrator ceases to be qualified to act as such under the laws of the Island of Guernsey.
3. The Custodian Agreement between the Company and the Custodian whereby the Custodian will provide custody services to the Company. The Custodian is not entitled to retire

voluntarily except upon the appointment of a new custodian. If the Custodian desires to retire, or goes into liquidation (other than voluntary liquidation for the purpose of reconstruction or amalgamation) or if a receiver is appointed over any of its assets, or if the Custodian ceases to be qualified to act as Custodian then the Directors must appoint another qualified custodian to take the Custodian's place. Either party may terminate the agreement by giving not less than 90 days' notice in writing to the other (or such shorter notice as such other party may agree to accept) or forthwith by written notice taking immediate effect if (a) the other shall commit any material breach of its obligations under the agreement and (it being a breach capable of remedy) shall fail to make good such breach within thirty days of receipt of notice served on it requiring it to do so; or (b) the other shall go into liquidation (except a voluntary liquidation for the purposes of reconstruction or amalgamation upon terms previously approved in writing by the other) or is unable to pay its debts or commits act of bankruptcy under the laws of Guernsey or if a receiver is appointed over any of the assets of the Custodian or Company or their affairs are declared to be *en etat de désastre*. In addition, the Company may terminate the position of the Custodian where the Custodian ceases to be a resident in Guernsey for fiscal purposes or ceases to be qualified to act as such.

4. The Investment Management Agreement between the Manager and the Investment Manager whereby the Manager has delegated its investment management duties to the Investment Manager. The agreement is terminable on twelve months' notice by written notice to the other party and will terminate automatically on the termination of the Management and Marketing Agreement.
5. The Registrar Agreement between the Custodian and the Administrator whereby the Custodian has delegated its responsibility for keeping the register of Shareholders to the Administrator. The Registrar Agreement will continue in force until determined by either party on giving ninety days' notice in writing to the other party or until the termination of the Custodian Agreement or the Administration Agreement as the case may be. Either party may terminate the Registrar Agreement forthwith if the other party commits any material breach of it and (where such breach is capable of remedy) fails to remedy the breach within thirty days of being given written notice thereto.

The Company may in future enter into marketing and distribution agreements with financial intermediaries approved by the Directors. All of the agreements listed above maybe amended from time to time by mutual consent of the parties thereto.

#### **Directors, Promoters and Interests**

1. There are no service contracts in existence between the Company and any of its Directors, nor are any such contracts proposed.
2. Initially, the following fees will be paid to the Directors for acting as such together with their out of pocket expenses. Directors may waive all or part of their fees or assign their fees to their employers or such other party or parties that they may in their discretion determine. Mr Cardona has waived his fee for 2002 and 2003.

Mr Renouf: £4,000

Mr Firth: €2,000

3. Mr Cardona, a Director, is also a beneficial owner and director of the Manager and Investment Manager. Mr Firth, a Director, is managing director of the Administrator, a senior employee within the Bank of Butterfield group, which includes the Custodian, and a director of the Manager.

4. At the date hereof, other than as described below no Director, nor any connected person, has any interest, direct or indirect, in the share capital of the Company. Mr Cardona, or a trust of which he is a beneficiary, held 8,809.4542 Class A and 8,352.9633 Class B Shares as at the date of this Memorandum.
5. Save as disclosed in this section 7, no Director, nor any connected person has any interest, direct or indirect, in the promotion of, or in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Company, and no Director is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Company.

## **General**

1. No share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option and no Shares have been issued or are proposed to be issued for a consideration other than cash.
2. Save for the 5 per cent. initial charge, no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any of its Shares.
3. The Company has no litigation, arbitration or claim pending or, so far as the Directors are aware, threatened against it nor has any claim been made since incorporation.
4. The Company does not, nor does it expect to, have any employees.
5. The Investment Manager is the promoter of the Company and, save as disclosed in this Private Placement Memorandum, no amount or benefit has been or will be paid or given to the promoter by the Company and none is intended to be paid or given.
6. This Private Placement Memorandum constitutes scheme particulars for the purposes of the Guernsey Collective Investment Schemes (Class B) Rules 1990.
7. The Directors reserve the right to accept subscriptions satisfied by way of *in specie* transfer of assets. In exercising their discretion, the Directors will take into account the investment objective and policy of the relevant Class and whether the proposed *in specie* assets comply with those criteria including the permitted investments of the Company and any Underlying Fund. Any *in specie* subscription that meets the investment criteria will be valued by the Administrator in accordance with the valuation procedures of the Company set out at page 20 and such valuation will be independently verified by the Auditors. Upon receipt of that verification and a properly completed application form, the Administrator will allot the requisite number of Shares in the normal manner. The Directors reserve the right to decline to register any person on the register of Shareholders until the subscriber has been able to prove title to the assets in question. The subscriber shall be responsible for all custody and other costs involved in changing the ownership of the relevant assets unless the Directors otherwise agree.

