

## London & Capital Global Conservative Fixed Income Fund

This Supplement dated 13 September 2019 contains specific information in relation to the **London & Capital Global Conservative Fixed Income Fund** (the "**Fund**"); a fund of GemCap Investment Funds (Ireland) plc (the "**Company**") which is an open-ended umbrella investment company with variable capital incorporated with limited liability and segregated liability between Funds.

**This Supplement forms part of the Prospectus dated 4 October 2017 and should be read in the context of and together with the Prospectus including the general description of**

- **the Company and its management and administration;**
- **its general management and fund charges;**
- **the taxation of the Company and of its Shareholders; and**
- **its risk warnings.**

**Words and expressions defined in the Prospectus shall, unless the context otherwise requires, have the same meaning when used in this Supplement.**

**Class X Shares may only be issued to investors who have in place an agreement with the Investment Manager in relation to the collection of an investment management fee or similar fee arrangement, which is not payable from the Net Asset Value of the Fund.**

**The value of investments and income from them can go down as well as up (this may partly be the result of exchange rate fluctuations in investments which have an exposure to foreign currencies) and investors may not get back the full amount invested.**

**An investment in the Fund should not constitute a substantial proportion of an investment portfolio and may not be appropriate for all investors.**

The Directors of the Company, whose names appear under the section headed "Management and Administration", accept responsibility for the information contained in this Prospectus. 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 Prospectus (as complemented, modified or supplemented) is in accordance with the facts and does not omit anything likely to affect the importance of such information. The Directors accept responsibility accordingly.

### **1. Classes:**

Class X Income Shares and Class I Income Shares of the Fund are being offered. Classes are denominated in Great Britain Pounds, in Euro and in United States Dollars.

In relation to the Classes of the Fund which are not designated in the Base Currency ("**Non-Base Currency Classes**"), a currency conversion will take place on subscriptions, redemptions, switches and distributions at prevailing exchange rates. Accordingly, any Non-Base Currency Classes will have an exposure to possible adverse currency fluctuations and it is the intention of the Company to use hedging techniques to protect against such currency risk.

The Company will enter into certain currency related transactions in order to hedge the currency exposure of the Non-Base Currency Classes against the Base Currency of the Fund for the purposes of efficient portfolio management ("**EPM**"). Any financial instruments used to implement such strategies with respect to non-Base Currency Classes shall be assets/liabilities of the Fund as a whole but will be clearly attributable to the relevant non-Base Currency Class and the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant non-Base Currency Class. Any currency exposure of the relevant non-Base Currency Class may not be combined with or offset against that of any other Class of the Fund or allocated to any other Class of the Fund. Where the Investment Manager seeks to hedge against currency fluctuations while not intended, this could result in over-hedged or under-hedged positions due to external factors outside the control of the Company. However, the

Investment Manager shall ensure that under-hedged positions do not fall short of 95% of Net Asset Value and will keep any under-hedged positions under review to ensure that they are not carried forward from month to month. The Investment Manager shall also ensure that over-hedged positions do not exceed 105% of the Net Asset Value and hedged positions will be kept under review to ensure that positions in excess of 100% of Net Asset Value of the Fund will not be carried forward from month to month. To the extent that hedging is successful for the non-Base Currency Classes the performance of the non-Base Currency Classes are likely to move in line with the performance of the underlying assets with the result that investors in the non-Base Currency Classes will not gain if the non-Base Currency Class currency falls against the Base Currency and/or the currency in which the assets of the Fund are denominated.

The Company may also enter into certain currency related transactions in order to hedge the currency exposure of the Fund where the Fund invests in assets denominated in currencies other than the Base Currency.

## **2. Dealing Days for Subscriptions and Redemptions:**

On each Business Day which banks in Ireland and United Kingdom are open for normal banking business and in any other financial centre that the Directors may determine to be relevant for the operations of the Fund, and such additional Business Day or Business Days as the Directors may determine, and notify in advance to Shareholders.

## **3. Dealing Deadline and Valuation Point**

5.00pm Irish time on the Business Day prior to the Dealing Day or such other time as the Directors may determine and notify in advance to Shareholders provided always that the Dealing Deadline is not later than the Valuation Point. The Valuation Point will be the close of business of the relevant market on the Dealing Day.

