

A copy of this document, which comprises a prospectus by Aqua Resources Fund Limited (the “Company”) for the issue of Shares in the Company, prepared in accordance with the Listing Rules and the Prospectus Rules made pursuant to section 73A of the UK Financial Services and Markets Act 2000, has been filed with the Financial Services Authority in accordance with Rule 3.2 of the Prospectus Rules.

The Company has not, and will not be, registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). In addition, the offer, issue and sale of the Shares have not been, and will not be, registered under the Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any State or other jurisdiction of the United States. Accordingly, the Shares are only being offered and sold outside the United States to non-US persons in reliance on the exemption from registration provided by Regulation S under the Securities Act (“Regulation S”). The Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any US person (as defined in Regulation S “US Persons”). This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. Persons outside the United Kingdom into whose possession this document comes are required to inform themselves about and to observe any restrictions as to the offer or sale of Shares and the distribution of this document.

The Shares to be offered pursuant to the Placing are only suitable for, and are only being offered to, (i) qualified investors and persons who have professional experience in matters relating to investments falling within the definition “investment professionals” as set out in Article 19(5) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended; (ii) persons who fall within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended; (iii) persons in member states of the European Economic Area who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) and/or (iv) persons who are permitted to purchase Shares pursuant to an exemption from the Prospectus Directive and other applicable legislation.

Application has been made to the United Kingdom Listing Authority for the entire share capital of the Company (the “Shares”) issued and to be issued in connection with the First Placing to be admitted to the Official List of the United Kingdom Listing Authority and for such Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. Application will be made to the United Kingdom Listing Authority for any Shares issued in connection with the Subsequent Placing to be admitted to the Official List of the United Kingdom Listing Authority and for such Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities.

The Company and the Directors, whose names appear on page 30 of this prospectus, accept responsibility for the information contained in this prospectus. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinance, 1959 as amended has been obtained to the issue of this prospectus and associated raising of funds. To receive such consent application was made under the Guernsey Financial Services Commission’s framework relating to Registered Closed Ended Investment Funds. Under this framework neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council have reviewed the prospectus but instead have relied on specific warranties provided by HSBC Securities Services (Guernsey) Limited as Administrator. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council takes any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed with regard to it.

Capitalised terms contained in this prospectus shall have the meanings set out in the Definitions in Part V of this prospectus.

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## **AQUA RESOURCES FUND LIMITED**

*(a closed ended investment company incorporated with limited liability under the laws of Guernsey with registered number 49038)*

### **Placing of up to 500 million Shares at a Placing Price of €1.00 per Share**

*Sponsor and Placing Agent*

**Landsbanki Securities (UK) Limited**

*Manager and Co Placing Agent*

**FourWinds Capital Management**

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Landsbanki Securities (UK) Limited, which is authorised and regulated by the Financial Services Authority, is acting for the Company and for no one else in connection with the Placing and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Landsbanki Securities (UK) Limited or for affording advice in relation to the contents of this prospectus or any matters referred to herein. Landsbanki Securities (UK) Limited is not responsible for the contents of this prospectus.

The attention of potential investors is drawn to the Risk Factors set out on pages 7 to 22 of this prospectus. Further details of the Placing are set out in Part III of this prospectus.

## TABLE OF CONTENTS

	<i>Page</i>
<b>SUMMARY</b>	3
<b>RISK FACTORS</b>	7
<b>IMPORTANT NOTICES</b>	23
<b>EXPECTED TIMETABLE</b>	29
<b>PLACING STATISTICS</b>	29
<b>DIRECTORS, MANAGER AND ADVISERS</b>	30
<b>PART I INFORMATION ON THE COMPANY</b>	31
Introduction	31
Investment policy	31
Investment strategy	33
Competitive strengths	34
Investment rationale	34
Diversification of the Portfolio	36
Investment process	36
Over-commitment policy	37
Risk management	38
Development and risks	38
Currency risk management	38
Effect of hedging on the liquidity of the Company	38
Net Asset Value publication	38
Dealings in Shares	39
Application of The UK City Code on Takeovers and Managers	40
Discount management provisions	40
Further issues of Shares	41
Dividend policy and distributions	41
Meetings, reports and accounts	41
Life of the Company	42
Structure	42
Taxation	42
Risk factors	42
Further information	42
<b>PART II DIRECTORS, MANAGEMENT AND ADMINISTRATION</b>	43
Directors	43
Manager	43
Management Agreement	45
Administrator and Secretary	46
Fees and expenses	46
Conflicts of interest	48
Corporate governance	49
Audit and Management Engagement Committee	49
<b>PART III PLACING ARRANGEMENTS</b>	50
The Placing	50
General	51
CREST	51
Dealings	51
Settlement	51
Transfer of Shares	51
Overseas persons	52
United States transfer restrictions	52
<b>PART IV ADDITIONAL INFORMATION</b>	54
<b>PART V DEFINITIONS</b>	77
<b>PART VI GLOSSARY OF TERMS</b>	81

## SUMMARY

**This summary should be read as an introduction to this prospectus and any decision to invest in the Shares should be based on consideration of this prospectus as a whole. Where a claim relating to the information contained in this prospectus is brought before a court, a claimant investor may, under the national legislation of a member state of the EEA, have to bear the costs of translating this prospectus before the legal proceedings are initiated. Civil liability attaches to the Company and its Directors, who are responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus.**

### **The Company**

Aqua Resources Fund Limited is a new Guernsey domiciled, closed ended investment fund established to provide capital appreciation through diversified exposure to a global portfolio of water-related investments. The Company is managed by FourWinds Capital Management.

Application has been made to the UK Listing Authority for Shares issued and to be issued pursuant to the First Placing to be admitted to the Official List and for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in Shares issued under the First Placing will commence on 24 July 2008.

Following the First Placing, the Directors may, in their absolute discretion, after consulting with Landsbanki and the Manager, place further Shares at the Placing Price ("**Subsequent Placing**"). Application will be made for the Admission of any Shares issued under the Subsequent Placing. It is anticipated that any Shares issued under the Subsequent Placing will commence dealing by 8 October 2008.

### **Investment objective and strategy**

The Company's investment objective is to provide capital appreciation through exposure to a diversified portfolio of water-related investments.

The Company is targeting investments with an average estimated internal rate of return in excess of 15 per cent. Investment (or commitment) is expected to be substantially completed (i.e. 80 to 85 per cent.) within 12 to 18 months of the initial Admission of the Shares.

FourWinds Capital Management has been appointed the Manager of the Company with responsibility for the discretionary management of the Company's assets.

The Manager will seek to accomplish the Company's investment objective and policy by:

- seeking exposure to water-related investments on a global basis;
- seeking portfolio diversification by investing across the broad value chain of water-related projects and investments; and
- seeking to control risk through such portfolio diversification, investment vehicle selection and implementation of risk control strategies.

No assurance can be given, however, that the Company will achieve its investment objective, and investment results may vary substantially over time and from period to period.

The Company's assets will comprise a portfolio of investments that offer water-related returns in different jurisdictions and water sectors. Investments may be made within a diverse range of water-related segments including infrastructure, technology, recycling and treatment and in water-related projects such as waste water treatment, water distribution and infrastructure, water-to-energy, clean water, desalination, and others. Investments will be sought in relation to both front-end and back-end water businesses and opportunities and demand and supply side opportunities. Investment will comprise primarily direct stakes in unquoted water-related companies and projects. A target threshold of at least 60 per cent. water-related activity will be set for an investment to be considered "water-related".

Using global research and sourcing, the strategy is intended to allow the Company to build an optimised water portfolio focused on investments that offer water-related returns and diversified by factors such as geography, water sector, investment type, investment size, and investment structure. In certain cases, investments may have broader applicability and possibility for regional or global scalability.

### **Competitive strengths**

The team at the Manager is experienced in water-related investments, global direct investment, private equity, project finance, and mergers and acquisitions. The Manager currently works exclusively in the commodities and natural resource-related real assets sectors. The Manager sources, evaluates and executes global transactions; conducts research; designs customised risk management tools; and structures portfolios specific to the particular characteristics of natural resources.

The strategy of direct investment, combining water-related companies and projects on a global level, is designed to offer returns linked to global water supply and demand. This strategy can be clearly distinguished from many water investment portfolios which are limited to public equity investments.

The Manager will subscribe for 3,985,000 million Shares in the Placing. By virtue of this holding and the performance fee payable to the Manager by the Company, the Directors believe that there should be a strong alignment of economic interests between the Manager and Shareholders.

### **Directors**

The Directors are responsible for the determination of the investment policy and strategy of the Company and have overall responsibility for the Company's activities. The Directors are Hasan Askari (Chairman), Andrea Rossi, Timothy Betley and Kimberly Tara. All of the Directors are non executive directors and the majority of the Directors are independent of the Manager. Kimberly Tara, as an officer, employee and shareholder of the Manager, is treated as being non independent.

### **The Manager**

The Manager is a Cayman Islands exempted company with offices in Boston, London, Hong Kong and Geneva and subsidiaries in the UK and the United States.

The Manager focuses on the development of, and risk management of, investment vehicles for commodities and real assets. The Manager currently also manages the Zephyr Commodity Fund, the Phaunos Timber Fund Limited and the Ceres Agriculture Fund Limited.

### **Manager's Fees**

The Manager will be entitled to a base fee equal to 2.0 per cent. per annum of the Net Asset Value of the Company, payable quarterly in advance.

In addition, the Manager will in certain circumstances be entitled to a performance fee in respect of each Calculation Period. A performance fee will be payable where the Net Asset Value per Share at the end of the Calculation Period exceeds the Benchmark NAV per Share, which is the figure equal to the High Water Mark NAV per Share increased by 10 per cent. (or, if the period since a performance fee was last paid is not twelve months, an amount equating to an annual rate of 10 per cent.). The High Water Mark NAV per Share is the Net Asset Value per Share at the end of the last Calculation Period in respect of which a performance fee was paid (or if no performance fee has previously been paid the Net Asset Value per Share immediately following initial Admission of the Shares).

The performance fee will be equal to 20 per cent. of the amount by which the Net Asset Value per Share at the end of the Calculation Period exceeds the High Water Mark NAV per Share, subject to the Net Asset Value per Share never being reduced as a result below the Benchmark NAV per Share.

**Borrowing powers**

The Company may, from time to time, use borrowings primarily for short term liquidity, to facilitate the operation of the over-commitment policy, for working capital purposes, to fund share buy backs and, if the Directors deem prudent, for longer term purposes. The Company will have the ability to incur borrowings of up to 30 per cent. of its Net Asset Value (at the time of the drawdown) and the Company's policy will be to borrow up to a maximum of 20 per cent. of Net Asset Value.

**Risk management**

The Manager will oversee the measurement and control of all aspects of the financial and associated risk management processes.

**Discount control and management**

The Directors may implement a tender offer for up to 25 per cent. of the Shares where, from time to time, the Shares have, in any 12 months preceding the last NAV Calculation Date, traded at an average discount in excess of 10 per cent. of Net Asset Value per Share. Any such tender offer will be at a price per Share which is below the then prevailing Net Asset Value per Share less attributable costs and as otherwise determined by the Directors in their sole discretion. Not more than one such tender offer shall be made in any 12 month period unless the Directors, acting in their sole discretion, determine otherwise.

In addition, the Directors will have authority to purchase in the market up to 14.99 per cent. of the Shares in issue immediately following initial Admission of the Shares. The Company may purchase Shares in the market on an ongoing basis with a view to addressing any imbalance between the supply of, and demand for, Shares, to increase the Net Asset Value per Share and to assist in maintaining a narrow discount to Net Asset Value per Share in relation to the price at which Shares may be trading.

**Further issues of Shares**

Under the Articles, the Directors have wide powers to issue further Shares or reissue Shares held in treasury, on a pre-emptive and non-pre-emptive basis. The Directors will consider issuing further Shares at a price per Share that is not less than the then prevailing Net Asset Value per Share (or, in relation to Shares held in treasury, at no more than a 5 per cent. discount to the then prevailing Net Asset Value per Share or, if higher, the average price at which all the Shares then held in treasury were repurchased by the Company).

The Manager will seek to invest the net proceeds of any further issues or reissues of Shares, in accordance with the Company's investment policy, subject to the overall control and supervision of the Board.

**Risk Factors**

An investment in the Shares is subject to a number of risks and uncertainties which may prevent the Company from meeting its target returns and which may cause the value of the Shares to decline significantly. Investments in the Company are only suitable for sophisticated investors who fully understand and are willing to assume the risks involved. Shareholders may need to hold the Shares on a long term basis in order to optimise returns, and the Shares are not suitable for short term investment.

Consequently, potential investors should recognise that the market value of the Shares can fluctuate and may not always reflect their underlying value. No guarantee is given, express or implied, that Shareholders will receive back any of their original investment or that the Shares will not trade at a discount to their Net Asset Value.

The Company is a recently established investment company with no operating history and no historical, operating or financial data upon which investors may base an evaluation of an investment in the Shares. Past performance of any other investments managed or advised by the Manager should not be relied upon as an indication of the future performance of the Company.

Successful pursuit of the Company's investment policy will depend on the Manager's ability to identify, acquire and realise investments in accordance with the Company's investment policy. This, in turn, will depend on the ability of the Manager to identify suitable investments for the Company. There can be no assurance that the Manager will be able to do so or that the Company will be able to invest its assets on attractive terms or generate any investment returns for Shareholders or indeed avoid investment losses.

The Manager will seek to diversify the Portfolio, but such diversification may not be achieved if the investment opportunities or assets available for investment are insufficient. Diversification of the Company's investments is intended to reduce the Company's exposure to adverse events associated with specific investments, however the Company's returns as a whole may be adversely affected by the unfavourable performance of even a single asset or asset class or market segment.

Factors including gearing, market speculation, changes in financial market conditions, interest rates, currencies, government regulation, the worldwide economic environment, population growth or environmental and climate change could adversely impact the Company's ability to achieve its target returns.

Investment by the Company in water infrastructure projects will also carry risk: projects may not complete on budget, on time or at all, and may expose the Company to claims based on environmental, health or safety grounds.

The Company will invest directly in private companies, joint ventures or other similar illiquid investments, some or all of which may be in an early stage of development or have no or limited operating history. There are risks associated with investment in a new business, including the risk that such companies and businesses will not achieve target returns.

Because the investments comprising the Portfolio may be illiquid, they may be difficult to sell if the need arises. If the Company is required to liquidate all or a portion of an investment quickly, it may realise significantly less than the value at which the investment was previously recorded, which could result in a decrease in the Net Asset Value.