## **Preliminary Expenses**

The formation and preliminary expenses (including marketing, printing and legal fees) relating to the Company amounted to approximately £88,000 and will be borne by each Class *pro rata*. This sum will be amortised by the Company during its first five financial years subject to the Directors' discretion to vary this if they consider it prudent to do so. This practice is contrary to UK GAAP and although this is not anticipated by the Directors, could result in a qualified audit opinion.

Any Class created in the future shall bear the costs of its creation and additionally shall bear a *pro rata* share of all costs referred to above during the remaining period(s) of the first five accounting periods of the Company.

## **Definition of "US Person" and "US Taxpayer"**

"US Person" means a "US Person" as defined by Rule 902 of Regulation S under the 1933 Act and does not include any "Non-United States person" as used in Rule 4.7 promulgated under the US Commodity Exchange Act (as amended).

"US Person" is defined in Rule 902 of Regulation S under the 1933 Act to mean:

1. any natural person resident in the United States;
2. any partnership or corporation organised or incorporated under the laws of the United States;
3. any estate of which any executor or administrator is a US Person;
4. any trust of which any trustee is a US Person;
5. any agency or branch of a non-US entity located in the United States;
6. any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person;
7. any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated or (if an individual) resident in the United States; and
8. any partnership or corporation if:
  - (a) organised or incorporated under the laws of any non-US jurisdiction; and
  - (b) formed by a US Person principally for the purpose of investing in securities not registered under the 1933 Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in Rule 501(a) of Regulation D under the 1933 Act) who are not natural persons, estates or trusts.

Notwithstanding the preceding paragraph, "US Person" shall not include: (i) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-US Person by a dealer or other professional fiduciary organised, incorporated, or (if an individual) resident in the United States; (ii) any estate of which any professional fiduciary acting as executor or administrator is a US Person, if (A) an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with respect to the assets of the estate, and (B) the estate is governed by non-United States law; (iii) any trust of which any professional fiduciary acting as trustee is a US Person if a trustee who is not a US Person has sole or shared investment discretion with respect to the trust assets and no beneficiary of the trust (and no settlor if the trust is revocable)



is a US Person; (iv) an employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country; (v) any agency or branch of a US Person located outside the United States if (A) the agency or branch operates for valid business reasons, and (B) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and (vi) certain international organisations as specified in Rule 902(k)(2)(vi) of Regulation S under the 1933 Act.

Rule 4.7 of the Commodity Exchange Act Regulations currently provides in the relevant part that the following persons are considered "Non-United States persons": -

1. A natural person who is not a resident of the United States;
2. A partnership, corporation or other entity, other than an entity organised principally for passive investment, organised under the laws of a non-US jurisdiction and which has its principal place of business in a non-US jurisdiction;
3. An estate or trust, the income of which is not subject to United States income tax regardless of source;
4. An entity organised principally for passive investment such as a pool, investment fund or other similar entity *provided* that units of participation in the entity held by US persons represent in the aggregate less than 10 per cent. of the beneficial interest in the entity, and that such entity was not formed principally for the purpose of facilitating investment by US persons in a pool with respect to which the operator is exempt from certain requirements of Part 4 of the US Commodity Futures Trading Commission's regulations by virtue of its participants being non-US persons; and
5. A pension plan for the employees, officers or principals of an entity organised and with its principal place of business outside the United States.

"US Taxpayer" includes a US citizen or resident alien of the United States (as defined for United States federal income tax purposes); any entity treated as a partnership or corporation for US tax purposes that is created or organised in, or under the laws of, the United States or any State thereof; any other partnership that is treated as a US Taxpayer under US Treasury Department regulations; any estate, the income of which is subject to US income taxation regardless of source; and any trust over whose administration a court within the United States has primary supervision and all substantial decisions of which are under the control of one or more US fiduciaries. Persons who have lost their US citizenship and who live outside the United States may nonetheless in some circumstances be treated as US Taxpayers.

An investor may be a "US Taxpayer" but not a "US Person". For example, an individual who is a US citizen residing outside of the United States is not a "US Person" but is a "US Taxpayer".