## **4. Base Currency:**

The base currency of the Fund is US Dollars.

## **5. Dividends:**

The Company may, at its discretion, declare dividends on any Class of Share in the Fund at such intervals as shall be determined by the Company, and notified to Shareholders at that time. Dividends may be declared out of the capital of the Fund. Dividends will be paid by electronic transfer within two months thereafter.

## **6. Investment Objective and Policy:**

### *Investment Objective*

The investment objective of the Fund is to seek to provide absolute growth through a highly diversified portfolio of investments in global fixed income securities, investing in government bonds and corporate bonds with the aim of producing investment returns with a relatively low level of volatility (below 5% over a business cycle).

### *Investment Policy*

Whilst essentially a conservative, long only strategy, some derivatives techniques may be employed from time to time to protect the capital value of the Fund. The weighted average credit quality of the Fund's portfolio of fixed income securities will be investment grade (i.e. at or above S&P rating BBB- or a rating sourced from another reputable rating agency, which is deemed equivalent by the Investment Manager).

The benchmark for the USD Classes is the Federal Funds Target Rate Mid-Point of Range plus 1%. The effective federal funds rate (EFFR) is calculated as a volume-weighted median of

overnight federal funds transactions reported in the FR 2420 Report of selected money market rates. The New York Fed publishes the EFFR for the prior business day on the New York Fed's website at approximately 9:00 a.m. EST. The benchmark for the GBP Classes is the UK Bank of England Official Bank Rate plus 1%. The Bank of England set the Bank Rate eight times a year and use it in their dealings with other financial institutions, which influence all the other interest rates in the economy. This includes the various lending and savings rates offered by high street banks and building societies. The benchmark for the EUR Classes is ECB Deposit Facility Announcement Rate plus 1%. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight.

Investments will be made in global fixed income securities that are listed in a recognized and approved exchange and/or market. The Fund's holding range is diversified and it is expected that the actual number of global fixed income securities will be a minimum of 16 securities and may be close to 90 different holdings. The Fund is actively managed and may use FX forward contracts to hedge currency exposure, for EPM purposes, back to the Fund's base currency (US Dollar) to reduce the volatility of investment returns.

A rigorous due diligence process is used by the Investment Manager to select eligible global fixed income securities. The majority of the portfolio will be invested in global fixed income securities that are rated "investment grade", that is, rated at or above the S&P rating of BBB- (or an equivalent rating). Some allocations (to a maximum of 20% of the Fund's Net Asset Value) may also be made to sub-investment grade fixed income securities so far as the weighted average rating of all fixed income securities is at least S&P rating BBB- or equivalent rating. As such, a high level of research is conducted by the Investment Manager into the credit-worthiness of the obligors behind each security.

From time to time, a maximum of 20% of the portfolio may be held in fixed income securities that are denominated in emerging market currencies. The maximum that the Fund may invest in Russian securities is 10% of Net Asset Value. The maximum that the Fund may invest in Chinese securities is 10% of Net Asset Value. Chinese investments will be indirect in the form of Chinese and Hong Kong domiciled corporate borrowers with a high level of transparency through their reports and accounts who have issued bonds in a "hard" currency such as USD or EUR. Such bonds will be liquid and without holding or lock-up periods, will be traded on a recognised stock exchange in Hong Kong and will have an official credit rating of a minimum of investment grade i.e. rated at or above the S&P rating of BBB- (or an equivalent rating). Such holdings of the Fund will be held by the Depositary in a Euroclear account, and not in a mainland China nominated account. From time to time the Fund may also hold CNY-denominated bonds issued by Chinese corporate borrowers. These will be liquid and without holding or lock-up periods, will be traded on a recognised stock exchange in Hong Kong and will have an official credit rating of a minimum of investment grade.

The Fund is prohibited from investing more than 10 per cent of net assets in aggregate in other collective investment schemes.