An investment which represents a direct stake in a private company, joint venture, or similar may be leveraged and could be subject to risks of default. The investment may depend on the management talents and efforts of a small group of persons and, as a result, the loss of one or more of those persons could have a material adverse impact on the investment made.

The Company should be regarded as representing a different risk than a generalist fund as it invests solely in the water-related sector.

The Company may invest in emerging markets where laws governing investment are new, developing or untested.

Changes to tax laws or practice affecting the Company or any place in which it invests could adversely affect the value of the Company's investments and decrease post-tax returns to Shareholders.

Shareholders should bear in mind that the actual Net Asset Values may be materially different from the estimated values when placing reliance on any valuations calculated by the Administrator.

The Manager and its affiliates, together with Directors, may be involved in other activities which may on occasion give rise to conflicts of interest with the Company. In particular, the Manager serves as manager to other funds with similar investment policies and may give advice to take action with respect to such other clients that differs from the advice given with respect to the Company.

Investors should also be aware that Shareholders will not have the right to have their Shares redeemed or repurchased by the Company at any time and will generally need to sell their Shares to another investor in order to realise their investment in the Shares. Because the Shares have not traded previously, there can be no guarantee that a liquid market in the Shares will develop and investors may find it difficult to dispose of their investments.

The Directors will have the power to cause the Company to repurchase Shares. However, exercise by the Directors of the Company's powers to repurchase Shares is entirely discretionary and no expectation or reliance should be placed on the Directors exercising such discretion on any one or more occasions.

## RISK FACTORS

Investors are referred to the risks set out below. Only those risks which are material and currently known to the Company have been disclosed. No assurance can be given that Shareholders will realise a profit or will avoid a loss on their investment. Investment in the Company should be regarded as long term in nature and is suitable only for persons who can bear the economic risk of a substantial or entire loss of their investment and who can accept that there may be limited liquidity in the Shares. The information below does not purport to be an exhaustive list or summary of the risks which the Company may encounter and is not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Company, or that the Company deems to be immaterial, may also have an adverse effect on its business. Potential investors should review this prospectus carefully and in its entirety and consult with their professional advisers before making an application for Shares.

### Risks relating to the Company

#### *The Company has no operating history*

The Company was incorporated on 12 June 2008. The Company has no operating history and no historical financial statements or other meaningful operating or financial data upon which prospective investors may base an evaluation of the likely performance of the Company. An investment in the Company is therefore subject to all the risks and uncertainties associated with a new business, including the risk that the Company will not achieve its investment objective and that the value of an investment in the Company could decline substantially as a consequence. The past performance of other investments managed or advised by the Manager cannot be relied upon as an indicator of the future performance of the Company. An investor in the Shares must rely upon the ability of the Manager in identifying and implementing investments consistent with the Company's investment objective and policy.

#### *Investor returns will be dependent upon the performance of the Portfolio*

Investors contemplating an investment in the Shares should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the Portfolio. No assurance is given, express or implied, that Shareholders will receive back the amount of their investment in the Shares.

Investor returns will be dependent upon the Company successfully pursuing its investment policy. The success of the Company will depend on the Manager's ability to identify, acquire and realise investments in accordance with the Company's investment policy. This, in turn, will depend on the ability of the Manager to apply its investment processes in a way which is capable of identifying suitable investments for the Company to invest in. There can be no assurance that the Manager will be able to do so or that the Company will be able to invest its assets on attractive terms or generate any investment returns for Shareholders or indeed avoid investment losses.

The ability to invest the assets of the Company in appropriate investments may be constrained by lack of capacity in targeted investments, or in the market generally. The growth in interest in, and demand for, investment in water-related investments may result in greater competition in the market and may reduce the opportunities available to the Manager to invest the Company's assets.

The success of the Company depends on the Manager's ability to select and acquire the right investments and manage risk at the Portfolio level. In taking on responsibility for the investment of the assets of the Company, the Manager will be increasing its overall assets under management.

#### *The target returns included in this prospectus are based on estimates and projections and the Company cannot guarantee that it will meet or exceed the targets in the future*

The target average estimated internal rate of return figures for investments in the Portfolio included in this prospectus are targets only and are based on estimates and performance projections of the Manager based on the Company's investment policy and strategy, market conditions and economic environment at the time of assessing the proposed targets, and are therefore subject to change. There is no guarantee that the target returns can be achieved at the levels set out in this prospectus. A variety

of factors, including changes in financial market conditions, interest rates, government regulations, the worldwide economic environment, climate change or the occurrence of risks described elsewhere in this prospectus could adversely impact the Company's ability to achieve its target returns. Potential investors should not place any reliance on such target returns in deciding whether to invest in the Company. A failure to achieve such target returns could adversely impact the value of the Company and thereby the Shares.

***Investment in the Company is suitable only for sophisticated investors***

The Company will invest substantially all of the net proceeds of the Placing in an actively managed global portfolio of water-related investments primarily through direct investments in unquoted water-related companies and projects. Such investments are only suitable for sophisticated investors who fully understand and are willing to assume the risks involved in such investments, including the fact that they may be illiquid. Potential investors should have regard to this when considering an investment in the Company. To optimise returns, Shareholders may need to hold the Shares on a long term basis and the Shares are not suitable for short term investment.

***The Company's Net Asset Value may be based on valuations that are provided to the Administrator by third parties which are inaccurate, out of date or in need of adjustment***

It is intended that the Administrator will calculate the estimated Net Asset Value quarterly. The calculation of the audited Net Asset Value will occur annually at the end of each financial period.

All valuations of the Portfolio will be made, in part, on information provided by third parties, including managers of the investments comprised in the Portfolio and independent annual evaluations of investments in the Portfolio. Although all such information and data will be evaluated, the Administrator is generally not in a position to confirm the completeness, genuineness or accuracy of such information or data. As a result, there can be no assurance that the actual values of the underlying investments in the Portfolio will be consistent with any information relating to value that is provided by third parties. In addition, the financial reports which will be typically provided to the Administrator are likely to be provided only on a quarterly or less frequent basis and are likely to generally be issued one to four months after the relevant valuation dates.

The values of the assets in the Portfolio will be determined in accordance with United States Generally Accepted Accounting Principles and (if applicable, and to the extent consistent with United States Generally Accepted Accounting Principles) in accordance with the International Private Equity and Venture Capital Valuation Guidelines (October 2006 edition, and any revision thereto). Consequently, each estimated Net Asset Value provided by the Company will contain information that may be out of date and require updating and completing.

Shareholders should bear in mind that the actual Net Asset Values may be materially different from the estimated values when placing reliance on any valuations published in relation to the Company.

***Valuation methodologies for the Company's investments can be subject to significant subjectivity and there can be no assurance that the values of investments reported by the Company from time to time will in fact be realised***

A substantial portion of the Company's investments will be in the form of investments for which market quotations are not readily available, and third-party pricing information may not be available for certain investments held in the Portfolio. The Company will be required to make good faith determinations as to the fair value of these investments on a quarterly basis in connection with the preparation of its financial statements.

There is no single standard for determining fair value in good faith and, in many cases, fair value is best expressed as a range of fair values from which a single estimate may be derived. The types of factors that may be considered when applying fair value pricing to an investment include the historical and projected financial data for the investment, valuations given to comparable investment, precedent transactions of a similar nature, the size and scope of the investment's operations, the strengths and weaknesses, expectations relating to investors' receptivity to an offering of the investment's securities, the size of the Company's holdings in the investment and any control associated therewith, information with respect to transactions or offers for the investment securities (including the transaction pursuant

to which the investment was made and the period of time that has elapsed from the date of the investment to the valuation date), applicable restrictions on transfer, industry information and assumptions, general economic and market conditions, the nature and realisable value of any collateral or credit support and other relevant factors. Fair values may be established using a market multiple approach that is based on a specific financial measure (such as EBITDA, adjusted EBITDA, cash flow, net income, revenues or net asset value) or, in some cases, on a cost basis or a discounted cash flow or liquidation analysis.

As valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, these may fluctuate over short periods of time and may be based on estimates. In addition, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available for certain of the Company's investments, such quotations may not reflect the value that would actually be realised because of various factors, including the possible illiquidity associated with a large ownership position, subsequent illiquidity in the market for a company's securities, future market price volatility, foreign exchange fluctuations or the potential for a future loss in market value based on poor industry conditions or the market's view of overall company and management performance. Consequently, the value at which investments in the Portfolio can be liquidated may differ, sometimes significantly, from the interim valuations arrived at by the Company.

The Company's profitability, Net Asset Value and Share price could be adversely affected if the values of investments that the Company records are materially higher than the values attributed to investments from quarter to quarter may result in volatility in the Net Asset Values and results of operations that the Company reports from period to period.

***The Company may experience fluctuations in its operating results***

The Company may experience fluctuations in its operating results from period to period due to a number of factors, including changes in the values of investments made by the Company, changes in the amount of distributions, dividends or interest paid in respect of investments in the Portfolio, changes in the Company's operating expenses and the operating expenses of the Manager, variations in and the timing of the recognition of realised and unrealised gains or losses, the degree to which the Company encounters competition and general economic and market conditions. Such variability may lead to volatility in the trading price of the Shares and cause the Company's results for a particular period not to be indicative of its performance in a future period.

***The Company has no employees and is reliant on the performance of third party service providers***

The Company has no employees and the Directors have all been appointed on a non executive basis. The Company is therefore reliant upon the performance of third party service providers for its executive function. In particular, the Manager, the Administrator and the Registrar will be performing services which are integral to the operation of the Company. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to successfully pursue its investment policy.

***Diversification***

The Portfolio will be diversified by factors such as geography, water sector, investment type, investment size and investment structure. The Company may invest in companies and projects in both mature and emerging markets and in a diverse range of water sectors. However, such diversification may not be achieved if insufficient investment opportunities are available or assets available for investment are insufficient. In addition, although the diversification of the Company's investments is intended to reduce the Company's exposure to adverse events associated with specific investments, the number of investments may be limited and investment opportunities may be highly concentrated in particular assets or asset classes or market segments. As a consequence, the Company's returns as a whole may be adversely affected by the unfavourable performance of even a single asset or asset class or market segment.

### ***Initial investment phase***

The Company expects the proceeds of the Placing to be substantially invested or committed (i.e. 80 to 85 per cent.) within 12 to 18 months of the initial Admission of the Shares. Until such time as the Company's assets are fully invested and drawn down, the assets of the Company will be invested in assets with investment returns which are materially lower than the target average estimated internal rate of return for target water-related investments in the Portfolio.

If, by the end of the third anniversary of the initial Admission of the Shares, the Company has not substantially invested or committed the proceeds of the Placing, the Board will have regard to the need to take action to address the uninvested cash position, including considering a return of cash to Shareholders. "Committed" and "invested" in this context refer only to legally binding investment obligations (including obligations to meet draw downs and call downs).

An investment in the Company should be considered as a long term investment. Shareholders who dispose of their investment over the short or medium term may achieve a lower return on their investment as compared with Shareholders holding for the longer term and they are more likely to receive a return which is below the target returns of the Company.

### ***The Company may be adversely affected by currency movement***

The proceeds of the Placing will be denominated in Euros and the Directors intend that all monies returned to Shareholders and the reported Net Asset Value will be denominated in Euros. Investments in the Portfolio may be made in currencies other than the Euro and distribution and income from or the proceeds from the disposal of certain investments in the Portfolio may be realised in currencies other than the Euro. Consequently, the value of investments in the Portfolio made in non-Euro currencies will be affected by currency movements and will fall as the Euro currency appreciates against the currency in which such investments are denominated. The Manager may engage in currency hedging to limit the Company's exposure to currency fluctuations. Currency hedging by the Manager may be by means of spot and forward foreign exchange contracts or options on such contracts or by using such other derivative instruments as may be available and having the same or similar effect. There can be no assurance that currency hedging will be effective and that the Company's financial condition will not be adversely affected by fluctuations in currency exchange rates. The Board and the Manager retain the right to vary the policy on currency hedging at their absolute discretion.

### ***The Company may be adversely affected by the use of borrowings and changes in the debt financing markets***

The Company will have the ability to incur borrowings of up to 30 per cent. of its Net Asset Value (at the time of the drawdown) and the Company's policy will be to borrow up to a maximum of 20 per cent. of Net Asset Value. Initially, the Board intends to use this primarily for short term liquidity, to facilitate the operation of the over-commitment policy, for working capital requirements and to fund share buy backs. However, borrowings may also be used for investment financing in certain cases. Prospective investors should be aware that while the use of leverage can enhance the Net Asset Value where the value of the Company's underlying assets is rising, it can also reduce the Net Asset Value where the underlying asset value is falling. This could adversely affect the Net Asset Value and returns to Shareholders. The use of leverage magnifies both the favourable and unfavourable effects on the asset value of the investments in the Portfolio. Furthermore, should any fall in the asset value of the investments in the Portfolio result in the Company breaching any financial covenants contained in any borrowing agreements, the Company may be prohibited from making any distributions until such breach is remedied or be required to repay such borrowings in whole or in part together with any attendant costs. This could further adversely affect the Net Asset Value and returns to Shareholders.

Over the period since June 2007, the markets for debt financing have contracted significantly. In the event that the Company or its investments are unable to obtain committed debt financing or can only obtain debt at an increased rate, this may prevent the Company and its investments making or completing otherwise profitable investments or may lower the profit that the Company and its investments would otherwise have achieved, either of which could lead to a decrease in the Company's profitability, Net Asset Value and/or Share price.

***The Company may be adversely affected by its commitment strategy***

The Company has an over-commitment strategy in relation to investing, whereby it is possible for the Company's commitments to exceed the cash available to the Company to satisfy draw downs at the time of commitment. The Company's over-commitment policy is more fully explained on page 37 of this prospectus.

When committing to an investment, the Company will have available to it a number of ways in which it can satisfy its obligations upon future draw down or call down by the investment target. These include payments from the uninvested funds raised from investors in the Company, use of liquid assets retained in cash or near cash investments for working capital purposes, use of proceeds of realisations of other investments, use of returns generated from other investments and disposal or syndication to third parties of part of the investment or commitment in respect of which capital is called down, or borrowings as set out above.

If the Company is required to dispose or syndicate part of an investment or commitment in respect of which capital is called down, or is required to use borrowings, sell assets or use other means of raising funds to satisfy its draw down or call down obligations, there can be no guarantee that such means will be transacted on commercially favourable terms to the Company, which could adversely affect the Company's profitability.

***Changes in laws or regulations governing the Company's operations may adversely affect the Company's business***

The Company is subject to laws and regulations enacted by national and local governments. In particular, the Company is subject to and will be required to comply with certain regulatory requirements that are applicable to listed closed ended investment companies which are domiciled in Guernsey. These include compliance with any decision of the Commission. In addition, the Company is subject to the continuing obligations imposed by the UK Listing Authority on all companies whose shares are listed on the Official List.