### **Conflicts of Interest**

The Manager, the Investment Manager, the Administrator, the Custodian, any of their directors, officers, employees, agents and affiliates and the Directors and any person or company with whom they are affiliated or by whom they are employed (each an "Interested Party") may be involved in other financial, investment or other professional activities which may cause conflicts of interest with the Company. In particular, Interested Parties may provide services similar to those provided to the Company to other entities and will not be liable to account for any profit earned from any such services. The Interested Parties will at all times have due regard to their duties owed to the Company and where a conflict arises they will endeavour to ensure that it is resolved fairly. For example, an

Interested Party may acquire investments in which the Company may invest on behalf of clients. However, where the Investment Manager could (i) allocate an investment between two or more funds or accounts which it manages (including the Company's); or (ii) make a disposal of investments held by two or more such funds or accounts, it will act fairly as between the relevant funds or accounts in making such allocation or disposal, having regard to, *inter alia*, factors such as cash availability and portfolio balance.

The Company may acquire securities from or dispose of securities to any Interested Party or any investment fund or account advised or managed by any such person. An Interested Party may provide professional services to the Company (provided that no Interested Party will act as auditor to the Company) or hold Shares and buy, hold and deal in any investments for their own accounts (and is not obliged to account to the Company for any profit made from such holding) notwithstanding that similar investments may be held by the Company. An Interested Party may contract or enter into any financial or other transaction with any Shareholder or with any entity any of whose securities are held by or for the account of the Company, or be interested in any such contract or transaction. Furthermore, any Interested Party may receive commissions to which it or he is contractually entitled in relation to any sale or purchase of any investments of the Company effected by it for the account of the Company, provided that in each case the terms are no less beneficial to the Company than a transaction involving a disinterested party and any commission is in line with market practice.

### **Soft Commission**

The Manager or the Investment Manager may effect transactions by or through the agency of another person with whom the Manager or the Investment Manager has an arrangement under which that party will from time to time provide to or procure for either of them goods, services, or other benefits, such as research and advisory services, computer hardware associated with specialised software or research services and performance measures etc., the nature of which is such that they are directly relevant to the provision of investment services to the Company and their provision can reasonably be expected to benefit the Company as a whole and may contribute to an improvement in the Company's performance and that of the Manager or the Investment Manager in providing services to the Company and for which no direct payment is made but instead either the Manager or the Investment Manager undertakes to place business with that party. All transactions effected by either the Manager or the Investment Manager on behalf of the Company under such soft commission arrangements will be effected in accordance with the rule of best execution. The Investment Manager and the Manager will comply with any relevant regulatory requirements on soft commission arrangements.

### **Documents for Inspection**

Copies of the following documents will be available for inspection at the registered office of the Company, the office of Goodbody Stockbrokers and at the offices of the Administrator and the Custodian during usual business hours on any weekday (Saturdays and public holidays excepted) and after not less than 14 days from the date of the Private Placement Memorandum or from the duration of any offer to which the Private Placement Memorandum relates: -

1. the Memorandum and Articles of Association of the Company;
2. the material contracts referred to in this Appendix;
3. the Companies (Guernsey) Laws 1994-1996 under which the Company was incorporated; and
4. the latest audited financial statements of the Company;

5. the auditor's letter of consent.

The Auditors have given and not withdrawn their written consent to the inclusion of the attached audited financial statements of the Company and the La Fayette Funds in the form and context in which they are included.

As of 30 September 2003 there were 44,627.8259 class A Shares and 48,671.6073 Class B Shares in issue with an unaudited net asset value per share of US\$108.73 per Class A Share and €104.37 per Class B Share. At the same date there were 1,121,635.207 shares in La Fayette Regular Growth and 1,284,895.355 shares in La Fayette Holdings (Euro) with an unaudited net asset value per share of \$249.890 per share and €127.400 per share respectively.

There has been no significant change in the financial or trading position of the Company or the La Fayette Funds since 31/3/03 and 31/12/02, respectively, the date of the audited financial statements of the Company and the La Fayette Funds

## APPENDIX II - RISK FACTORS

Investment in the Company carries a high degree of risk including, but not limited to, the risks referred to below. No assurance can be given that Shareholders will realise a profit on their investment. Moreover, Shareholders may lose some or all of their investment. They refer to both risks in investing in the Company, the risks pertaining to investing in hedge funds generally and also the risks faced by Underlying Funds in pursuing their respective investment objectives and policies. The risks referred to below are not exhaustive. Potential investors should review this Private Placement Memorandum carefully and in its entirety and consult with their professional advisors before making an application for Shares.

**Lack of Operating History.** The Company and the Manager were formed in 2001 and the Investment Manager in 2000. There can be no assurance that the Company will achieve its investment objective.