A derivatives overlay may be used from time to time to manage credit and duration risk for EPM, using financial derivative instruments ("**FDI**"). This is different to the use of FX forward contracts as described above which hedges non-base currency exposure as and when the weightings are changed within the Fund. During periods of perceived heightened market volatility, credit and duration hedging positions may be placed on a short term basis, until the phase of heightened level market volatility has abated, with the aim of limiting the volatility of investment returns. Examples of FDI are exchange-traded futures and options, over-the-counter ("**OTC**") credit FDI (credit default swaps and options) and interest rate swaps. Once the threat of heightened volatility has passed, the FDI positions are unwound. In addition, the Fund may engage in securities lending arrangements.

#### *Exchange-Traded Futures*

A futures contract is an agreement to buy an underlying asset at a future date and the price of the asset is determined on the date of the actual agreement. Exchange-traded futures may be used to gain exposure to positions in a more efficient manner. Index futures may be used to change the sensitivity to market price movements, with reference to the market represented by the index underlying the contract.

### *Options*

An option contains the right to buy or sell a specific quantity of a specific asset at a fixed price at or before a specified future date. There are two forms of options: put or call options. Put options are contracts sold for a premium that give to the buyer the right, but not the obligation, to sell to the seller a specified quantity of a particular asset (or financial instrument) at a specified price. Call options are similar contracts sold for a premium that give the buyer the right, but not the obligation, to buy from the seller a specified quantity of a particular asset (or financial instrument) at a specified price. Options may also be cash-settled. The Fund may use such instruments to hedge against market risk or to gain exposure to an underlying equity.

### *Swaps*

A swap is an individually negotiated OTC agreement between two parties to swap one stream of payments for another. The Fund may utilise a variety of swaps, including but not limited to: credit default (type of swap designed to transfer the credit exposure of fixed income products between two or more parties) and interest rate swaps.

### *Securities Lending*

Subject to the conditions and limits set out in the Central Bank Rules, the Fund may use securities lending agreements for efficient portfolio management purposes only. Please refer to the section of the Prospectus entitled "Efficient Portfolio Management" for further details.

The Fund shall not engage in any Securities Financing Transactions (other than securities lending agreement referred to above) or Total Return Swaps and this section will be updated in accordance with the Central Bank Rules and the disclosure requirements of SFTR in advance of any change in this regard.

## **Investment Process**

The Investment Manager adopts a structured approach to security selection that combines a macro top-down asset allocation with a bottom-up fundamental valuation approach.

### **1 Global macroeconomic analysis**

The macroeconomic analysis evaluates interest rates, currencies, budget deficits/surpluses, corporate earnings, economic growth and credit/commodity cycles amongst others. Using these inputs, the investment team forms coherent views on the potential returns, risk and correlations of asset classes across the globe.

### **2 Asset class evaluation**

The strategic long term allocations are determined by the return, volatility and correlation of each asset class within the fixed income universe. To produce these allocations the investment manager undertakes the following key steps:

- Fundamental analysis - to identify which asset classes are over or undervalued on an absolute and relative return basis
- Volatility evaluation – across all fixed income asset classes
- Establish risk/return zones for each asset class – to decide the weightings allocated to each within the Fund.

## Efficient Portfolio Management and Leverage

The Fund may engage in transactions in FDI for the purposes of EPM and/or to protect against exchange risks within the conditions and limits laid down by the Central Bank from time to time. EPM transactions relating to the assets of the Fund may be entered into by the Investment Manager with one of the following aims (a) a reduction of risk (including currency exposure risk); (b) a reduction of cost (with no increase or minimal increase in risk); and (c) generation of additional capital or income for the Fund with a level of risk consistent with the risk profile of the Fund and the diversification requirements in accordance with the Central Bank Rules. In relation to EPM operations the Investment Manager will look to ensure that the techniques and instruments used are economically appropriate in that they will be realised in a cost-effective way. Such EPM transactions may include foreign exchange transactions which alter the currency characteristics of fixed income securities held by the Fund. Such instruments include futures, options, spot and forward foreign exchange contracts, interest and exchange rate swap contracts, credit default swap contracts and stock lending.

The Fund will measure global exposure using the commitment approach. As a consequence the leverage of the Fund, which incorporates any FDIs that may be held, is less than 100% of the NAV of the Fund.

The Company, on behalf of the Fund, has filed with the Central Bank a risk management policy which enables it to accurately measure, monitor and manage the various risks associated with the use of FDI.