Any change in the law and regulation affecting the Company may have a material adverse affect on the ability of the Company to carry on its business and successfully pursue its investment policy and on the value of the Company. In such event, the investment returns of the Company may be materially adversely affected.

For regulatory, tax and other purposes, the Company and the Shares may potentially be treated in different ways in different jurisdictions. For instance, in certain jurisdictions and for certain purposes, the Shares may be treated as more akin to holding units in a collective investment scheme.

Furthermore, in certain jurisdictions, the treatment of the Company and/or the Shares may be uncertain or subject to change, or it may differ depending on the availability of certain information or disclosure by the Company of that information. While it will continue to comply with all regulatory requirements placed upon it, the Company may be constrained from disclosing or may find it unduly onerous to disclose any or all of such information or to prepare or disclose such information in a form or manner, which satisfies the regulatory, tax or other authorities in certain jurisdictions. Failure to disclose or make available information in the prescribed manner or format, or at all, may adversely impact the Company's investments in those jurisdictions.

***Changes in taxation may adversely affect the Company***

Any change in the Company's tax status or in taxation legislation or practice in Guernsey, the United Kingdom or in any jurisdiction where the Company's investments are held or elsewhere could affect the value of the Company's investments and the Company's ability to successfully pursue its investment policy, or could alter the post tax returns to Shareholders. Statements in this prospectus concerning the taxation of the Company and of Guernsey and UK Shareholders are based upon current Guernsey and UK tax law and practice, any aspect of which is in principle subject to change that could adversely affect the ability of the Company to successfully pursue its investment policy and/or which could adversely affect the taxation of Shareholders.

Potential investors are urged to consult their tax advisers with respect to their particular tax situations and the tax effects of an investment in the Company.

***Changes to the tax residency of the Company could adversely affect the Company's financial and operating results***

In order to maintain its non UK resident status, the Company is required to be controlled and managed outside the United Kingdom. The composition of the Board, the place of residence of the individual Directors and the location(s) in which the Board makes decisions will be important in determining and maintaining the non UK tax resident status of the Company. Although the Company is established outside the United Kingdom and a majority of the Directors live outside the United Kingdom, continued attention must be given to ensure that major decisions are not made in the United Kingdom or the Company may lose its non UK tax resident status. As such, management errors could potentially lead to the Company being considered a UK tax resident which would negatively affect its financial and operating results, the value of the Shares and/or the post tax return to the Shareholders.

***Unrealised profits may not be realised by the Company***

Potential investors should note that the calculation of the performance fee is based in part upon unrealised profits (as well as affected by unrealised losses) and that such unrealised profits may never be realised by the Company.

**Risks associated with the Manager**

***There are potential conflicts of interest which could impact the investment return***

The Manager and its affiliates may from time to time act for other clients or manage other funds, which have a similar or different investment objective and policy to that of the Company. Circumstances may arise where investment opportunities will be available to the Company and which are also suitable for one or more such clients of the Manager or funds managed by the Manager. Where a conflict arises in respect of an investment opportunity, the Manager will allocate the opportunity on a fair basis and in the manner described in this prospectus.

***The Manager may be unable to find suitable investments***

The Company cannot be sure that the Manager will be successful in obtaining suitable investments on financially attractive terms or that, if the Manager makes investments on the Company's behalf, the investment policy will be successful.

***The performance of the Company is dependent upon the Manager's expertise in pursuing the investment policy and upon its Directors for its future success. The departure of the Manager's key personnel may negatively impact the ability of the Company to successfully pursue its investment policy***

The ability of the Company to successfully pursue its investment policy is significantly dependent upon the expertise of the Manager and the principal members of its management team. The Company does not currently have employees or own any facilities and depends on the Manager for the day to day management and operation of its business. The loss of any of the Manager's management team could reduce the Company's ability to successfully pursue its planned investment policy. The Manager has endeavoured to ensure that the principal members of its management teams are suitably incentivised, but the retention of such persons cannot be guaranteed.

The Management Agreement is terminable by either the Manager or the Company giving to the other not less than 24 months' written notice. Such notice may only be given to expire on the seventh anniversary of the initial Admission of the Shares or on any subsequent two year interval thereafter. Prospective investors should note that (save as set out above or in certain other limited circumstances, including where the Manager has committed a material breach of its obligations under the Management Agreement) if the Manager is acting in accordance with the terms of the Management Agreement, the Manager can only be removed by Shareholders approving a winding up of the Company.

If the Management Agreement is terminated, no assurance can be given that the Company will find a replacement investment manager of similar experience and calibre or that any delay in engaging a new investment manager will not adversely impact the value of the Portfolio.

Moreover, the key personnel of the Manager are not subject to restrictions on their departure from the Manager. The future ability of the Company to successfully pursue its investment policy may depend on the ability of the Manager to retain its existing staff and/or to recruit individuals of a similar experience and calibre. There is no guarantee that the Manager would be able to do so or that any delay in doing so would not adversely impact the performance of the Company.

***Reputational risk in relation to the Manager may adversely affect the Company***

The Manager may be exposed to reputational risks. In particular, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Such negative publicity could be based on misconduct by a client, allegations that it does not fully comply with regulatory requirements or anti money laundering rules, publicity about politically exposed persons in its client bases, allegations that a regulator is conducting investigations involving it, or the conduct of business of introducers or third party managers linked to them. Any damage to the reputation of the Manager could result in potential counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to successfully pursue its investment policy.

***Performance fees may create incentives for speculative investment by the Manager***

The performance fees payable to the Manager may result in substantially higher payments to the Manager than alternative arrangements in other types of investment vehicles. The existence of the performance fees may create an incentive for the Manager to make riskier or more speculative investments than it would otherwise make in the absence of such fees.

**Risks relating to the investment policy and the Portfolio**

***Investing in the Shares may involve a high degree of risk***

There can be no guarantee that the Company will be successful in pursuing its investment policy. The Company's ability to do so may be adversely affected in the event of significant or sustained changes in market conditions. Potential investors should regard an investment in the Company as long term in nature and they may not recover the full amount initially invested or any amount at all.

As with any investment, the Company's investments may fall in value with the maximum loss on such investments being equal to or greater than the value of the initial investment and, where relevant, any gains or subsequent investments made.

***The value of the Company's investments in convertible or exchangeable debt will be affected by the performance of the convertible or exchangeable debt's underlying equities and by interest rates***

The Company may choose to purchase convertible or exchangeable debt such as convertible bonds, convertible notes or convertible preference shares, as part of the Portfolio.

Convertible or exchangeable debt instruments allow their holders to share in any appreciation in the value of the underlying equities. However, as a result, the value of convertible or exchangeable debt instruments may also be adversely affected by any depreciation in the value of the underlying equities, which may in turn negatively impact the value of the Portfolio.

Additionally, while a rise in the value of the equities underlying a convertible or exchangeable debt instrument may cause a rise in the value of that instrument, the value of the convertible or exchangeable debt instrument may not rise as much as that of the underlying equities.

Convertible or exchange debt instruments typically pay a lower interest rate than their non-convertible counterparts.

The value of convertible or exchangeable debt instruments will also be affected by changes in interest rates. If interest rates rise to above the value of the interest paid under the convertible or exchangeable debt instruments held by the Company, the value of the Company's convertible or exchangeable debt instruments may fall.

The difference between the conversion value and the value of a convertible or exchangeable debt instrument will also vary according to the value of the underlying equities and interest rates.

Certain convertible or exchangeable debt instruments may not have a ready market and may be illiquid.

***The value of the Portfolio is subject to market risk***

Market risk is risk associated with changes in market prices or rates. While the Company intends to hold a diversified Portfolio of investments, there are certain general market conditions in which any investment strategy is unlikely to be profitable. The Manager has no ability to control or predict such market conditions. Although, with respect to market risk, the Company's investment approach is designed to achieve broad diversification across different water-related assets in an attempt to reduce the Company's exposure to any particular type of water asset, from time to time the value of more than one or all types of water assets may reduce and the Company could suffer losses.

General economic and market conditions, such as currencies, interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls, national and international political circumstances, environmental and climatic circumstances and events may affect the value and liquidity of investments and result in losses for the Company.

***The Company operates in a highly competitive environment for investment opportunities***

Competition for a limited capacity of attractive investment opportunities may lead to a delay in investment of the Company's assets or may limit the ability of the Manager to achieve the targeted returns. The Company's investment policy offers a broad scope of potential water investments and geographies, but there can be no guarantee that this will be sufficient to assure that the Company's investment and return objectives are met.

***Liquidity of investments held by the Company***

Investments held by the Company may themselves be or become illiquid which may affect the ability of the Company to exit such investments and in turn the returns made by the Company. Such illiquidity may result from various factors, such as the nature of the investment, or the investment size, or because there is no market for the relevant investment. Even where there is a market, the value and/or liquidity of investments may be materially affected by certain factors.

Valuations and realisation prices for such illiquid investments tend to be volatile and may not be readily ascertainable and the Company may not be able to sell them when it desires to do so or to realise what it perceives to be their fair value in the event of a sale. The size of the investment may magnify the effect of a decrease in liquidity for such investment.

***The Company may be subject to the credit risk of counterparties***

The Company is subject, among other matters, to the credit risk of counterparties to contracts and agreements in respect of its investments. If any such counterparty defaults or for any reason does not make payments that it is obliged to pay the Company under such investments, this may have an adverse impact on the Company and its profitability, Net Asset Value, and Share price.

***The due diligence process that the Company plans to take in connection with its investments may not reveal all facts that may be relevant in connection with an investment***

Before making investments, the Company intends to conduct due diligence to the extent it deems reasonable and appropriate based on the applicable facts and circumstances. The objective of the due diligence process will be to identify attractive investment opportunities and to prepare a framework that may be used from the date of investment to drive operational performance and value creation. When conducting due diligence, the Company will be expected to evaluate a number of important business, financial, tax, accounting, environmental, regulatory and legal issues in determining whether

or not to proceed with an investment. Outside consultants, legal advisers, accountants and investment banks are expected to be involved in the due diligence process in varying degrees depending on the type of investment.

Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company will be required to rely on resources available to it, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence process may at times be required to rely on limited or incomplete information particularly with respect to newly established companies for which only limited information is available. Accordingly, the Company cannot guarantee that the due diligence investigation it carries out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Any failure by the Company to identify relevant facts through the due diligence process may cause it to make inappropriate investment decisions, which could have a material adverse effect on the Company's profitability, Net Asset Value and Share price.

Due diligence may also be costly, which will decrease the Company's overall profits from an investment.

***The Company will face additional risks when purchasing as part of a joint venture, co-investment or syndicate structure***

The Company may acquire an investment as a part of a purchasing joint venture, co-investment or syndicate structure. In such cases, the Company may be exposed to additional risks including among other things: (i) syndicate member risk; (ii) reputational risk; (iii) breach of confidentiality or other terms of the purchase agreement by a syndicate member; (iv) execution risk; and (v) exit risk.

The Company may also not control the entity in which it jointly invests, with the result that decisions or risks that do not serve the Company's interests may be taken. The Company's financial condition and results of operations could suffer as a result.

**Risks relating to investments in water**

***Physical risks associated with water-related investments***

Physical risks such as climate change, over extraction and rainfall patterns resulting in a lack of water can lead to supply uncertainty thus impact water-related investment prices and consequently the value of water-related investments. While these risks generally have a positive impact on performance of water-related investments, there can be no guarantee that this will occur.

***Economic risks associated with water-related investments***

The market in respect of water-related investments has risks. These investments may be affected by gearing, market speculation, interest rates and other financial market conditions, global economic growth rates, population growth, population wealth, switching and trends, subsidies and trade agreements, climate change, regulatory changes and other factors. In addition, some of the water projects, water companies and water infrastructure which will form part of the investments of the Company may involve new and innovative technology which may not be successful. The impact of these factors can be both positive and negative.

***There are risks associated with investing solely in the water-related sector***

The Company intends to concentrate its investment in the water sector and accordingly may be regarded as representing a different risk than a generalist fund.

The companies and projects in which the Company invests are, in general, exposed to a higher level of political and regulatory risk than other companies not operating in relation to a particular utilities or natural resources sector.

The Company may invest in newly privatised companies or companies that subsequently become privatised and this may involve additional risks relating to the capital structures of such companies. This risk is discussed in more detail below.

### ***Regulatory risks associated with the water-related sector***

Many segments of the water space are subject to government regulations and regulatory oversight with regard to pricing, environment, ownership, service levels, and other areas. Any changes in these regulations could affect the ability of the Company to do business in a particular market and may adversely affect investments. The Company has a diversified approach to portfolio construction, but there can be no guarantee that this diversification will be able to avoid, reduce, or eliminate the regulatory risks associated with water investment.

### **Risks relating to investments in infrastructure**

#### ***The Company's investments in certain water infrastructure may expose it to various risks associated with construction***

Investments in water infrastructure in the construction phase are likely to retain some residual risk that the project will not be completed, or not completed within budget, within the agreed timeframe and to the agreed specifications.

During the construction phase, the major risks include a delay in the projected completion of the project and a resultant delay in the commencement of cash flows, an increase in the capital needed to complete construction and the insolvency of parties involved with the construction. Although frequently the main risks of any delay in completion of the construction or any overrun in the costs of construction will have been passed to the relevant subcontractor(s), there is some risk that the anticipated returns of water infrastructure in which the Company may invest may be adversely affected in this way. Resulting unexpected increases in costs may also result in funds being insufficient to complete construction.

Further, if a subcontractor fails to perform the services which it has agreed to provide, the relevant water infrastructure asset may fail to meet any service or completion standards, which may result in a reduction in value of the water infrastructure asset or further costs to the Company to complete construction.

The subcontractors responsible for the construction of an infrastructure asset will normally remain liable for the cost of rectifying any design and construction defects in the asset for a certain number of years following the construction, subject to liability caps. The Company or the relevant investee company or entity will not normally have recourse to any third party for any defects which arise after the expiry of the relevant period and the Company or the relevant investee company or entity may be required to pay for rectification of such costs if insurance is unavailable.

Also, the contractual arrangements relating to infrastructure investments may not be as effective in passing on risks to the subcontractors of an infrastructure company or other entity as intended and this may result in unexpected costs or a reduction in expected revenues for the relevant investment. In addition, as a result of the fact that infrastructure project contractual documentation is typically quite complex, there is a higher risk of dispute over interpretation of such legal documentation.