**Business dependent upon key individuals.** The success of the Company is significantly dependent upon the expertise of the Investment Manager and its employees. The past investment performance of the Investment Manager or its employees in this area may not be construed as an indication of the future results of an investment in the Company.

**Illiquidity.** Investments in the Shares may be relatively illiquid because of limitations on withdrawal and transfer rights. In addition, investments held by the Company may not always be quickly or easily released and therefore calls for redemptions of Shares may not be met notwithstanding the 45 day notice period for redemptions. Such delay may result from, *inter alia*, Underlying Funds suspending or delaying redemptions.

**Cross Class Liability.** The Directors may in future issue additional classes of Shares. However, the Company as a whole, including the Class A and Class B Shares and all such future separate classes, is one legal entity. All of the assets of the Company are available to meet all of the liabilities of the Company, regardless of the separate account to which such assets or liabilities are attributable (if any). Separate classes will only be formed by the Directors having due regard to the risk characteristics of the classes proposed so as to minimise any risk of cross class liability. As at the date of these Private Placement Memorandum, the Directors are not aware of any such existing or contingent liability.

**Fees and Expenses.** Whether or not the Company is profitable, it is required to meet certain fixed costs, including start-up and organisational expenses, ongoing administrative and operating expenses and advisory fees.

**Performance Fees.** Performance Fees may be payable by the Company to the Manager, at the conclusion of each Performance Period and Performance Fees may be paid on unrealised gains that are not subsequently realised.

**Conflicts of Interest.** See Appendix I - "Conflicts of Interest"

**Currency.** Shares will be issued and redeemed in either dollars or Euros. Certain of the Company's assets may, however, be invested in securities and other investments denominated in other currencies. The value of such investments may be affected favourably or unfavourably by fluctuations in exchange currencies, notwithstanding any efforts made to hedge such fluctuations. In addition, prospective investors whose assets and liabilities are primarily denominated in currencies other than the currency of investment should take into account the potential risk of loss arising from fluctuations in the rate of exchange between the currency of investment and such other currency.

**Application for Shares.** Applications for Shares are irrevocable. The Company may utilise subscription amounts received from investors for investment purposes prior to the Dealing Day and prior to physical allocation of Shares to Shareholders. In such event, the investor in question will become an unsecured creditor of the Company until the respective Shares are allocated.

**Concentration of Investments.** Although the Company will endeavour to diversify its portfolio in accordance with the Investment Restrictions set out under "Investment Objective, Policy and Restrictions", the Company may hold a few relatively large equity positions. Consequently, a loss in any such position could result in significant losses to the Company and a proportionately higher reduction in the Net Asset Value of the Company than if the Company had invested in a wider number of positions.

**Risk of Government Intervention.** The prices of instruments in which the Company and/or the Underlying Funds may trade or invest are subject to certain risks arising from government regulation of or intervention in the relevant capital markets, through regulation of their local markets, restrictions on investments by foreigners or limits on flows of investment funds. Such regulation or intervention could adversely affect the Company's performance.

**Investment and Trading Rules generally.** Substantial risks are involved in investing in the various securities and instruments the Company and Underlying Funds may purchase and sell. Prices may be influenced by, among other factors:

- changing supply and demand relationships;
- domestic and foreign policies of governments, particularly policies to do with trade or with fiscal and monetary matters;
- political events, particularly elections and those events that may lead to a change in government;
- the outbreak of hostilities, even in an area in which the Company or an Underlying Fund is not invested; and
- economic developments, particularly those related to balance of payments and trade, inflation, money supply, the issue of government debt, changes in official interest rates, monetary revaluation's or devaluation's and modifications in financial market regulations.

As a result of the nature of the Company's and the Underlying Funds' investment activities, the results of the Company's operations may fluctuate substantially from period to period. Accordingly, performance results of a particular period will not necessarily be indicative of results in future periods.

**Investment Strategies.** No assurance can be given that the strategies to be used will be successful under all or any market conditions. The Company may utilise financial instruments such as derivatives for investment purposes and seek to hedge against fluctuations in the relative values of the Company's portfolio positions as a result of changes in exchange rates, interest rates, equity prices and levels of other interest rates and prices of other securities. Such hedging transactions may not always achieve the intended effect and can also limit potential gains.

**Market Risk.** The Company's investments are subject to normal market fluctuations and the risks inherent in the purchase, holding or selling of equity securities and related instruments, and there can be no assurance that appreciation will occur. The value of Shares can go down as well as up, and investors may not realise the value of their initial investment.