## Investor Profile

A typical investor in the Fund is an investor who wishes to allocate a portion of its total assets to investment in a diversified portfolio of government and corporate bonds and **who is seeking a portfolio which has a medium to long term horizon** with volatility of returns expected to be low (in the 3% to 5% range) which is considered to be conservative.

## 7. Investment Manager for the Fund

The Investment Manager of the Fund is London and Capital Asset Management Limited, authorised and regulated by the UK Financial Conduct Authority (registration number 143286). The Investment Manager was incorporated in England and Wales on 19th March 1987 as a company with limited liability under company number 2112588 and its registered office is at 7 Triton Square, Regent's Place, London, NW1 3HG, United Kingdom. The Investment Manager is owned by London and Capital Group Limited, a company incorporated in England and Wales. The Investment Manager specialises in providing independent advice, including portfolio construction, using multiple strategies, incorporating high yield bonds and a range of traditional and non-traditional collective instruments. The Investment Manager has been advising on client monies for over 20 years.

The Directors of the Investment Manager are:

### Daniel Freedman

Mr Freedman founded London & Capital in 1986, after a successful career at Allied Dunbar, on the principles of independence, service and integrity and these have been maintained over the past 25 years. As a leading strategic partner, roles include managing and leading one of the UKs most successful independent investment companies. Mr Freedman is a Member of the International Tax Planning Association (ITPA), Founding member of the Fédération Européenne des Conseils et Intermédiaires Financiers (FECIF), and a Member of the Family Office Exchange.

### Anthony McLoughlin

Mr McLoughlin oversees investment strategy for a number of London & Capital group companies and is responsible for the group's growing investment strategy team, in addition to his own client management responsibilities. He has been working with private clients and their advisers for over 20 years. Prior to joining London and Capital group in 1995 he worked at Newton Investment and for a London-based tax accountancy firm where he focused on guaranteed and structured products in the international offshore arena designed for non-domiciled UK individuals. He is a member of the International Tax Planning Association (ITPA) and works closely with international tax attorneys and estate planners on wealth management solutions for high net worth individuals. He travels extensively meeting clients and intermediaries, and speaking on industry issues.

The Investment Manager makes investment decisions for the Fund and continuously reviews, supervises and administers the Fund's investment program. The Manager supervises the Investment Manager and establishes policies that the Investment Manager must follow in its management activities.

Pursuant to the Investment Management Agreement, the Investment Manager has been appointed to provide investment management services to the Fund.

The Investment Management Agreement states that the appointment of the Investment Manager shall continue unless and until terminated by either part giving not less than 180 calendar days' notice. In certain circumstances set out in the Investment Management Agreement, either party may terminate the Investment Management Agreement upon the occurrence of certain events, such as the insolvency or liquidation of either party. The Investment Management Agreement contains certain indemnities in favour of the Investment Manager, which are restricted to exclude matters to the extent that they are attributable to the fraud, bad faith, negligence, wilful default or recklessness of the Investment Manager.

## **8. Issue of Shares:**

The Initial Offer Period for the Class I Income Shares EUR in the Fund will begin at 9.00am (Irish time) on 5 October 2017 and will close at 5.00pm (Irish time) on 4 April 2018 unless such period is shortened or extended by the Directors, who may delegate the exercise of such discretion to any one Director, in accordance with the requirements of the Central Bank. The Shares will be offered at an initial offer price per Share of EUR100.

All other Shares in the Fund are available on each Dealing Day at the Net Asset Value per Share.

All applications for Shares must be received by the Dealing Deadline (as defined above) in the manner set out in the Prospectus. For further information, please see the section headed "Subscription for Shares" in this Prospectus.

All applications must be received by the Administrator no later than the Dealing Deadline on the relevant Dealing Day. Subscription requests may be submitted by fax to the Administrator. Applications should be made on the Application Form available from the Administrator (and supporting documentation relating to money laundering prevention checks) and the originals must be sent promptly to the Administrator. Applications received after the Dealing Deadline will be held over to the next Dealing Day. No interest will be paid on early subscriptions.