Should any of the foregoing risks materialise in relation to an investment in the Portfolio, they could have a material adverse effect on the value of that investment or result in increased expense for the Company, which could, in turn, have a corresponding effect on Net Asset Value, the Company's financial position and/or its results and the Share price.

#### ***The Company may be exposed to natural disasters and underlying life cycle and asset maintenance costs associated with its investments in infrastructure***

The operations of water infrastructure investments are exposed to unplanned interruptions caused by significant catastrophic events such as floods, earthquakes, fires, major plant breakdowns, pipeline rupture or other disasters. Operational disruption, as well as supply disruption, could adversely affect the cash flows available from these assets.

In addition, the cost of repairing or replacing damaged assets could be considerable. Repeated or prolonged interruption may result in a permanent loss of customers, substantial litigation or penalties or regulatory or contractual non-compliance. Moreover, any loss from such events may not be

recoverable under relevant insurance policies. Business interruption insurance is not always available, or economic, to protect an investment from these risks.

The timing of major replacements or refurbishments in respect of water infrastructure assets is forecast based upon data and warranties and specialist advisers are usually retained to assist in such forecasting of life cycle timings and costs. However, shorter than anticipated asset life spans or higher than forecast cost or inflation may result in life cycle costs being more than anticipated. Any cost implication, not otherwise passed down to third parties, will generally be borne by the infrastructure investment and ultimately, the Company, which could impact Net Asset Value and the Company's financial position and Share price.

***The Company's water infrastructure investments may be exposed to risks in respect of the availability of insurance cover for projects***

An infrastructure investment will usually be responsible for maintaining insurance cover for, among other things, buildings, contents and third party risks (for example, arising from fire, flood or terrorism). Typically, the infrastructure investment takes the risk that the cost of maintaining the insurance may be greater than expected or that in some circumstances it may not be able to obtain the necessary insurance. Given the nature of the assets operated by the Company's infrastructure investments, they may be more exposed to risks in the insurance market that lead to limitations on coverage and/or increases in premium. While not a risk borne by the Company directly, the ability of an infrastructure investment to obtain the required insurance coverage at a competitive price may have an impact on the returns generated by the infrastructure investment and accordingly the returns received by the Company.

***Companies or other entities in which the Company invests may be exposed to higher levels of regulation than in other sectors***

In many instances, the provision or acquisition of infrastructure assets involves an ongoing commitment to a governmental agency. The nature of these commitments exposes the owners of infrastructure assets to a higher level of regulatory control than typically imposed on other businesses. The risk that a governmental agency will repeal, amend, enact or promulgate a new law or regulation or that a governmental authority will issue a new interpretation of the law or regulations, can affect a project substantially. There is also the risk that a project does not have, or might not obtain, permits necessary for the construction or operation of the project. Permits or special rulings may be required on taxation, financial and regulatory related issues. Even though most permits and licences are obtained before the commencement of full project operations, many of these licences and permits have to be maintained over the life of the project.

***Investments in privatised infrastructure assets may have specific risks***

The Company may seek to make investments in infrastructure investments which have been, or are in the process of being, privatised by government. As a result of the way in which governments tend to structure privatisations of existing infrastructure assets, it is frequently the case that governments may, at least for an initial period, post- privatisation, retain a significant equity interest, which they may then gradually reduce and eventually fully divest. Where governments retain such stakes in privatised assets in which the Company makes investments, this may have a number of consequences, principal among which is that the government or governmental agency which retains the stake may be able, through the exercise of their individual voting rights and positions associated with their stake, to influence the outcome of matters submitted for a vote by shareholders (including, possibly, the election or removal of directors and the approval or rejection of significant transactions). In exercising these voting rights, these government shareholders may be motivated by interests that are different from those of the Company or other shareholders. In addition, where such governmental agencies retain significant stakes in privatised infrastructure assets, future sales of shares by such shareholders may depress the share price of the asset, which could have a consequential adverse effect on the Net Asset Value.

***Breaches of environmental or health and safety laws or regulations could expose infrastructure investments to claims for financial compensation and adverse regulatory consequences and could damage their reputation***

Aspects of certain infrastructure activities, including those in the utilities sector, are inherently dangerous. Certain infrastructure activities may also use and generate in their operations hazardous and potentially hazardous products and by-products. Accordingly, infrastructure companies are subject to laws and regulations relating to pollution and the protection of the environment. They are also subject to laws and regulations governing health and safety matters, protecting both the public and their employees. Any breach of these obligations, or even incidents relating to the environment or health and safety that do not amount to a breach, could adversely affect the results of operations of infrastructure companies and their reputations. This, in turn, could have an adverse effect on the Company's investments, its Net Asset Value, its financial condition or results of operations, or both.

**Risks relating to investment in technology**

The Company's investments may include investments in technology companies or businesses which develop technology in relation to the water sector or for water-related purposes. Accordingly the value of the Shares is vulnerable to factors affecting the technology sector, such as dependency on demand, business acceptance as new technology evolves or a substantial risk of obsolescence as rival new technology evolves. As such, the Company will be subject to risks particular to technology such as the risks of competition from new and existing companies, significant losses or limited earnings, or both, security price volatility and limited operating histories. Investments may be made in companies which may not prove to be commercially successful.

Investment in the Company should, therefore, be regarded as long term in nature.

**Risks relating to investing in foreign and emerging markets**

***General risks in relation to foreign and emerging markets***

The Company will invest in assets and investments located in various markets throughout the world, including emerging or developing markets, some of which are highly controlled by governmental authorities.

Particularly in developing countries, laws governing transactions in securities, commodities, derivatives and securities indices and other contractual relationships are new and largely untested. Investments in emerging markets may, among other things, carry the risks of: less publicly available information; more volatile markets; less strict securities market regulation; less favourable tax provisions; a greater likelihood of severe inflation; corruption; unstable currency; war and expropriation of personal property; inadequate investor protection; contradictory legislation; rudimentary, unpredictable, incomplete, unclear and changing laws; ignorance or breaches of regulations on the part of market participants; lack of established or effective avenues for legal redress; lack of standard financial or commercial practices, disclosure and confidentiality customs characteristic of developed markets; and lack of enforcement of existing regulations. Investing in emerging markets creates greater exposure to economic structures that are generally less diverse and mature. It may also be difficult to obtain and enforce a judgment in certain emerging countries.

In addition, the Company's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the investments in the Portfolio and, therefore, on the Company.

There is also the possibility of nationalisation, expropriation or confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of the Company, political changes, government regulation, social instability or diplomatic developments (including war), all of which could affect adversely the economies of such countries or the value of investments in those countries.

Also, regulatory controls and corporate governance of companies in emerging markets confer little protection on minority shareholders. Anti-fraud and anti-insider trading legislation is often

rudimentary. The concept of fiduciary duty to shareholders by officers and directors is also limited when compared to such concepts in developed markets. In certain instances management may take significant actions without the consent of shareholders and anti-dilution protection also may be limited.

The typically small or relatively small size of markets for securities of issuers located in emerging market countries and the possibility of a low or non-existent volume of trading in those securities may also result in a lack of liquidity and increased price volatility of those securities, which may reduce the return on such investments to the Company.

It is possible that shortages in the supply of materials and skilled labour in the emerging markets may impact investments or acquisitions made by the Company. For example, the inability to obtain sufficient amounts of materials and to retain or recruit skilled employees may result in delays in infrastructure projects, costs exceeding the project's budget or the project being abandoned and, consequently, may have a material adverse effect on the Company's financial condition, results of operations and Share price.

***There may be restrictions on foreign investment by the Company***

Some countries prohibit or impose substantial restrictions on investments by foreign entities such as the Company. As illustrations, certain countries require governmental approval prior to investments by foreign persons, or limit the amount of investment by foreign persons in a particular company, or limit the investment by foreign persons in a company to only a specific class of securities which may have less advantageous terms than securities of the company available for purchase by nationals. Certain countries may restrict investment opportunities in issuers or industries deemed important to national interests, such as water.

The manner in which foreign investors may invest in companies in certain countries, as well as limitations on such investments, may have an adverse impact on the operations of the Company. For example, the Company may be required in certain of such countries to invest initially through a local broker or other entity and then have the share purchases re-registered in the name of the Company. Re-registration may in some instances not be able to occur on a timely basis, resulting in a delay during which the Company may be denied certain of its rights as an investor, including rights as to dividends or to be made aware of certain corporate actions. There also may be instances where the Company places a purchase order but is subsequently informed, at the time of re-registration, that the permissible allocation to foreign investors has been filled, depriving the Company of the ability to make its desired investment at the time.

Substantial limitations may exist in certain countries with respect to the Company's ability to repatriate investment income, capital or the proceeds of sales of securities by foreign investors. The Company could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Company of any restriction on investments.

***The Company may not be able to enforce its legal rights in countries based in emerging markets***

Developing countries often do not have established frameworks of company law. The Company may be unable to obtain effective enforcement of its legal rights by legal or judicial proceedings where this is the case. The Company can offer no assurance that this difficulty in protecting and enforcing rights will not adversely affect its investments.

In addition, many of the laws that govern private investment, securities transactions and other contractual relationships in emerging markets are new and largely untested. As a result, the Company may be subject to a number of unusual risks, including, inadequate investor protection, contradictory legislation, rudimentary, unpredictable, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets and lack of enforcement of existing regulations.

Companies in emerging markets are not always subject to accounting, auditing and financial reporting standards, practices and disclosure requirements comparable to those applicable to companies incorporated in the United Kingdom.

***Political and diplomatic events and country risks associated with emerging markets***

The Company has been established to invest in water projects and companies and infrastructure and water-related investments, including those based in emerging markets where the water regulatory framework may still be developing. There is no assurance that future political and economic conditions in the individual countries in which the Company invests will not result in their governments adopting different policies with respect to foreign investment in water-related areas such as utilities. Any such changes in policy may affect ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, thereby influencing the Company's ability to generate profits.

***Land or other property on which water assets acquired by the Company are located could be expropriated materially adversely affecting the Company's financial condition, results of operations and Share price***

There can be no guarantee that in the future the government of an emerging market will not adopt laws and regulations which include land reform or redistribution of property assets in the country. Equally, the government of an emerging market could interpret existing law to the detriment of the Company or its investments.

There is no assurance that any of the privately held land rights or other rights acquired by the Company in the future will not become subject to expropriation, acquisition or redistribution by a Government, or that the Company would be adequately compensated for any permanent improvements to land or property it has effected, all of which could have a negative impact on the Company's operations and therefore an adverse effect on its business, operating results and financial condition.

**Risks associated with investing in direct stakes in private companies and joint ventures**

***The Company may invest directly in private companies and other similar illiquid investments with no or limited operating history***

The Company may invest directly in private companies, joint ventures or other similar illiquid investments, some or all of which may be in an early stage of development or have no or limited operating history upon which the Manager and the Company will be able to evaluate their likely performance. The Company's investments in companies and businesses with no or limited operating history are subject to all of the risks and uncertainties associated with a new business, including the risk that such companies and businesses will not achieve target returns. Consequently, the Company's profitability, Net Asset Value and Share price could be adversely affected.

***Investments comprising the assets of the Company may be illiquid***

The investments comprising the assets of the Company will, among other things, include private companies, joint ventures, co-investments, projects and water infrastructure investments that may require a long term commitment of capital. The illiquidity of such investments may make it difficult to sell such investments if the need arises.

If the Company is required to liquidate all or a portion of an investment quickly, it may realise significantly less than the value at which the investment was previously recorded, which could result in a decrease in the Net Asset Value.

***The success of any investment in unquoted assets is subject to numerous risks***

An investment which represents a direct stake in a private company, joint venture, or similar is subject to significant risks, including the following:

- the investment may be leveraged and could be subject to significant debt service obligations, stringent operating and financial covenants and risks of default, or be unable to obtain further

funding, all of which could trigger severe adverse consequences for the investee company and the value of the investment in such company if a default were to occur;

- the investment may be unable to meet its obligations to holders of its securities, which may be accompanied by a deterioration in the value of its equity securities or any collateral or guarantees provided with respect to its debt;
- the investment may be more likely to depend on the management talents and efforts of a small group of (key) persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse impact on the investment made;
- the investment may be operating at a loss or have substantial variation in operating results from period to period and may require substantial additional capital to support its operations, finance expansion or maintain its competitive position; and
- the investment may be in a state of distress or be undergoing restructuring and there can be no assurances that such restructuring or changes will be successful.

The materialisation of one or more of these risks could cause any of the Company's investments to fail, or materially reduce in value, which could have a material adverse effect on the Company's profitability, Net Asset Value and Share price.

## **Risks relating to an investment in the Shares**

### ***General***

An investment in the Shares of the Company carries the risk of loss of capital. The value of a Share can go down as well as up and Shareholders may receive back less than the value of their initial investment and could lose all of the investment.

### ***It may be difficult for Shareholders to realise their investment and there may not be a liquid market in the Shares***

The price at which the Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Company and its investments and some which may affect companies generally. Admission should not be taken as implying that there will be a liquid market for the Shares particularly as, on Admission, the Company will have a limited number of Shareholders. Consequently, the Share price may be subject to greater fluctuation on small volumes of trading of Shares and the Shares may be difficult to sell at a particular price. The market price of the Shares may not reflect the underlying value of the Company's net assets.

The Company does not have a fixed winding up date and, therefore, unless Shareholders vote to wind up the Company following the tenth anniversary of the initial Admission of the Shares or on every third anniversary thereafter or otherwise, Shareholders may only be able to realise their investment only through selling their Shares in the market.

The Company has been established as a listed closed ended vehicle. Accordingly, Shareholders will have no right to have their Shares redeemed or repurchased by the Company at any time. While the Directors retain the right to effect repurchase of Shares in the manner described in this prospectus, they are under no obligation to use such powers at any time and Shareholders should not place any reliance on the willingness of the Directors so to act. Shareholders wishing to realise their investment in the Company will therefore be required to dispose of their Shares on the market. There can be no guarantee that a liquid market in the Shares will develop or that the Shares will trade at prices close to their underlying Net Asset Value. Accordingly, Shareholders may be unable to realise their investment at Net Asset Value or at all.

The number of Shares to be issued pursuant to the Placing is not yet known, and there may be a limited number of holders of such Shares. Limited numbers and/or holders of Shares may mean that there is limited liquidity in the Shares which may affect: (i) an investor's ability to realise some or all of his investment; and/or (ii) the price at which such investor can effect such realisation; and/or (iii) the price at which the Shares trade in the secondary market.

***Discount to Net Asset Value and volatility***

The Shares may trade at a discount to Net Asset Value per Share for a variety of reasons, including due to market conditions or to the extent investors undervalue the management activities of the Manager. While the Directors intend to implement a pro active policy seeking to mitigate any discount to Net Asset Value per Share, there can be no guarantee that this will be successful and the Directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount. In addition, the volatility of the Shares may be greater than the underlying Net Asset Value per Share volatility.