**No Established Rating Criteria.** No rating criteria have been established for the debt securities in which the Company or the Underlying Funds may invest. In accordance with the Company's investment policy, the Company, as well as certain Underlying Funds, may invest in low rated (considered to be those that are below "investment grade") and unrated debt securities. Low rated and unrated debt securities are the equivalent of high yield, high risk bonds, commonly known as "junk bonds" and are generally considered to be speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of its obligations under such securities.

**Potential Illiquidity of Exchange-traded Instruments.** It may not always be possible for the Underlying Fund to execute a buy or sell order on exchanges at the desired price or to liquidate an open position due to market conditions, including the operation of daily price fluctuation limits. If trading on an exchange is suspended or restricted, the Underlying Fund may not be able to execute trades or close out positions on terms that the respective investment manager believes are desirable.

**Exchange-Traded Futures Contracts and Options on Futures Contracts.** The Company's and the Underlying Funds' use of futures contracts will present the same types of volatility and leverage risks associated with transactions in derivative instruments generally (see below).

Prior to exercise or expiration, a futures position can be terminated only by entering into an offsetting transaction.

**Trading in Derivatives.** The prices of certain derivative instruments, including futures and options, carry a degree of volatility. In addition, the Company (in relation to its currency hedging) and the Underlying Funds are subject to the risk of the failure of any of the exchanges on which they trade or of their clearing houses and in certain cases the counter-parties with whom the trades are carried out.

The Company and the Underlying Funds may purchase options on securities and currencies on a variety of securities exchanges and over-the-counter markets. Trading in futures and options is a highly specialised activity and although it may increase the total return of the Company's and an Underlying Fund's portfolio it may also increase ordinary investment risk.

The ability to utilise derivatives to hedge exposure to certain positions or as a surrogate for investments in instruments or markets will depend on the degree of correlation between the value of the instrument or market being hedged, or to which exposure is sought and the value of the futures or option contract. Because the instrument underlying a futures contract or option traded will often be different from the instrument or market being hedged or to which exposure is sought, the correlation risk could be significant and would result in substantial losses to the Company or the Underlying Fund. The use of futures and options involves the risk that changes in the value of the underlying instrument will not be fully reflected in the value of the futures contract or option.

To the extent that the Company or an Underlying Fund trades in derivatives contracts and any broker with whom they maintain an account fails to segregate the Company's or the Underlying Fund's assets, the Company or the Underlying Fund may be subject to a risk of loss in the event of the bankruptcy of the broker.

**Short Selling.** The establishment and maintenance of a short position in equities can involve greater risks than would be the case with a long position. These include the possibility of unlimited loss due to potentially unlimited price appreciation in the securities concerned, problems associated with the cost or availability of stock to borrow for the purposes of short selling and possible difficulties in purchasing stock to cover short positions in certain market conditions.

**Forward Trading.** Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardised; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially

unregulated; there is no limitation on daily price movements. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets may experience periods of illiquidity, sometimes of significant duration. Disruptions can occur in any market traded by the Company (in relation to its currency hedging) or the Underlying Fund due to unusually high trading volume, political intervention, or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the respective investment manager would otherwise recommend, to the possible ultimate detriment of the Company. In respect of such trading, the Company or the Underlying Fund is subject to the risk of counterparty failure or the inability or refusal by a counterpart to perform with respect to such contracts. Market illiquidity or disruption could result in major losses.

**Leverage, Interest Rates and Margin.** An Underlying Fund may borrow funds from brokerage firms and banks in order to increase the amount of capital available for investment. Additionally, the Company and/or the Underlying Fund may borrow to fund redemption requests. Consequently, the level of interest rates at which the Company and Underlying Fund can borrow will ultimately affect the operating results of the Company. In addition, the Underlying Fund may in effect borrow funds through entry into repurchase agreements and may "leverage" its investment return with such instruments as forwards, futures, options and other derivative contracts.

An Underlying Fund's use of borrowing results in certain additional risks. For example, should the securities pledged to brokers to secure the Underlying Fund's margin accounts decline in value, the Underlying Fund could be subject to a "margin call" and need to deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Underlying Fund's assets, the Underlying Fund might not be able to liquidate assets quickly enough to pay off its margin debt. In addition, leverage can increase the loss to investors. In the futures markets, margin deposits are typically low. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses. For example, if at the time of purchase 10 per cent. of the price of a futures contract is deposited as margin, a 10 per cent. 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.

## **ISSUE PROCEDURES**

### **1. Applications**

Your application to invest in the Company should be made by sending the printed completed and signed application form to: -

Cardona Lloyd Hedge Portfolio Limited  
Butterfield Fund Managers (Guernsey) Limited  
PO Box 211, Butterfield House, The Grange  
St Peter Port  
Guernsey GY1 3NQ  
Channel Islands  
Tel: + 44 1481 720 321  
Fax: + 44 1481 716 117

The Administrator must be sent a completed application form for each Share issue.