Unless otherwise specified, the minimum initial subscription is GBP1,000 for Class X Income Shares GBP, EUR1,000 for Class X Income Shares EUR and USD1,000 for Class X Income Shares USD. Additional subscriptions for Shares are set at a minimum of GBP1,000 for Class X Income Shares GBP, EUR1,000 for Class X Income Shares EUR and USD1,000 for Class X Income Shares USD. Unless otherwise specified, the minimum initial subscription is GBP1,000 for Class I Income Shares GBP, EUR1,000 for Class I Income Shares EUR and USD1,000 for Class I Income Shares USD. Additional subscriptions for Shares are set at a minimum of GBP1,000 for Class I Income Shares GBP, EUR1,000 for Class I Income Shares EUR and USD1,000 for Class I Income Shares USD. However, minimum initial subscriptions or minimum

additional subscriptions which do not meet these thresholds may be accepted by the Directors. The Company may issue fractional shares, expressed as four decimal place fractions of a Share. Application monies representing smaller fractions of a Share will be retained by the Company.

Prior to subscription for Shares in the Fund, an entry charge of up to 5.00% may be deducted from subscription monies before the remainder is used to subscribe for Shares in the Fund. Shareholders will be notified in advance if an entry charge is to be applied to their subscription.

The number of Shares will be rounded up or down to the nearest fourth decimal place.

## **9. Redemption of Shares**

Shares in the Fund may be redeemed on every Dealing Day at the Net Asset Value per Share of the relevant Class subject to the procedures, terms and conditions set out in the Prospectus under the section heading "Subscription and Redemption of Shares". All requests for the redemption of Shares must be received by the Dealing Deadline (as defined above) in the manner set out in the Prospectus.

Redemption monies will normally be paid within 5 Business Days of the relevant Dealing Day for redemptions.

Prior to redemption proceeds being paid an exit charge of up to 2.00% may be deducted from redemption proceeds before the remainder is paid to the Shareholder. The exit charge is an anti-dilution levy to cover dealing costs and to preserve the value of the underlying assets of the Fund. An exit charge is only likely to arise if more than 5.00% of the NAV of the Fund is redeemed on any singular Dealing Day. Shareholders will be notified if an exit charge is to be applied to their redemption on any Dealing Day and may be given the option to reduce or cancel their redemption request in order to avoid an exit charge being applied. Exit charges will be retained by the Fund.

## **10. Fees and Expenses**

The following fees and expenses are payable out of the Fund. Details of how the fees and expenses are accrued and paid as well as details of other general management and fund charges are set out in the Prospectus under the heading "Charges and Expenses".

### **Net Total Operating Fees and Expenses**

#### **Management Fee**

The Manager shall be entitled to receive out of the assets of the Fund a fee of 0.10% per annum of the Net Asset Value of the Fund payable monthly in arrears subject to a minimum annual fee of €75,000. The Manager will also be entitled to be reimbursed out of the assets of the Fund for all reasonable, vouched out-of-pocket expenses incurred by it on behalf of the Fund.

#### **Investment Manager Fees**

Class X Shares may only be issued to investors who have in place an agreement with the Investment Manager in relation to the collection of an investment management fee or similar fee arrangement, which is not payable from the Net Asset Value.

The Investment Manager will be paid a fee from the Company monthly in arrears at the rate of 1% per annum of the Net Asset Value of non-Class X Shares of the Fund on the Valuation Point accrued daily. Reasonable out-of-pocket expenses incurred by the Investment Manager in the performance of its duties will be reimbursed by the Company as may be approved from time to time by the Directors.

## **The Administrator's Fee (Fund Accounting, Financial Reporting and Transfer Agent Fees)**

The Administrator is entitled to receive out of the assets of the Fund (with VAT thereon, if any) an annual fee of up to 0.0225% on a tiered basis of the Net Asset Value of the Fund which will be accrued and payable monthly in arrears, subject to a total of all of the minimum annual fees for the Fund of €32,250. The maximum annual fee for fund accounting activities is €100,000 and the maximum annual fee for shareholder services activities is €100,000.

The Administrator shall be reimbursed out of the assets of the Fund for all reasonable and vouched out-of-pocket expenses incurred by it. In addition, the Administrator may also receive out of the assets of the Fund a fee for trade order management of 0.02% per annum of the Net Asset Value of the Fund.