***The Company is not subject to pre-emption rights and subsequent issues of Shares may have a detrimental effect on the Net Asset Value per Share and market price of the Shares***

Under the laws of Guernsey, to which the Company is subject, there are no rules restricting the ability of the Directors to issue additional Shares on a non pre-emptive basis at any time. The Directors will consider issuing further Shares at a price per Share that is not less than the then prevailing Net Asset Value per Share (or, in relation to Shares held in treasury, at no more than a 5 per cent. discount to the then prevailing Net Asset Value per Share or, if less, the average discount at which all the Shares then held in treasury were repurchased by the Company). In the event that the Directors were to issue further Shares or reissue Shares held in treasury in the future the Net Asset Value per Share and the trading price of the Shares may be adversely affected.

**Prospective investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.**

## IMPORTANT NOTICES

This prospectus does not constitute, and may not be used for the purposes of, an offer or an invitation to subscribe for any Shares by any person: (i) in any jurisdiction in which such offer or invitation is not authorised; or (ii) in any jurisdiction in which the person making such offer or invitation is not qualified to do so; or (iii) to any person to whom it is unlawful to make such offer or invitation. In particular, this prospectus may not be distributed in or into the United States or to, or for the account or benefit of, any US Person. The Company has not been and will not be registered under the Investment Company Act and investors will not be entitled to the benefits of the Investment Company Act. In addition, the offer, issue and sale of the Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States. Accordingly, the Shares are only being offered and sold outside the United States to non-US persons in reliance on the exemption from registration provided by Regulation S. The Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to, or for the account or benefit of, US Persons. The Shares have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities endorsed the merits of the offering of the Shares in the United States or to US Persons or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States. Applicants for Shares will be required to certify that they are not US Persons and are not subscribing for Shares on behalf of US Persons.

None of the Company, the Manager, Landsbanki, or their respective representatives is making any representation to any offeree or purchaser of the Shares offered hereby regarding the legality of an investment by such offeree or purchaser under appropriate investment or similar laws. Each investor should consult with his, her or its own advisers as to the legal, tax, business, financial and related aspects of purchase or subscription of the Shares.

The Shares have not been, and will not be, registered under the relevant securities laws of Canada, Australia or Japan. Accordingly, and subject to certain exemptions, the Shares may not be offered, sold or delivered, directly or indirectly, in or into Canada, Australia or Japan or to or for the account or benefit of any national, resident or citizen of Canada, Australia or Japan.

### Notice to prospective investors in the EEA

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of the Shares may only be made once a prospectus has been passported in accordance with the Prospectus Directive as implemented by the Relevant Member State. This document has not been passported into any Relevant Member State, therefore, an offer to the public in a Relevant Member State of the Shares may only be made pursuant to the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Landsbanki for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company or the Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer to the public**” in relation to any offer of Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor

to decide to purchase or subscribe for the Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

During the period up to but excluding the date on which the Prospectus Directive is implemented in member states of the EEA, this prospectus may not be used for, or in connection with, and does not constitute, any offer of Shares or an invitation to purchase or subscribe for any Shares in any member state of the EEA in which such offer or invitation would be unlawful.

The distribution of this prospectus in other jurisdictions may be restricted by law and therefore persons into whose possession this prospectus comes should inform themselves about and observe any such restrictions.

Each investor, when purchasing Shares, represents to the Company, the Manager and Landsbanki that such investor will only market, offer or (re-)sell the Shares in any member state of the EEA in accordance with the provisions of the Prospectus Directive and applicable national legislation implementing the Prospectus Directive in a way which will not result in a requirement for the publication by the Company or the Manager of a prospectus pursuant to Article 3 of the Prospectus Directive. Because of the foregoing restrictions, investors are advised to consult legal counsel prior to making any resale of the Shares.

#### **Notice to prospective investors in Belgium**

This prospectus has not been approved in Belgium and is not intended to constitute, and may not be construed as, a public offering in the Kingdom of Belgium. Accordingly, this prospectus may not be distributed or circulated to, and the Shares may not be offered or sold to, any member of the public in the Kingdom of Belgium other than qualified investors listed in article 10 of the Law of 16 June 2006 on the public offer of investment instruments and the admission to trading of investment instruments on a regulated market, or investors subscribing for a minimum amount of €50,000 each for each separate offer and, provided that any such investor qualifies as a consumer within the meaning of article 1.7 of the Law of 14 July 1991 on consumer protection and trade practices (the “**Consumer Protection Law**”), such offer or sale is made in compliance with the provisions of the Consumer Protection Law and its implementing legislation.

#### **Notice to prospective investors in Denmark**

This prospectus does not constitute a prospectus under any Danish laws or regulations and has not been filed with or approved by the Danish Financial Supervisory Authority as this prospectus has not been prepared in the context of either: (i) a public offering of securities in Denmark within the meaning of the Danish Securities Trading etc. Act No. 479/2006 as amended from time to time or any Executive Orders issued in connection thereto or (ii) an offering of a collective investment scheme comprised by the Danish Investment Association Act No. 55/2006 as amended from time to time or any Executive Orders issued in connection thereto.

#### **Notice to prospective investors in France**

The prospectus and related documents have not been approved by the competent regulatory authority in France and are not intended to constitute, and may not be construed as, a public offer in France. The Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France, provided that offers, sales and distributions may be made in France only to (a) providers of the investment service of portfolio management for the account of third parties; (b) qualified investors (*investisseurs qualifiés*); and/or (c) to a restricted circle of investors, all as defined in, and in accordance with, Articles L.411 1, L.411 2, D.411 1 and D.411 4 of the French *Code monétaire et financier*.

The Shares may be resold directly or indirectly only in compliance with Articles L.411 2, L.412 1 and L.621 8 to L.621 8 3 of the French *Code monétaire et financier*.

### **Notice to prospective investors in Guernsey**

Shares are not to be offered directly to the public within Guernsey, such public being defined in the Guidance Document as any person not regulated under any of Guernsey's financial services regulatory laws.

### **Notice to prospective investors in Italy**

This prospectus and the offering of the Shares have not been cleared by CONSOB (the Italian Securities Exchange Commission) nor by the Bank of Italy and, therefore, other than as provided below, no Shares may be offered, nor may copies of this prospectus or any other documentation relating to the Shares be distributed, in the Republic of Italy.

The Shares may be offered and copies of this prospectus or any other documentation relating to the Shares may be distributed in the Republic of Italy, providing that the requirements of Italian law concerning the offering of securities have been complied with, including: (i) the requirements set forth by Article 42 and by Article 94 and seq. of Legislative Decree 24 February 1998 No. 58 and CONSOB regulation No. 11971 of 14 May 1999; and (ii) all other Italian securities tax and exchange controls and any other applicable rules and regulations.

### **Notice to prospective investors in Luxembourg**

In addition to the cases described in the EEA selling restrictions in which the Company, the Manager and Landsbanki can make an offer of the Shares pursuant to Article 3 of the Prospectus Directive in a member state of the EEA (including the Grand Duchy of Luxembourg), the Company, the Manager and Landsbanki can also make an offer of the Shares in the Grand Duchy of Luxembourg:

- (a) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organisations;
- (b) at any time, to legal entities which are authorised or regulated to operate in the financial markets (including, credit institutions, investment firms, other authorised or regulated financial institutions, insurance companies, undertakings for collective investment and their management companies, pension and investment funds and their management companies, commodity dealers) as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities; and
- (c) at any time, to certain natural persons or small and medium sized enterprises (as defined in the Luxembourg act dated 10 July 2005 on prospectuses for securities implementing the Prospectus Directive into Luxembourg law) recorded in the register of natural persons or small and medium sized enterprises considered as qualified investors as held by the *Commission de surveillance du secteur financier* as competent authority in Luxembourg in accordance with the Prospectus Directive.

### **Notice to prospective investors in The Netherlands**

The Shares may not be offered, sold, transferred or delivered in The Netherlands, as part of their initial distribution, or at any time thereafter, directly or indirectly, other than:

- (a) to legal entities which are authorised to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to individuals or legal entities to each of which the Shares are only offered as a package of which the amount of the first payment is at least €50,000; or
- (d) in accordance with any other exemption listed in the Financial Markets Supervision Act Exemption Regulation (*Vrijstellingsregeling Wft*).

Note that pursuant to the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*) and the rules promulgated thereunder the Company is not required to have a licence to offer the Shares. The Company is not being supervised by The Netherlands Authority of the Financial Markets (*Autoriteit Financiële Markten*).

#### **Notice to prospective investors in Portugal**

No offer or sale of Shares may be made in Portugal except under circumstances that will result in compliance with the rules concerning marketing of such Shares and with the laws of Portugal generally.

No notification has been made nor has any been requested from the Securities Market Commission (Comissão do Mercado de Valores Mobiliários, “CMVM”) for the marketing of the Shares referred to in this prospectus, therefore the same cannot be offered to the public in Portugal.

Accordingly, no Shares have been or may be offered or sold to unidentified addressees or to 100 or more non qualified Portuguese resident investors and no offer has been preceded or followed by promotion or solicitation to unidentified investors, public advertisement, publication of any promotional material or in any similar manner.

In particular, this prospectus and the offer of the Shares is only intended for Qualified Investors acting as final investors. Qualified Investors within the meaning of the Securities Code (Código do Valores Mobiliários) includes credit institutions, investment firms, insurance companies, collective investment institutions and their respective managing companies, pension funds and their respective pension fund managing companies, other authorised or regulated financial institutions, notably securitisation funds and their respective management companies and all other financial companies, securitisation companies, venture capital companies, venture capital funds and their respective management companies, financial institutions incorporated in a state that is not a member state of the EU that carry out activities similar to those previously mentioned, entities trading in financial instruments related to commodities and regional and national governments, central banks and public bodies that manage debt, supranational or international institutions, namely the European Central Bank, the European Investment Bank, the International Monetary Fund and the World Bank, as well as entities whose corporate purpose is solely to invest in securities and any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, all as shown in its last annual or consolidated accounts.

#### **Notice to prospective investors in Spain**

This prospectus has not been approved and registered with CNMV (“Comisión Nacional del Mercado de Valores”, the Spanish Stock Market Commission). In this sense, as long as the Company is considered under the Law 35/2003 on Collective Investment Institutions as a Closed Ended fund, this prospectus does not constitute a public offer of securities according to Article 30 bis of Spanish Securities Market Act of 28th of July, as the exemption to registration introduced by such Article is fully applicable for offers:

- (i) addressed to qualified investors;
- (ii) addressed to less than 100 natural or legal persons in the Member State, without including qualified investors;
- (iii) involving an amount of €50,000 for each separate offer;
- (iv) having a denomination of more than €50,000 for each security; and
- (v) with a total consideration of less than €2,500,000 (this limit will be calculated within a 12 month period); are not deemed to be a public offering and registration is not required.

## **Notice to prospective investors in Switzerland**

The Company qualifies as a foreign closed ended collective investment scheme pursuant to art. 119 para.2 Swiss Federal Act on Collective Investment Schemes (“CISA”), which entered into force on 1 January 2007, and replaced the Swiss Federal Act on Investment Funds of 18 March 1994. The Shares will not be licensed for public distribution in and from Switzerland and they may only be offered and sold to so called “qualified investors” in accordance with the private placement exemptions set forth by the new law (in particular art. 10 para. 3 CISA and art. 6 of the ordinance to CISA). The term qualified investors includes, *inter alia*, high net worth individuals who have provided written confirmation that they hold directly or indirectly financial investments (bankable assets) worth at least CHF 2,000,000. The Company is not subject to the supervision of the Swiss Federal Banking Commission. Therefore, investors in the Shares are not eligible for the specific investor protection under the new law and the supervision by the Swiss Federal Banking Commission.

## **General**

The Company is a Registered Closed Ended Investment Fund formed pursuant to the framework introduced by the Guidance Document issued by the Guernsey Financial Services Commission (the “Commission”) dated February 2007. The Commission in granting its consent has relied upon specific warranties provided by the Administrator. Shares in the Company may not be offered directly to the public within Guernsey, such public being defined in the Guidance Document as being any person not regulated under any of Guernsey’s financial services regulatory laws.

The Company has received consent from the Commission under the Control of Borrowing (Bailiwick of Guernsey) Ordinance, 1959 as amended to raise monies as a Registered Closed Ended Investment Fund pursuant to the framework introduced by the Guidance Document.

Prospective investors should rely only on the information contained in this prospectus. No broker, dealer or other person has been authorised by the Company, its Directors, the Manager or Landsbanki to issue any advertisement or to give any information or to make any representation in connection with the offering or sale of the Shares other than those contained in this prospectus and, if issued, given or made, any such advertisement, information or representation must not be relied upon as having been authorised by the Company, its Directors, the Manager or Landsbanki.

Prospective investors should not treat the contents of this prospectus as advice relating to legal, taxation, investment or any other matters. Prospective investors should inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Landsbanki does not make any representations, express or implied, or accept any responsibility whatsoever for the contents of this prospectus nor for any other statement made or purported to be made by it or on its or their behalf in connection with the Company, the Shares or the Placing. Landsbanki accordingly disclaims all and any liability (save for any statutory liability) whether arising in tort or contract or otherwise which it might otherwise have in respect of this prospectus or any such statement.

Statements made in this prospectus are based on the law and practice currently in force in Guernsey and in England and Wales and are subject to changes therein.

This prospectus should be read in its entirety before making any application for Shares.

Application has been made to the UK Listing Authority for Shares issued and to be issued pursuant to the First Placing to be admitted to the Official List. Application has also been made for such Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities. It is expected that such admissions will become effective and that dealings in Shares issued under the First Placing will commence on 24 July 2008.

Application will be made for the Admission of any Shares issued in connection with the Subsequent Placing. It is anticipated that any Shares issued under the Subsequent Placing will commence dealing by 8 October 2008.

All times and dates referred to in this prospectus are, unless otherwise stated, references to London times and dates.

The contents of the Manager's website do not form part of this prospectus.

This prospectus contains certain forward-looking statements based on assumptions and expectations of future performance, taking into account currently available information. These assumptions and expectations may change as a result of many possible events or factors, not all of which are known. These forward-looking statements speak only as at the date of this prospectus. Investors should consider this risk before making an investment decision and should read in full the Risk Factors set out on pages 7 to 22 of this prospectus. This prospectus will be updated by the Company in accordance with its legal and regulatory obligations (including under the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules).