Applications for an initial purchase of Shares must be for an amount of not less than \$250,000 for Class A Shares or €250,000 for Class B Shares although the Directors have discretion to allow an initial purchase of Shares of not less than \$12,500 for Class A Shares or €12,500 for Class B Shares (in each case, net of initial fees and bank charges). Further applications by existing Shareholders can be made of any amount. Applications for Shares should be made in dollars for Class A Shares and in Euros for Class B Shares.

### **2. Payment by SWIFT or Telegraphic Transfer**

Applicants should fax or write to the Administrator on or prior to the sixth Business Day prior to the end of the month to request an allotment of Shares. Applicants may make payment by SWIFT (details of which should be available from your bank). The applicant's bank must be instructed at the time of application to forward the appropriate remittance by the fastest available means to reach the bank listed below on the relevant Business Day. The applicant's bank should also be instructed to fax the Administrator with details of the transfer it is making containing the information set out at Appendix A to the application form.



Payment, net of charges, should be sent to: -

CLASS A SHARES (US  
DOLLARS):

JPMorgan Chase Bank, New York  
Swift Code: CHASUS33  
For the Account of: Bank of Butterfield International (Guernsey) Limited  
Swift Code: BNTBGGSX  
Account Number: 544-7-11230  
Favour of: Cardona Lloyd Hedge Portfolio Limited – Client Account  
Class A Shares  
Account Number: 02/D02/026789

CLASS B SHARES  
(EUROS):

JPMorgan Chase Bank, Frankfurt  
Swift Code: CHASDEFX  
For the Account of: Bank of Butterfield International (Guernsey) Limited  
Swift Code: BNTBGGSX  
IBAN Number: DE73501108006231601268  
Favour of: Cardona Lloyd Hedge Portfolio Limited – Client Account  
Class B Shares  
Account Number: 35/D02/026790

### 3. **General Information**

Shares will not be finally allotted until the Administrator is satisfied that cleared funds have been received.

The Company reserves the right to reject any application in whole or in part, in which event the application money or any balance will be returned by post at the risk of the applicant.

If the amount paid does not correspond to a specific number of Shares, the Company will issue such number of Shares as is applicable, calculated to four decimal points.

4. **Contract Notes**

Contract notes will be sent to applicants within twenty-one Business Days of the Dealing Day confirming details of their transaction.

**INSTRUCTIONS FOR COMPLETING THE APPLICATION FORM**

1. **Application**

All applications must be made in writing using the printed application form. Please write name(s) using block capitals and fill in the address as indicated. Where there are joint applicants, all correspondence will be sent to the first named applicant at that address. If a nominee is appointed, all correspondence will be sent to the nominee.

2. **Signature**

The Disclosure Statement should be read carefully and signed by the applicant(s) on the appropriate line(s). If any signature is different from the name given for registration purposes, please complete the full name in block capitals and state the capacity in which the application form is being signed, where indicated.

3. **Transmittal and Mailing Instructions**

The application form should be sent to the address shown on the application form.

Where application is made by fax, the original signed application form must be mailed to the Administrator.

4. **Anti-Money Laundering**

Measures aimed towards prevention of money laundering may require the applicant to verify their identity. The Administrator will notify applicants if proof of identity is required. The Administrator may also refuse to process a redemption request until proper information is provided. The applicant must ensure that where payment is made by SWIFT, the financial institution remitting their subscription funds sends a fax to the Administrator containing the information contained at Appendix A to the Application Form.

5. **Queries**

All queries regarding the completion of the application form should be addressed to the Administrator.

**APPLICATION FORM**

To: **Cardona Lloyd Hedge Portfolio Limited** Fax No: + 44 1481 716 117  
 Attn: Butterfield Fund Managers (Guernsey) Limited  
 PO Box 211  
 Butterfield House  
 The Grange  
 St. Peter Port  
 Guernsey GY1 3NQ  
 Channel Islands

*Please use block capitals*

**APPLICANT**

Name.....	
Address.....	
.....	Email .....
Country .....	Postal Code.....
Tel. No .....	Fax No .....

CORRESPONDENCE ADDRESS (if different from above). All correspondence will be sent to the above address, unless the following section is completed.

Name .....	
Address .....	
.....	Email.....
Country .....	Postal Code .....
Tel. No .....	Fax No .....