## **Formation and Organisation Costs**

The costs of forming the Fund, including the fees and expenses of legal advisers, product development fees and expenses, regulatory and listing fees and expenses and any other fees and expenses arising on the formation and launch of the Fund (which are not expected to exceed GBP50,000) will be borne by the Fund and amortised over five years.

### **11. Risk Warnings:**

Persons interested in purchasing Shares in the Fund should read the section headed "Risk Warnings" in the main body of this Prospectus.

The Company will, on request, provide supplementary information to shareholders relating to the risk management methods employed including the qualitative limits that are applied and any recent developments in the risk and yield characteristics of the main categories of investments.

## **Investing in Fixed Income Securities**

Investment in fixed income securities is subject to interest rate, sector, security and credit risks. Lower-rated securities will usually offer higher yields than higher-rated securities to compensate for the reduced creditworthiness and increased risk of default that these securities carry. Lower-rated securities generally tend to reflect short-term corporate and market developments to a greater extent than higher-rated securities which respond primarily to fluctuations in the general level of interest rates. There are fewer investors in lower-rated securities and it may be harder to buy and sell such securities at an optimum time.

The volume of transactions effected in certain international bond markets may be appreciably below that of the world's largest markets, such as the United States. Accordingly, the Fund's investment in such markets may be less liquid and their prices may be more volatile than comparable investments in securities trading in markets with larger trading volumes. Moreover, the settlement periods in certain markets may be longer than in others which may affect portfolio liquidity.

## **Sub-Investment Grade Fixed Interest Securities**

Investment in sub-investment grade fixed interest securities involves greater price volatility and risk of loss of principal and income than investment in fixed income securities of a higher investment grade quality.

## **Investing In High Yields Bonds**

High yield bonds are regarded as being predominately speculative as to the issuer's ability to make payments of principal and interest. Investment in such fixed income securities involves substantial risk. Issuers of high yield debt securities may be highly leveraged and may not have available to them more traditional methods of financing. An economic recession may adversely



affect an issuer's financial condition and the market value of high yield debt securities issued by such entity. The issuer's ability to service its debt obligations may be adversely affected by specific issuer developments, or the issuer's inability to meet specific projected business forecasts, or the unavailability of additional financing. In the event of bankruptcy of an issuer, the Fund may experience losses and incur costs.

### **Changes in Interest Rates**

The value of Shares may be adversely affected by substantial movements in interest rates.

### **FDI, Techniques and Instruments Risks**

The prices of FDI, including futures, options and swap prices, are highly volatile. Price movements of forward contracts, futures contracts and other FDI contracts are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly markets in currencies and interest rate related futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, amongst other things, interest rate fluctuations. The use of these techniques and instruments also involves certain special risks, including (1) dependence on the ability to predict movements in the prices of securities being hedged and movements in interest rates, (2) imperfect correlation between the price movements of the FDI and price movements of related instruments, (3) the fact that skills needed to use these instruments are different from those needed to select the securities owned by the Fund, (4) the possible absence of a liquid market for any particular instrument at any particular time; which may result in possible impediments to effective portfolio management or the ability to meet redemption. The Fund may invest in certain FDI, which may involve the assumption of obligations as well as rights and assets. Assets deposited as margin with brokers may not be held in segregated accounts by the brokers and may therefore become available to the creditors of such brokers in the event of their insolvency or bankruptcy.

The Fund may from time to time utilise both exchange-traded and OTC FDI, such as collateralised debt obligations or credit default swaps as part of its investment policy and for hedging purposes. These instruments may be volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a profit or a loss that is high in proportion to the amount of the funds actually placed as initial margin and may result in unlimited further loss exceeding any margin deposited. Furthermore, when used for hedging purposes there may be an imperfect correlation between these instruments and the investment or market sectors being hedged. Transactions in OTC FDI, such as credit FDI, may involve additional risk as there is no exchange market on which to close out an open position.