## EXPECTED TIMETABLE

	2008
Dealings in Shares issued under the First Placing expected to commence on the London Stock Exchange	24 July
CREST stock accounts expected to be credited with Shares issued under the First Placing	24 July
Certificates for Shares issued under the First Placing expected to be dispatched	7 August

## PLACING STATISTICS

Placing Price per Share	€1.00
Number of Shares in issue following the Placing	up to 500 million
Market capitalisation at the Placing Price	up to €500 million
Gross Proceeds of the Placing	up to €500 million
Net proceeds of the First Placing to be received by the Company	€60,047,249
Initial Net Asset Value per Share for the Shares issued under the First Placing	€0.9675

Following the First Placing, Directors may, in their absolute discretion, after consulting with Landsbanki and the Manager, place further Shares at the Placing Price (“**Subsequent Placing**”). Commitments in respect of the Placing of Shares under the Subsequent Placing must be received on or before 30 September 2008.

## DIRECTORS, MANAGER AND ADVISERS

### Directors

Hasan Askari (*Chairman*)  
Andrea Rossi  
Timothy Betley  
Kimberly Tara  
(*all of whom are non executive*)

Arnold House  
St. Julian's Avenue  
St. Peter Port  
Guernsey CI  
GY1 3NF

### Manager and Co Placing Agent

FourWinds Capital Management  
Scotia Bank Building  
PO Box 268GT  
George Town  
Grand Cayman  
Cayman Islands

### Sponsor and Placing Agent

Landsbanki Securities (UK) Limited  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR  
United Kingdom

### Solicitors to the Company and the Placing

(*as to English law*)  
Herbert Smith LLP  
Exchange House  
Primrose Street  
London EC2A 2HS  
United Kingdom

### Advocates to the Company

(*as to Guernsey law*)  
Ozannes  
PO Box 186  
1 Le Marchant Street  
St. Peter Port  
Guernsey CI  
GY1 4HP

### Administrator

HSBC Securities Services (Guernsey) Limited  
Arnold House  
St. Julian's Avenue  
St. Peter Port  
Guernsey CI  
GY1 3NF

### Auditors and Reporting Accountants

Ernst & Young LLP  
PO Box 9  
14 New Street  
St. Peter Port  
Guernsey CI  
GY1 4AF

### Registrar

Capita Registrars (Guernsey) Limited  
Longue Hougue House  
St. Sampson  
Guernsey CI  
GY2 4JN

### Solicitors to Placing Agent

LG  
4 More London Riverside  
London SE1 2AU  
United Kingdom

### UK Transfer Agent

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom

## PART I

### INFORMATION ON THE COMPANY

#### **Introduction**

Aqua Resources Fund Limited was incorporated on 12 June 2008 as a closed-ended investment fund with limited liability under The Companies (Guernsey) Law, 1994 as amended. The Company was established pursuant to the framework introduced by the Guidance Document issued by the Guernsey Financial Services Commission.

The Company aims to provide capital appreciation through diversified exposure to a global portfolio of water-related investments.

The Company is targeting investments with an average estimated internal rate of return in excess of 15 per cent. Investment (or commitment) is expected to be substantially completed (i.e. 80 to 85 per cent.) within 12 to 18 months of the initial Admission of the Shares.

FourWinds Capital Management has been appointed the Manager of the Company with responsibility for the discretionary management of the Company's assets. The Manager's management team has a proven track record of generating returns and managing risk across natural resources investments including water-related assets.

Application has been made to the UK Listing Authority for Shares issued and to be issued pursuant to the First Placing to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in Shares issued under the First Placing will commence on 24 July 2008.

Application will be made for the Admission of any Shares issued in connection with the Subsequent Placing. It is anticipated that any Shares issued under the Subsequent Placing will commence dealing by 8 October 2008.

The Company will not have a fixed life; however a resolution for the Company to continue in its current form will be proposed at the annual general meeting following the tenth year anniversary of the initial Admission of the Shares and every three years thereafter.

The Directors consider that an investment in the Company should be regarded as long term in nature and is suitable only for sophisticated investors, investment professionals, high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts, in each case, who can bear the economic risk of a substantial or entire loss of their investment and who can accept that there may be limited liquidity in the Shares.

#### **Investment policy**

The Company's investment objective is to provide capital appreciation through exposure to a diversified portfolio of water-related investments.

The Manager is responsible for the discretionary management of the assets of the Company and will seek to accomplish this investment objective by:

- seeking exposure to water-related investments on a global basis;
- seeking portfolio diversification by investing across the broad range of water-related projects and investments; and
- seeking to control risk through such portfolio diversification, investment vehicle selection and implementation of risk control strategies.

No assurance can be given, however, that the Company will achieve its investment objective, and investment results may vary substantially over time and from period to period.

### *Diversification*

The Portfolio will be diversified by factors such as geography, water sector, and investment type, structure and size. The Company may invest in companies and projects in both mature and emerging markets. There will be no predetermined limit per region, but for diversification purposes the Company will invest in at least three regions of the world.

Investments will be sought in a diverse range of water sectors. Once investment is substantially completed it is anticipated that no single investment, at the time of acquisition, may exceed 30 per cent. of the Gross Assets of the Company. For these purposes, where the Company invests in a portfolio of assets, each individual underlying asset shall be treated as a single investment and where the Company invests by means of a holding company, joint venture or similar investment or investment vehicle, each underlying asset shall be treated as a single investment.

In addition, in exceptional circumstances, the Board may authorise the acquisition of an investment or asset which exceeds the 30 per cent. limit and is up to 50 per cent. of Gross Assets, at the time of acquisition. Such authorisation may only be given in circumstances where the Board considers the acquisition to be of strategic importance to the Company in achieving its overall investment objective and the Manager has, at the time of acquisition, presented to the Board for approval a proposal for rebalancing the Portfolio to within the 30 per cent. limit as soon as practicable (and in any event within a period not exceeding 18 months) by means of further capital raisings, additional investments, disposals of part of the investment or otherwise.

### *Asset allocation*

Investments may be made within a diverse range of water-related segments including infrastructure, technology, recycling and treatment and in water-related projects such as waste water treatment, water distribution and infrastructure, water-to-energy, clean water, desalination, and others. Investment will comprise primarily direct stakes in unquoted water-related companies and projects. A target threshold of at least 60 per cent. water-related activity will be set for an investment to be considered “water-related”.

### *Gearing*

Whilst the Articles permit maximum borrowings of up to 30 per cent. of Net Asset Value, the Company’s policy is to ensure that its aggregate borrowings from time to time do not exceed a maximum of 20 per cent. of Net Asset Value. Initially, the Directors intend to use this facility primarily for short term liquidity, to facilitate the operation of the over-commitment policy, for working capital requirements and to fund share buybacks. However, borrowings may also be used for investment financing in certain cases and, if the Directors deem it prudent, the Company may borrow for longer term purposes.

### *General*

It is the intention of the Directors, subject to market conditions, for the Company to be substantially invested or committed (i.e. 80 to 85 per cent.) in accordance with its investment policy within 12 to 18 months of the initial Admission of the Shares and thereafter at all times, although the Manager may exercise its discretion to hold cash or cash equivalent instruments at any time as appropriate. Pending such investment the net proceeds of the Placing will be held in cash or fixed income securities (including, but not limited to, bank deposits, bonds or government issued treasury securities) for the purpose of protecting the Company’s capital assets. Income earned from its investments will be reinvested by the Company in accordance with its investment policy, subject to working capital requirements.

The Portfolio is expected to comprise investments in multiple currencies. The Company will not systematically hedge its currency exposure, but may evaluate on a case-by-case basis the potential benefits of hedging against interest rate risks or currency risk related to assets not denominated in Euro. The Company may, where appropriate, also enter into forward interest rate agreements, forward currency agreements, interest rate and bond futures contracts and interest rate swaps and purchase or enter into put or call options on interest rates and put or call options on futures of interest rates. Any

currency hedging will only be used for the purposes of efficient portfolio management and will not be used for any currency speculation.

In order for the Company to maximise the percentage of total assets invested at any given period of time, the Manager intends to follow an over-commitment strategy, subject to any guidelines set by the Board. The Board has set a guideline that the Company's total commitments should not exceed 150 per cent. of the current Gross Assets of the Company (as determined by the Directors and the Manager at the time of acquisition or commitment), subject to such commitments being in accordance with this investment policy. Whilst the Board may increase or reduce this percentage in its discretion in the future, it has no current intention to do so.

The Company will comply with certain investment restrictions for so long as they remain requirements of the UK Listing Authority as set out in more detail in paragraph 12 of Part IV of this prospectus. The Directors do not currently intend to propose any material changes to the Company's investment objective and policy, save in the case of exceptional and unforeseen circumstances. As long as the Listing Rules so require, any material change to the investment policy of the Company will be made only with the approval of Shareholders.

### **Investment strategy**

The Company intends to implement its investment policy via its investment strategy. Using global research and sourcing, the Company intends to build a portfolio focused on investments that offer water-related returns. In certain cases, investments may have broader applicability and possibility for regional or global scalability.

#### *Front-end and back end water businesses*

Water-related investment opportunities that will be evaluated will include both front-end and back-end water business.

Front-end water businesses are companies that focus on areas such as extracting and delivering available water to end users, providing the necessary quality level for the end user, controlling leakage, and assuring stable supply and pressure. Examples of front-end water businesses include businesses involved in the supply and maintenance of pipes, pumps, equipment, metering, filtration, disinfection, purification and distribution.

Back-end water businesses are companies that focus on areas such as treating and recycling used water, assuring quality levels necessary to bring recycled water back into the system and disposing of unusable water and other areas. Examples of back-end water businesses include businesses involved in water recycling, waste water treatment, waste water disposal, clean water, desalination and irrigation. In addition, water-to-energy is a back-end business area that uses water and technology to generate power. Examples include hydro-electric and tidal power.

#### *Demand and supply side opportunities*

The Company will review both demand side and supply side water opportunities. Demand is driven by agriculture, industry, and household use of water. Examples include:

- in agriculture: precision irrigation, rainfall and runoff recovery, recycling;
- in industry: recycling, waste water treatment, flow equipment; and
- in household: metering, recycling, retrofitting, quality management.

Supply side opportunities include recycling, infrastructure (distribution, reservoirs and leak management), water transportation, and environmental technologies.

By focusing on direct, actively-managed stakes in unquoted investments, the Company will seek to distinguish itself from other water investment vehicles which are generally focused on public equity investments. In this way, the Company will seek to offer access to the broader universe of active water investment strategies and specifically water-related returns.

## **Competitive strengths**

### *Experienced management*

The team at the Manager is experienced in water-related investments, global direct investment, private equity, project finance, and mergers and acquisitions. The Manager also manages the Zephyr Commodity Fund, Phaunos Timber Fund Limited and Ceres Agriculture Fund Limited. The Manager currently works exclusively in the commodities and natural resource-related real assets sectors. The Manager sources, evaluates and executes global transactions; conducts research; designs customised risk management tools; and structures portfolios specific to the particular characteristics of natural resources.

The Directors consider the global transaction experience and water-related experience of the Manager to be beneficial to the Company in the execution of the Company's investment strategy.

### *Direct investment strategy*

The strategy of direct stakes in unquoted investments, combining water-related companies and projects on a global level, is designed to offer returns linked to global water supply and demand and to water as a value proposition. This strategy can be clearly distinguished from many water investment portfolios which are limited to public equity investments. The Directors consider the Company's strategy to be a competitive advantage in the universe of water investing.

### *Alignment of interests of Shareholders and the Manager*

The Manager will subscribe for 3,985,000 Shares in the Placing. By virtue of this holding and the performance fee payable to the Manager by the Company, the Directors believe that there should be a strong alignment of economic interests between the Manager and Shareholders.

## **Investment rationale**

### *Drivers of water commodities returns*

- Water is one of the most fundamental of all natural resources.
- Water is essential; it is required for all forms of life and its consumption is linked to population and wealth growth. Since the 1950s the global population has doubled and water use increased five fold. The global population is expected to increase by another 50 per cent. by 2050.
- Water is strategic; it is considered a national security issue by many countries and has been a significant cause of historical cross-border conflicts.
- Water is under stress; available fresh water and underground water tables are falling, and modern technology has not been able to reduce human dependence on water.
- Water is a basic environmental infrastructure issue; the UN estimates that 1.1 billion people have no access to safe drinking water and in the developed world ageing water infrastructure requires expensive replacement work.
- Water is a source of energy. Oceans, tides, rivers, and other water sources by their unique nature make water a natural resource with multiple applications including power generation.
- Water is an environmental issue; regulatory changes are raising the quality threshold required for households and increasing recycling requirements for industry.

Traditional water return drivers are the supply-side stress demand pressures caused by growing populations, wealth, and urbanization. Newer return drivers are linked to increased environmental regulation, water-to-energy, and industrial recycling.

Water supply is under stress as less than 3 per cent. of global water supply is fresh water, and of that less than 10 per cent. is useable fresh water. Clean water is not available to all, in fact estimates are that only half of the global population has access to water through a household connection or yard tap. Fresh water is being increasingly contaminated by salination of coastal waters, industrial waste, agricultural runoff, sewage discharge, and over extraction of underground aquifers. In addition, climate

change is reducing river levels, drying aquifers, decreasing inland snowfall, causing desertification, and straining irrigation.

Water demand is growing. Demand is driven by population and wealth growth, urbanization, economic growth and industrialization, globalization and recreation, and increasing environmental standards. The World Bank estimates that global demand for water is doubling every twenty years. Agriculture accounts for around 70 per cent. of global water demand. Water remains the most critical factor in world food production. Rises in real incomes has increased demand for more water intensive foods such as meats. Global climate change is changing precipitation patterns and destroying crops through both drought and flooding. Industry accounts for an estimated 22 per cent. of water demand. The majority of industrial applications rely on water. They may not yield products that contain water, but water is a critical part of the process, for example for cooling and cleaning. Industrialization in emerging countries such as China, India, and Mexico, has added significant water stress. Households account for around 8 per cent. of water demand. Advances in water distribution technology have brought water and sanitation into the home, making it more convenient to use in greater quantities. Urbanization has concentrated this demand and causes stress on distribution systems.

Newer return drivers such as environmental regulation, water-to-energy, and industrial recycling are linked to changes in society's interaction with the environment. Regulations in countries such as the US have increased demand for technologies that treat, filter, and purify water at the household, sewage, industrial, and agricultural levels. Water is also increasingly considered as a form of renewable energy, from hydroelectric to tidal power and a variety of ocean-based technologies. In addition, growing industrial use of water has created both the need for recycled water as an input to lower cost and the need for clean-up technologies to treat contaminated water.

All of these factors, together and separately, create a range of investment opportunities that can be used to generate both short term and long term returns for investors.