**INVESTMENT**

<u>Amount Remitted</u>	<b>Applications must be received on or prior to the fourth Business Day preceding the end of the month.</b>
Class A \$.....	The initial minimum investment is \$250,000 for Class A Shares or €250,000 for Class B Shares (net of initial fees and bank charges). The Directors may, in any particular case, determine a lesser amount provided that such lesser amount is not less than \$12,500 for Class A Shares or €12,500 for Class B Shares on the date of subscription.
Class B €.....	

## REDEMPTION OF SHARES

Redemption of Shares by telegraphic transfer should be made on the bank listed below:

Name of Bank .....

City .....Country .....

Branch Office (and Sort Code).....

Account Name .....Account No .....

Redemption proceeds will be sent by bank transfer to the account given first on this Application Form, at the Shareholder's risk.

## DISCLOSURE STATEMENT

To: Cardona Lloyd Hedge Portfolio Limited; Butterfield Fund Managers (Guernsey) Limited; and Cardona Lloyd (Guernsey) Limited

- (1) I/We hereby acknowledge that I/we have received and considered the current Private Placement Memorandum relating to the Company and that this application is made on the terms thereof and subject to its Memorandum and Articles of Association.
- (2) I/We hereby irrevocably apply for such number of Shares (including fractions) at a price determined in accordance with the Private Placement Memorandum. I/We acknowledge that the Company reserves the right to reject any application in whole or in part.
- (3) I/We warrant that: (a) I/we have the knowledge, expertise and experience in financial matters to evaluate the risks of investing in the Company; (b) I am/we are aware of the risks inherent in investing in the Shares and the method by which the assets of the Company are held and/or traded; and (c) I/we can bear the risk of loss of my/our entire investment.
- (4) Non-US Persons must give the following declaration:

I/We hereby certify that the Shares are not being acquired for the benefit of, directly or indirectly, any US Person (as defined in the Private Placement Memorandum) nor in violation of any applicable law, that I/we will not, subject to the conditions set forth in the Private Placement Memorandum, sell or offer to sell or transfer Shares to a US Person.

In particular: (a) I/we understand that the Company has not been registered under the United States Investment Company Act of 1940 and that the Shares have not been registered and will not be registered under the United States Securities Act of 1933, as amended, or that the Shares have not been qualified under the securities laws of any State of the United States and may not be offered, sold or transferred in the United States or to or for the benefit of, directly or indirectly, any US Person; (b) I am not/none of us is a US Person; and (c) I am not/none of us is acquiring the Shares for the account or benefit, directly or indirectly, of any US Person or with a view to their offer, sale or transfer within the United States or to or for the account or benefit, directly or indirectly, of any US Person.

Note: Non-US Persons who are US Taxpayers may invest but must tick the "yes" box set out below:

I/We will hold Shares on behalf of a US Taxpayer.

Yes  No

- (5) I/We declare that the entity hereby subscribing for Shares is a "benefit plan investor" or is investing on behalf of a "benefit plan investor". A "benefit plan investor" means an individual retirement account or any plan organised by an employer or employee organisation, which plan is designed to provide retirement, deferred compensation, medical, death, disability, unemployment, severance, vacation or similar benefits to employees. The employer may be private or may be a government, and the employees may be private or governmental employees. A "benefit plan investor" includes any of the foregoing regardless of the jurisdiction where the plan is formed, the employer is located or the employees work. A "benefit plan investor" also includes any entity 25 per cent. or more of any class of whose interests are owned by such plans, that portion of any insurance company's general account assets which are considered "plan assets", or the assets of any insurance company separate accounts, which are attributable to such plans.

Yes  No

(Benefit plan investors who wish to invest should contact the Administrator).

- (6) I/We acknowledge that due to money laundering requirements operating within their jurisdiction, the Administrator and/or the Company may require proof of identity as described at page 19 of the Private Placement Memorandum before the application or a redemption request can be processed. I/we am/are aware that failure to provide the necessary evidence may result in my/our application being rejected or in delays in the dispatch of documents and for the issue of Shares. I/we hereby confirm that the Company and/or the Administrator shall be held harmless and indemnified against any loss ensuing due to the failure to process this application, or a subsequent redemption request, if such information as has been required has not been provided by me/us. In addition, I/we acknowledge that Appendix A to this disclosure statement forms part of my/our application and that it must be completed by the financial institution which will be remitting my/our subscription amount.
- (7) I/We hereby confirm that the Company, the Directors and the Administrator are each authorised and instructed to accept and execute any instructions in respect of this application and the Shares to which it relates given by me/us by facsimile. If instructions are given by me/us by facsimile, I/we acknowledge that the onus is on me/us to ensure that such instructions are received in legible form, and I/we undertake to confirm them with original instructions. I/we hereby indemnify the Company, the Directors and the Administrator and agree to keep each of them indemnified, against any loss of any nature whatsoever arising to each of them as a result of any of them acting on facsimile instructions. The Company, the Directors and the Administrator may rely conclusively upon and shall incur no liability in respect of any action taken upon any notice, consent, request, instructions or other instrument believed, in good faith, to be genuine or to be signed by properly authorised persons.
- (8) I/We acknowledge that I/we will indemnify and hold harmless the Company, the Manager, the Investment Manager, the Administrator and their respective directors, officers and employees against any loss, liability, cost or expense (including without limitation attorneys' fees, taxes and penalties) which may result directly or indirectly, from any misrepresentation or breach of any warranty, condition, covenant or agreement set forth herein or in any other document delivered by me/us to the Company.