### **Forward Trading Risk**

The Fund, or the underlying investment funds in which the Fund may invest, may enter into forward contracts and options thereon. Forward contracts do not have standard terms and are not traded on exchanges. Each transaction is carried out by individual agreements, with banks and dealers acting as principals. Trading in forwards and "cash" trading are both largely unregulated; there is no limitation on daily price movements and speculative position limits are not applicable to the markets, which can be highly illiquid because the principals involved are not obliged to make markets in the currencies or commodities they trade. At times, participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market because of 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 the

possible detriment of the Fund. Market illiquidity or disruption could result in major losses to the Fund. The Fund may be exposed to credit risks on the counterparties and to risks associated with settlement default. Such risks could result in substantial losses to the Fund.

### **Futures and Options Risk**

The Investment Manager may engage in various portfolio strategies on behalf of the Fund through the use of futures and options. Due to the nature of futures, cash to meet margin monies will be held by a broker with whom the Fund has an open position. In the event of the insolvency or bankruptcy of the broker, there can be no guarantee that such monies will be returned to the Fund. On execution of an option, the Fund may pay a premium to a counterparty. In the event of the insolvency or bankruptcy of the counterparty, the option premium may be lost in addition to any unrealised gains where the contract is in the money.

### **OTC Markets Risk**

Where the Fund acquires securities on OTC markets, there is no guarantee that the Fund will be able to realise the fair value of such securities due to their tendency to have limited liquidity and comparatively high price volatility.

### **Lending of Securities**

The Company may lend its securities to brokers, dealers and other financial institutions needing to borrow securities to complete certain transactions. The Company continues to be entitled to payments of amounts equal to the interest, dividends or other distributions payable in respect of the loaned securities, which affords the Company an opportunity to earn interest on the amount of the loan and on the loaned securities' collateral. In connection with any such transaction, the Company will receive collateral that will be marked to market on a daily basis and maintained at all times in an amount equal or exceeding 100% of the current market value of the loaned securities at all times. However, the Company might experience loss if the institution with which the Company has engaged in a portfolio loan transaction breaches its agreement with the Company. This may occur if the counterparty were to default at a time when the value of securities lent increased. In this case it is possible that the collateral held by the Fund would not cover the value of securities lost

### **Emerging Market Risk**

In emerging markets the legal, judicial and regulatory infrastructure is still developing and there is much legal uncertainty both for local market participants and their overseas counterparts. Frontier markets are differentiated from emerging markets in that frontier markets are considered to be somewhat less economically developed than emerging markets. Some markets carry significant risks for investors who should therefore ensure that, before investing, they understand the relevant risks and are satisfied that an investment is suitable.

**Price volatility in emerging markets may be higher than in more developed markets. Price discrepancies can be common and market dislocation is not uncommon in such markets. Additionally, as news about a particular country becomes available, financial markets may react significantly in a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency and levels of regulation found in more developed markets. There may be a higher level of political risk attached to investing in emerging markets also.**

The trading volume on emerging markets through which the Fund may invest may be substantially less than in the world's leading stock markets, accordingly the income and disposal of holdings in some investments may be time-consuming and may need to be conducted at unfavourable prices. Liquidity in such markets may also be less and volatility of prices greater than in the leading markets as a result of a high degree of concentration of market capitalisation and trading volume in a small number of companies.

The value of the Fund's assets may be affected by uncertainties such as changes in government policies, taxation, interest rates, exchange rates, currency repatriation restrictions, social and religious instability and other political, economic or other developments in the law or regulations of the countries in which the Fund may invest and, in particular, by changes in legislation relating to the level of foreign ownership in the companies in countries in which the Fund may invest.

The trading and settlement practices of some of the stock exchanges or markets on which the Fund may invest may not be the same as those in more developed markets, which may increase settlement risk and/or result in delays in realising investments made by the Fund. In addition, the Fund will be exposed to credit risk on parties with whom they trade and will bear the risk of settlement default. The Depositary may be instructed by the Investment Manager to settle transactions on a delivery free of payment basis where the Investment Manager believes that this form of settlement is appropriate. Shareholders should be aware, however, that this may result in a loss to the Fund if a transaction fails to settle.

Some of the Recognised Exchanges on which the Fund may invest may prove to be illiquid or highly volatile from time to time and this may affect the price at which the Fund may liquidate positions to meet redemption requests or other funding requirements. Potential investors should also note that the Fund may have exposure to the securities of small capitalisation companies which are less liquid than larger capitalisation companies and this may result in fluctuations in the price of the Shares of the Fund.