#### *Portfolio benefits of water investments*

Water has excellent business fundamentals: demand is highly inelastic (volume seldom declines as prices increase); there is no substitute for water; water is largely insensitive to interest rates, inflation, recession, market cycles or changing preferences; and the demand for water has a history of consistent growth under all market and economic conditions.

Water therefore has the potential to offer a diversification to traditional asset classes and may also have a low correlation to many alternative investment areas.

#### *Alternative methods of investing in water*

Water is not easy to invest in. Water is not exchange traded as a commodity. Water prices are subsidised in most markets and can be variable by consumer group within a single market. Direct water rights can be nationalised in periods of severe water stress.

Water is not even viewed as a single asset class by many analysts. It comprises a fragmented, niche-oriented mix of public and private sector companies and direct projects. There is no single market definition of a water business, company, or project. The price of water is subsidised and so does not reflect the supply and demand dynamic.

Yet investments in water-related businesses and projects, driven by the growing supply and demand imbalance and the multiple, competing uses of water, are increasing.

Investment can be made across a wide spectrum of water areas, from infrastructure and water-to-energy to recycling, treatment and clean water. But the basic investment choice for investors is between public equities and direct investment.

Public equities in water-related companies are the most common form of water investment in the market today. The universe of water-related stocks is however limited to mostly small cap stocks and large caps with significant non-water business activities (such as Nestlé or General Electric). Water stocks tend to be defensive stocks, with a beta of around 0.55 to the general market. As a result, returns smooth over time but do not have a clear link to water supply and demand issues.

Direct investment, on the other hand, offers the possibility for a higher exposure to water-related returns. Both water projects and companies are generally focused on a specific segment of the water business, which increases the water threshold of the Portfolio and ties returns more closely to water supply and demand pressures.

### **Diversification of the Portfolio**

The Company has set target guidelines which are designed to ensure the development of a well diversified portfolio. These guidelines assume availability of appropriate investment assets on the market.

The Company may move outside of the guidelines due to:

- changes in relative value of investments during the period that the Company is not fully invested; and
- identification of exceptional investment opportunities. The Board is responsible for evaluating whether any of these changes are material and determining how to best rebalance the Portfolio.

In addition, whilst generally no single investment may, at the time of acquisition, exceed 30 per cent. of Gross Assets, in exceptional circumstances, the Board may authorise the acquisition of an investment or asset which exceeds the 30 per cent. limit and is up to 50 per cent. of Gross Assets, at the time of acquisition. Such authorisation may only be given in circumstances where the Board considers the acquisition to be of strategic importance to the Company in achieving its overall investment objective and the Manager has, at the time of acquisition, presented to the Board for approval a proposal for rebalancing the Portfolio to within the 30 per cent. limit as soon as practicable (and in any event within a period not exceeding 18 months) by means of further capital raisings, additional investments, disposals of part of the investment or otherwise.

### **Investment process**

#### *Manager*

The Manager will source investments directly through its extensive range of contacts in the industry, through existing relationships, and through market research. Investments will be evaluated on qualitative, quantitative, structuring, tax, market, and operational due diligence elements as well as on their contribution to the overall Portfolio.

The Manager will use financial modelling and risk management tools to evaluate the value of any single investment both separately and as part of the Portfolio. On-going monitoring and scalability review will be a key part of the active management of the Portfolio.

Investment opportunities will first be evaluated relative to the Company's investment objective and policy and any guidelines set by the Board. Extensive due diligence will be conducted on appropriate investment opportunities and will include as appropriate, but not be limited to, evaluation of a full range of qualitative, quantitative, and operational due diligence criteria as well as an evaluation of tax and structural criteria, as appropriate.

The level of net investment in the Portfolio, at any time, will be a function of the Manager's ability to identify attractive investments and its assessment of the overall investment environment.

The Manager will analyse the mix within various segments of the water universe and the dynamics of global water-related opportunities and markets in general to arrive at a bottom-up view on investment opportunities.

#### *Investment Committee*

The Manager has an internal Investment Committee that will be responsible for reviewing proposed investments for compatibility with the investment objective and policy of the Company and any guidelines set by the Board.

The Investment Committee is comprised of individuals with financial, operational and business backgrounds combined with deal execution, water, and investment management experience. The members of the Investment Committee will initially be Kimberly Tara, Andrew Nason and JK Lim whose details are set out on pages 43 to 45.

The Manager will prepare a report covering the key aspects of any proposed investment and its potential contribution to the Portfolio that will be submitted to the Investment Committee for review. The Investment Committee will approve investments subject to the investment objective and policy of the Company and any such guidelines as may be set by the Board from time to time. Any investments not clearly covered in these guidelines will require Board approval.

The Board may, from time to time, approve investment criteria which would enable the Manager to commit the Company to investments falling within such criteria without further Board approval.

#### *Nature of investments*

The Company's investments will comprise primarily direct investments in unquoted water-related companies and projects. The Company targets a threshold of at least 60 per cent. water-related activity for an investment to be considered "water-related". Investments are expected to be primarily structured as a mix of private equity, minority stakes, majority stakes, joint ventures, co-investments, convertible or exchangeable debt, and similar. Other investment structures and vehicles may be used as appropriate for investment, risk management, or tax reasons.

Risk and diversification will be managed at the Portfolio level. A single investment may be selected for its potential to make a specific contribution to the Portfolio, for diversification purposes, to access new markets, for rebalancing, opportunistically, or for other more general characteristics.

The Company will also invest in fixed income instruments to manage cash positions. The Company may also use derivative instruments to hedge estimated currency exposure related to assets not denominated in Euro, interest rate risk, or as appropriate and in line with the objectives, policies and guidelines set out in this prospectus, as part of the Company's investment structure.

#### **Over-commitment policy**

The attention of potential investors is drawn to the meanings of the terms **committed/commitments, invested/investments and draw down/drawn down/called down** in the Glossary of Terms in Part VI of this prospectus.

In general, the types of investment which will be targeted by the Company will typically be structured in a manner in which the Company commits to fund a defined level of capital over a period of time. When committing to an investment, the Company will have available to it a number of ways in which it can satisfy its obligations upon future draw down or call down by the investment target. These include payments from the uninvested funds raised from investors in the Company, use of liquid assets retained in cash or near cash investments for working capital purposes, use of proceeds of realisations of other investments, use of returns generated from other investments and disposal, syndication to third parties of part of the investment or commitment in respect of which capital is called down or borrowing.

For the above reasons and due to the nature of the various types of commitments which the Company will enter into (including in particular the non-binding and/or pre-conditional nature of certain commitments and the flexible amounts of commitments), it is possible for the Company to follow an over-commitment strategy whereby commitments may exceed the cash available to the Company to satisfy draw downs at the time of commitment.

In order for the Company to maximise the percentage of total assets invested in the Portfolio at any given period of time, the Manager intends to follow an over-commitment strategy, subject to any guidelines set by the Board. The Board has set a guideline that the Company's total commitments should not exceed 150 per cent. of the current Gross Assets of the Company (as determined by the Directors and the Manager at the time of acquisition or commitment), subject to such commitments being in accordance with the investment policy of the Company. Whilst the Board may increase or reduce this percentage in its discretion in the future, it has no current intention to do so.

**Risk management**

Significant emphasis will be put on risk management and on adherence to risk management and diversification parameters. The Manager will oversee the measurement and control of all aspects of the financial and associated risk management processes.

However, market conditions can be expected to change over time, sometimes quite rapidly, and the Manager may change diversification parameters from time to time in response to changes it perceives in market conditions, particularly with changes in individual country or water markets.

The Manager considers it is more important to monitor and control risk than to measure it passively.

Prospective investors are urged to read the “Risk Factors” at pages 7 to 22 of this prospectus.

**Development and risks**

The development of an investment strategy is a continuous process and the Manager’s investment strategy and methods may therefore be modified from time to time. The Manager’s investment methods are confidential and the descriptions of them in this prospectus are not exhaustive. The investment strategies used in respect of the Company may differ from those used with respect to other accounts or funds managed by the Manager or its affiliates. Investment decisions require the exercise of judgment by the Manager and the Board. The Manager and/or the Board may, at times, decide not to make certain investments, thereby foregoing participation in investments which would have yielded profits or avoided losses. Shareholders cannot be assured that the strategies or methods utilised by the Manager and/or the Board will result in profits or asset growth for the Company.

The Company’s investment programme entails substantial risks and there can be no assurance that its investment objective will be achieved. The investment techniques employed by the Manager could, in certain circumstances, maximise the adverse impact to which the Portfolio may be subject.

**Currency risk management**

The Company may invest in underlying assets which are not Euro denominated. In such event, the Company may seek if appropriate to hedge the currency exposure of such investments related to assets not denominated in Euro. The Company does not expect to systematically hedge non-Euro currency exposure. The Company’s currency hedging policy will be for the purposes of efficient portfolio management only. The Company has no intention of using the currency hedging facility for the purposes of currency speculation for its own account.

**Effect of hedging on the liquidity of the Company**

Foreign currency and interest rate hedging may require cash payments to be made by the Company in order to close out hedging contracts during the life of the Company. Any such payments may be funded out of the Company’s short term borrowings. If closing out such contracts results in cash receipts into the Company, the Manager may advise that such cash be invested in the Portfolio and/or advise that all or part of such cash be placed on deposit to meet possible cash payments resulting from closing out such contracts in the future. If, as a result of the currency or interest rate hedging, the portion of the Company’s assets which is not invested in water-related investments increases, the performance of the Shares may vary.

If cash payments by the Company required in order to close out such contracts, as described above, are significant, the Manager may advise that part of the Portfolio be realised in order to meet such payments. The Manager will monitor the level of the Company’s borrowings to ensure that it remains within appropriate limits and will seek to monitor the liquidity of the underlying investments of the Portfolio.

**Net Asset Value publication**

The Net Asset Value of the Company and hence the Net Asset Value per Share will be calculated in Euro by the Administrator on a quarterly basis and audited on an annual basis, as described below.

The Net Asset Value will be the value of all assets of the Company less the liabilities to creditors (including the provisions for such liabilities) of the Company determined in accordance with the valuation guidelines adopted by the Directors from time to time. Under current valuation guidelines adopted by the Directors, such values will be determined in accordance with applicable accounting standards.

If the Directors consider that any of the above bases of valuation are inappropriate in any particular case, or generally, they may adopt such other valuation procedures as they consider reasonable in the circumstances.

All valuations of the Portfolio will be made, in part, on information provided by third parties, including managers of the investments comprised in the Portfolio and independent annual evaluations of investments in the Portfolio. The valuation information may be unaudited or may be estimates. Although the Administrator will evaluate all such information and data, the Administrator is generally not in a position to confirm the completeness, genuineness or accuracy of such information or data. As a result, there can be no assurance that the actual values of the underlying investments in the Portfolio will be consistent with the stated values provided by the managers of such investments.

In addition, any financial reports relating to the investments in the Portfolio which will be typically provided are likely to be provided only on a quarterly or less frequent basis and will generally be issued one to four months after the respective valuation dates.

The values of the assets in the Portfolio will be determined in accordance with United States Generally Accepted Accounting Principles and (if applicable, and to the extent consistent with United States Generally Accepted Accounting Principles) in accordance with the International Private Equity and Venture Capital Valuation Guidelines (October 2006 edition, and any revision thereto). Consequently, each estimated Net Asset Value provided by the Company will contain information that may be out of date and require updating and completing.

Shareholders should bear in mind that the actual Net Asset Values may be materially different from the estimated values when placing reliance on any valuations provided by the Manager.

The Administrator will publish the Net Asset Value per Share calculated in Euro as soon as practicable after calculation at the end of each quarter through a regulatory information services provider as authorised by the UK Listing Authority.

The Directors may temporarily suspend the calculation of Net Asset Value during a period when, as a result of political, economic, military or monetary events or any circumstances outside the control, responsibility or power of the Board, disposal or valuation of investments of the Company or other transactions in the ordinary course of the Company's business is not reasonably practicable without this being materially detrimental to the interests of Shareholders or if, in the opinion of the Board, the Net Asset Value cannot be fairly calculated; there is a breakdown of the means of communication normally employed in determining the calculation of Net Asset Value; or it is not reasonably practicable to determine the Net Asset Value on an accurate and timely basis.

Any suspension in the calculation of the Net Asset Value, to the extent required under the Articles of Incorporation of the Company or by the Listing Rules will be notified to the market by the Administrator through a regulatory information services provider as soon as practicable after any such suspension occurs.

### **Dealings in Shares**

Application has been made to the UK Listing Authority for Shares issued and to be issued pursuant to the First Placing to be admitted to the Official List and to the London Stock Exchange for Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. Application will be made for the Admission of any Shares issued in connection with the Subsequent Placing.

## **Application of The UK City Code on Takeovers and Mergers**

The Company is subject to the UK City Code on Takeovers and Mergers (the “City Code”). Under Rule 9 of the City Code, any person who acquires an interest in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code is normally required to make a mandatory general offer to all the remaining shareholders to acquire their shares. Similarly, when any person, together with persons acting in concert with him, is interested in shares which in the aggregate are not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights, a mandatory general offer will normally be required if any further interest in shares which increase the percentage share voting rights is acquired by any such person.

Persons acting in concert are persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company.

A mandatory general offer must be in cash and at the highest price paid by the shareholder or a member of its concert party in the twelve months prior to the announcement of the offer.

**Prospective Shareholders should note that West Midlands Metropolitan Authorities Pension Fund (“West Midlands”) will, following Admission of Shares under the First Placing, be interested in Shares carrying 29.97 per cent. of the voting share capital of the Company. Any further increase in that interest in Shares will be subject to the provisions of Rule 9 of the City Code.**

Following Admission, any exercise of the Company’s power to purchase its own Shares will reduce the Company’s issued share capital and could accordingly increase the percentage shareholdings of those Shareholders who do not participate (either at all or to the full extent) in the relevant repurchase. If the Company repurchases its own Shares, any resulting increase in West Midlands’ voting share capital will not result in any further obligations under Rule 9 of the City Code to make a mandatory general offer, unless West Midlands has appointed a Director to the Board of the Company or is otherwise deemed to be acting in concert with any of the Directors for the purposes of Rule 37 of the City Code.

If the buy-back authority were to be exercised in full following the First Placing, West Midlands’ shareholding would rise to a maximum of 35.2 per cent. of the resulting issued share capital of the Company, assuming that West Midlands does not sell any of its Shares in the buy-back.