- (9) I/We hereby designate and appoint the Administrator with full power of substitution, as my/our true and lawful proxy for the purpose of voting the Shares subscribed for herein or otherwise acquired as such Proxy may determine on any and all matters which may arise at any meeting of Shareholders and upon which such Shares could be voted by Shareholders present in person at such meeting. This Proxy may be revoked by the owner of record of the Shares hereby subscribed for, either personally or by presentation of a subsequently executed proxy at any meeting of Shareholders, or by written notice to the Administrator, at the above address (or such other address as the Company or the Administrator shall furnish in writing to a Shareholder) received prior to any such meeting.
- (10) I/We, warrant that I/we have the right and authority to make the investment pursuant to this Application Form whether the investment is my/our own or is made on behalf of another person or entity and that I/we are/will not be in breach of any laws or regulations of any competent jurisdiction and I/we hereby indemnify the Company, the Administrator and other Shareholders for any loss suffered by them as a result of this warranty/representation not being true in every respect.
- (11) I/We consent to details relating to my/our application and holdings being disclosed to the Manager, the Investment Manager or any company which performs marketing and investor services on behalf of the Company.
- (12) I/We hereby confirm that I/we shall be deemed to have made the statements listed at (1) to (11) above unless I/we notify you to the contrary in relation to any future Shares I/we may obtain. I/We also agree to notify the Company promptly of any changes in the foregoing information that may occur prior to or following an investment in the Company.
- (13) I/We confirm that the funds being remitted are not the proceeds of conduct which would constitute a criminal offence if it had occurred in Guernsey or in the country of origin.

SIGNATURE ..... DATE .....

JOINT APPLICANTS (if applicable)

NAME	SIGNATURE	DATE
1. ....	.....	.....
2. ....	.....	.....
3. ....	.....	.....

NOTES:

- (1) A corporation should affix its common seal or execute under the hand of a duly authorised official who should state his representative capacity.
- (2) The application may be completed by a duly authorised agent on behalf of the applicant(s). Such person represents and warrants that he is duly authorised to sign this form and thereafter to redeem Shares on behalf of the applicant(s).
- (3) Applicants who are unable to make the above Disclosure Statement may still be able, in certain circumstances, to subscribe for Shares, but they should contact the Administrator for details first.
- (4) The Manager is entitled to charge an initial fee of up to 5 per cent. of the amount subscribed prior to the Administrator applying the subscription to the purchase of Shares.
- (5) The application form includes Appendix A. If the documents are not fully completed to the satisfaction of the Administrator the application may not be accepted.

**APPENDIX A**

PLEASE GIVE THIS LETTER TO YOUR FINANCIAL INSTITUTION AND HAVE THEM RETURN IT TO THE ADMINISTRATOR AT THE SAME TIME THAT THE SUBSCRIPTION MONEY IS WIRED.

**SAMPLE LETTER**

[to be placed on letterhead of the financial institution remitting payment]

Date

**Via mail and facsimile: + 44 1481 716117**

Cardona Lloyd Hedge Portfolio Limited  
Butterfield Fund Managers (Guernsey) Limited  
PO Box 211  
Butterfield House  
The Grange  
St. Peter Port  
Guernsey GY1 3NQ  
Channel Islands

Dear Sirs

**RE: THE CARDONA LLOYD HEDGE PORTFOLIO LIMITED**

1. Name of Remitting Financial Institution:
2. Address of Remitting Financial Institution:
3. Name of Customer:
4. Address of Customer:
5. We have credited your account at [Bank], Account Number [number] for [amount] by order of [subscriber] on [date].

The above information is given in strictest confidence for your own use only and without any guarantee, responsibility, or liability on the part of this institution or its officials.

Yours faithfully,

Signed: \_\_\_\_\_

Full Name: \_\_\_\_\_

Position: \_\_\_\_\_