### **Risk warnings specific to Russian securities**

The Fund may invest in regulated markets in Russia which are subject to increased risk with regard to ownership and custody of securities.

Investments in Russia either through the Russian Trading System (RTS) and Moscow Interbank Currency Exchange (MICEX) or on other non-Regulated Markets are subject to increased risk with regard to ownership and custody of securities. There are significant risks inherent in investing in Russia and including: (a) delays in settling transactions and the risk of loss arising out of the systems of securities registration and custody; (b) the lack of corporate governance provisions or general rules or regulations relating to investor protection; (c) pervasiveness of corruption, insider trading, and crime in the Russian economic systems; (d) difficulties associated in obtaining accurate market valuations of many Russian securities, based partly on the limited amount of publicly available information; (e) tax regulations are ambiguous and unclear and there is a risk of imposition of arbitrary or onerous taxes; (f) the general financial condition of Russian and CIS companies, which may involve particularly large amounts of inter-company debt; (g) banks and other financial systems are not well developed or regulated and as a result tend to be untested and have low credit ratings and (h) the risk that the government or other executive or legislative bodies may decide not to continue to support the economic reform programs implemented since the dissolution of the Soviet Union. The concept of fiduciary duty on the part of a company's management is generally non-existent. Local laws and regulations may not prohibit or restrict a company's management from materially changing the company's structure without shareholder consent. Foreign investors cannot be guaranteed redress in a court of law for breach of local laws, regulations or contracts. Regulations governing securities investment may not exist or may be applied in an arbitrary and inconsistent manner. Evidence of legal title in many cases will be maintained in "book-entry" form and the Fund could lose its registration and ownership of securities through fraud, negligence or even oversight. Securities in Russia are issued only in book entry form and ownership records are maintained by registrars who are under contract with the issuers. The registrars are neither agents of, nor responsible to the Company, the Depositary or their local agents in Russia. Transferees of securities have no proprietary rights in respect of securities until their name appears in the register of holders of the securities of the issuer. The law and practice relating to registration of holders of securities are not well developed in Russia and registration delays and failures to register securities can occur. Although Russian sub-custodians will maintain copies of the registrar's records ("**Records**") on its premises, such Records may not, however, be legally sufficient to establish ownership of securities. Further a quantity of forged or otherwise

fraudulent securities, Records or other documents are in circulation in the Russian markets and there is therefore a risk that the Fund's purchases may be settled with such forged or fraudulent securities. In common with other emerging markets, Russia and the CIS have no central source for the issuance or publication of corporate actions information. The Depositary therefore cannot guarantee the completeness or timeliness of the distribution of corporate actions notifications. Although exposure to these equity markets is substantially hedged through the use of ADRs and GDRs, the Fund may invest in securities which require the use of local depository or custodial services.

### **Investing in China**

Investments in China are currently subject to certain additional risks. Part of the assets of the Fund may be invested in local Chinese securities through the use of a Qualified Foreign Institutional Investor ("**QFII**") licence. A foreign investment quota is granted to a QFII under the applicable Chinese investment regulations (a "**Quota**") pursuant to which local Chinese securities may be held. Although the laws of China permit setting up nominee accounts for clients of investment managers who are QFIIs, the Chinese regulators required that the QFII name be used to set up the securities and other accounts on behalf of the Fund. As a result, assets of the Fund may not be deemed to be segregated from other investments of the QFII and therefore they may be less protected than keeping the Fund's assets in a separate account in its own name. However, it has been clarified with the Chinese regulators that the assets belong to the Fund and not the QFII licence-holder. Notwithstanding this, in the event of the default of the QFII, there is a risk that creditors of the QFII may attempt to assert that the securities and other assets in the accounts are owned by the QFII and not the Fund. If a court upholds such an assertion, creditors of the QFII could seek payment from the assets of the Fund.

### **12. Listing**

The Fund will not be initially listed on the ISE, however the Directors may seek a future listing.

### **13. Termination of the Fund**

The Directors may at their discretion decide to terminate the Fund if the NAV of the Fund falls below USD 30 million for a period of greater than 3 months.

### **14. NAV information**

The NAV per Share of the Fund is available from the Administrator and Bloomberg.