## **Discount management provisions**

### *Tender offer*

The Board reserves the right, in its absolute discretion, to implement a tender offer for up to 25 per cent. of the issued Shares where, from time to time, the Shares have, in any 12 months preceding the last NAV Calculation Date, traded at an average discount in excess of 10 per cent. of the Net Asset Value per Share. The average discount will be calculated by deducting the closing mid market price per Share as at the NAV Calculation Date from the Net Asset Value per Share as at each such NAV Calculation Date and expressing the differential as a percentage of the Net Asset Value per Share as at the relevant NAV Calculation Date. Any such tender offer will be at a price per Share which is below the then prevailing Net Asset Value per Share less attributable costs and as otherwise determined by the Directors in their sole discretion. The Directors may, at their discretion, structure the tender offer in such manner that to the extent that some Shareholders do not tender their Shares for purchase, the capacity thereby created may be utilised in meeting tender requests from other Shareholders in excess of 25 per cent. of their holdings.

Not more than one such tender offer of Shares shall be made in any 12 month period unless the Directors, acting in their sole discretion, determine otherwise. Any Shares repurchased in such a tender offer will, unless they are able to be held in treasury, be cancelled subsequently.

### *Share repurchases*

The Company will have shareholder authority to purchase in the market up to 14.99 per cent. of the Shares in issue immediately following initial Admission of the Shares. This authority will expire at the conclusion of the first annual general meeting of the Company and the Directors intend to seek renewal of this authority from Shareholders at each annual general meeting. The Company may purchase Shares in the market on an ongoing basis with a view to addressing any imbalance between the supply of, and demand for, Shares, to increase the Net Asset Value per Share and to assist in maintaining a narrow discount to Net Asset Value per Share in relation to the price at which Shares may be trading. The timing of such purchases will be decided by the Board. Any Shares bought back may be held in treasury (up to a maximum of 10 per cent. of the issued share capital) or be subsequently cancelled by the Company.

Purchases will only be made through the market for cash at prices below the estimated prevailing Net Asset Value per Share where the Directors believe such purchases will result in an increase in the Net Asset Value per Share of the remaining Shares and as a means of addressing any imbalance between the supply of, and demand for, the Shares. Such purchases will only be made in accordance with the Companies Law and the Listing Rules, which currently provide that the maximum price to be paid per Share must not be more than the higher of (i) five per cent. above the average of the mid market values of the Shares for the five Business Days before the purchase is made or (ii) the higher of the last independent trade or the highest independent bid for the Shares.

**Prospective Shareholders should note that the exercise by the Directors of the Company's powers to repurchase Shares either pursuant to a tender offer or the general repurchase authority is entirely discretionary and they should place no expectation or reliance on the Directors exercising such discretion on any one or more occasions.**

### **Further issues of Shares**

Under the Companies Law and the Articles, the Directors have wide powers to issue further Shares or reissue Shares held in treasury on a pre-emptive and non-pre-emptive basis. The Directors will consider issuing further Shares at not less than the then prevailing Net Asset Value per Share for new Shares, and at no more than a 5 per cent. discount to the then prevailing Net Asset Value per Share for treasury shares (or, if higher, the price at which all the shares then held in treasury were repurchased by the Company), as part of the process of managing any premium of the market price of the Shares as compared to the Net Asset Value per Share. Any further issues of new Shares or reissues of Shares held in treasury will rank *pari passu* with the Shares in issue.

The Manager will seek to invest the net proceeds of any further issues or reissues of Shares in accordance with the Company's investment policy, subject to the overall control and supervision of the Directors.

Shares will be issued in accordance with the selling restrictions set out on pages 23 to 28 of this prospectus and the terms of the Articles.

### **Dividend policy and distributions**

The Directors expect returns to be reinvested and do not anticipate paying a dividend. Where any dividend or other distribution is to be paid, it is expected to be paid in Euros and in accordance with the Companies Law, any other applicable laws and the Listing Rules and the rules and regulations of the London Stock Exchange. Since the date of incorporation of the Company, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its share capital.

### **Meetings, reports and accounts**

All general meetings of the Company will be held in Guernsey. The Company will hold an annual general meeting each year. The annual report and accounts of the Company will be made up to 31 December in each year with copies expected to be sent to Shareholders within the following four months. Shareholders will also receive each year an unaudited interim report for the six months to 30 June. The interim report is expected to be sent to Shareholders within the two months following

30 June. The first financial period of the Company will cover the period from incorporation to 31 December 2008.

The audited accounts of the Company will be prepared under United States Generally Accepted Accounting Principles which the Directors believe is an acceptable body of generally accepted accounting practice. The values of the assets in the Portfolio will be determined in accordance with United States Generally Accepted Accounting Principles and (if applicable and to the extent consistent with United States Generally Accepted Accounting Principles) in accordance with the International Private Equity and Venture Capital Valuation Guidelines (October 2006 edition, and any revision thereto).

Under United States Generally Accepted Accounting Principles, the Company will prepare an income statement which will disclose revenue and capital results including net investment gains. The annual report and accounts and the unaudited interim reports of the Company will be published in Euros.

### **Life of the Company**

Although the Company will not have a fixed life, a resolution for the Company to continue in its current form will be proposed at the annual general meeting following the tenth anniversary of the initial Admission of the Shares and every three years thereafter. If any such resolutions are defeated the Directors will then, as soon as reasonably practicable, bring forward proposals intended to afford an opportunity for those Shareholders who so wish to realise their investment in the Company.

### **Structure**

As at Admission of the Shares issued under the First Placing, the Company will have no subsidiaries. The Company may, from time to time incorporate or acquire subsidiaries, intermediate holding companies or other vehicles for the acquisition and holding of investments, including joint venture arrangements.

### **Taxation**

Potential investors are referred to paragraph 4 of Part IV of this prospectus for details of the taxation of the Company and of Shareholders in the UK and Guernsey.

Investors who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK and Guernsey are strongly advised to consult their own professional advisers immediately.

### **Risk factors**

The Company's business is dependent on many factors and potential investors should read the whole of this prospectus and in particular the section entitled "Risk Factors" on pages 7 to 22.

### **Further information**

The attention of investors is drawn to Parts II, III and IV of this prospectus which provide additional information on the Company.

## PART II

### DIRECTORS, MANAGEMENT AND ADMINISTRATION

#### Directors

The Directors are responsible for the determination of the Company's investment policy and strategy and have overall responsibility for the Company's activities including the review of investment activity and performance and the control and supervision of the Manager. All of the Directors are non-executive and, save for Kimberly Tara, are independent of the Manager. Kimberly Tara will not receive any director's fee payable by the Company.

The Directors are as follows:

**Hasan Askari** (Chairman) aged 62. Mr Askari, the Chairman of the Company, has been an investment banker since 1975, initially with SG Warburg & Co. Ltd. (now UBS Ltd.) and subsequently, with Chase Investment Bank, subsequently JPMorgan Chase, in Hong Kong and Barclays Capital in Tokyo and London. He was most recently at Old Mutual plc., London as a member of the Executive Committee responsible for the United Kingdom and Europe and later, for Asia-Pacific. He remains an adviser to Old Mutual. He is also an adviser to the Kotak Mahindra Group, one of India's leading banking groups. He has an M.A. from the University of Oxford. Mr Askari is resident in France.

**Andrea Rossi** aged 41. Mr Rossi is currently Chairman and Chief Executive Officer of AXA Italy and Deputy Chairman of AXA activities in the Gulf Region. He has worked for the AXA Group for the past eight years, and previously served as Senior Vice President for International Operations for the Mediterranean region, Latin America and the Middle East before becoming Chief Operating Officer for the Mediterranean region in 2005. He has been a board member of AXA entities in countries including Turkey, Spain, Portugal, Morocco, Brazil, Argentina and Chile and is currently a board member of AXA Middle East (Lebanon), AXA Italy and AXA Gulf. Before AXA, he held senior executive positions in GE Capital and Aegon Transamerica. Mr Rossi was awarded a Masters of Science degree in Economics from the University of Rome in 1992 and an MBA from Fontainebleau's INSEAD in 1994. Mr Rossi is an Italian national.

**Timothy Betley** aged 72. Mr Betley is a Guernsey resident independent Director of the Company. He has extensive experience in offshore financial management, having started his career with the Trust Corporation of the Bahamas in 1960 and became Managing Director of Royal Bank of Canada (Channel Islands) Limited, Guernsey in 1973. Between 1973 and 2000 he at various times served as a Director of Royal Bank of Canada trust companies in the Bahamas, the Cayman Islands, Jersey, Hong Kong and Switzerland. In the 1990s he was Chairman of Bank Sarasin (Guernsey) Limited, and in 2000 became a Director of Close Trust Company Guernsey Limited. Mr Betley has been a member of the Investment Dealers Association Canada, the Society of Trust and Estate Practitioners, and the Chartered Institute of Bankers.

**Kimberly Tara** aged 38. Ms Tara is the Chief Executive Officer of the Manager. She started her career in 1991 in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin off that is today the largest private consulting firm in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as Chief Financial Officer and Director of Business Development for a US based biotech company focusing on central nervous system drug development and memory enhancement. In 2005 she co founded the Manager. Ms. Tara graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. Ms. Tara is resident in France.

#### Manager

FourWinds Capital Management has been appointed as the Manager of the Company. The Manager has the responsibility for the discretionary management of the assets of the Company including advising the Company on the overall management of the Company's investments and for managing the

Company's cash and investments in fixed income instruments in accordance with the Company's investment policy, subject to the overall control and supervision of the Board.

The Manager is a Cayman Islands exempted company with offices in Boston, London, Hong Kong and Geneva and subsidiaries in the UK and the United States. The Manager was incorporated in the Cayman Islands on 14 March 2005 with registration number CB 146307. The Manager will have authority to invest the Company's assets and is responsible for all investment decisions made on behalf of the Company, subject to the policies and control of the Board.

The Manager will be primarily responsible for researching, evaluating, selecting, executing and monitoring the Company's investments and making decisions on when and how much to invest in or withdraw from a particular investment, subject to the policies and control of the Board.

The Manager has nominated Kimberly Tara for appointment to the Board.

The Manager focuses on the development of, and risk management of, investment vehicles for commodities and real assets. The Manager currently has three other products under management, namely the Zephyr Commodity Fund, Phaunos Timber Fund Limited, and Ceres Agriculture Fund Limited.

The Zephyr Commodity Fund is a broadly diversified multi manager, multi strategy fund of funds that covers energy, metals and agriculture.

Phaunos Timber Fund Limited is a closed ended fund which is listed on the Official List and traded on the LSE on the main market for listed securities. It invests in timberland and timber related investments on a global basis.

Ceres Agriculture Fund Limited is a closed ended fund which is listed on the Official List and traded on the LSE main market for listed securities. It invests in an actively managed portfolio of primarily exchange-traded agricultural commodity contracts and derivatives.

The Manager intends to subscribe for Shares to the value of €3,985,000 at the Placing Price pursuant to the Placing.

In addition to Kimberly Tara, the key personnel of the Manager who will be responsible for the day-to-day management of the Portfolio are as follows:

**Andrew Nason**, Head of the Environment Group of the Manager. Mr Nason has over 20 years experience in mergers and acquisitions. Prior to joining FourWinds, Mr Nason worked for approximately six years in the financial institutions group for Lazard as a Managing Director, where he worked for blue chip clients such as Barclays, Mellon, Aviva, Standard Chartered and Standard Life. Mr Nason's transaction experience includes working on announced transactions of over US\$100 billion. Mr Nason has extensive experience in structuring and executing cross border transactions in regulated sectors and emerging markets – including transactions in US, UK, Pakistan, India, Kuwait, Puerto Rico, Mexico, Spain and Switzerland. Mr Nason has worked in London and New York, and has prior experience with Wasserstein Perella, Merrill Lynch and Deutsche Bank. Mr Nason began his career at Lehman Brothers and has an MA (Hons) from Edinburgh University.

**JK (Jui Kian) Lim**, Managing Director, Head of Asian Environment Team of the Manager since February 2008. Mr Lim has more than 13 years experience in the Asian infrastructure and environment sectors. He began his career in equity research in 1994 with Morgan Grenfell/Deutsche Securities and later, Peregrine Securities covering infrastructure, construction and building materials sector in Malaysia, Thailand and Singapore. In 1998, he joined Veolia Water Asia-Pacific's Project Finance Department where he spent eight years helping Veolia Water Asia-Pacific build its Asian franchise and worked on acquisitions, joint-ventures, privatisations and project financing transactions across the Asia-pacific region. During his time with Veolia Water Asia-Pacific, Mr Lim successfully lead and concluded key transactions amounting to over US\$700 million, in municipal and industrial water or wastewater. In 2006, Mr Lim joined JPMorgan Chase's investment banking department to focus on client advisory services in the infrastructure and environment sectors. During his time with JPMorgan Chase, he successfully brought the Hyflux Water Trust, a sponsor-developer lead Infrastructure Trust

and a key sector innovation, to market in late December 2007. A Chevening Scholar, Mr Lim earned his MSc (Economics) from the London School of Economics. Mr Lim presently resides in Hong Kong.

**Valerie Daoud Henderson**, Managing Director of the Environment Group of the Manager since October 2007. Ms Daoud Henderson began her career in 1991 at Morgan Stanley International in Mergers & Acquisitions. She then joined the Equities division of Morgan Stanley in New York in 1993 as a risk arbitrage buy-side research analyst on the proprietary trading desk. During her years at Morgan Stanley, Ms Daoud Henderson specialized in proprietary investing with a special focus on arbitrage opportunities across all sectors and geographies, friendly and hostile deals analysis, proxy battles, antitrust regulation and market analysis in a wide range of sectors (pharmaceutical, retail, utilities and energy). Upon returning to Europe in 1999, Ms Daoud Henderson set up the European risk arbitrage desk of CPR Bank – now a wholly-owned subsidiary of Credit Agricole – and launched one of the first European merger arbitrage hedge funds. During that time, Ms Daoud Henderson developed trading and portfolio management skills. In 2004, Ms Daoud Henderson joined IXIS as a senior portfolio manager in charge of the launch of an event driven and a long-short funds. During her time at IXIS, Ms Daoud Henderson developed experience with asset gathering and risk management. In 2006, Ms Daoud Henderson joined Boussard & Gavaudan Asset Management as a partner in charge of all risk arbitrage solutions with a particular focus on activism and hostile deals investing. In October 2007, Ms Daoud Henderson joined the Manager where her responsibilities include deal sourcing, investment analysis and portfolio management. Ms Daoud Henderson graduated from ESSEC, France's leading business school (L'Expansion, 2 April 2008).

**Arpana Agarwal**, Managing Director of the Manager. Miss Agarwal has more than 17 years experience in finance, sustainability and emerging markets. From 1991 to 1994, she began her career with GE Capital as a member of their Leadership Development Program. After finishing her graduate education in 1997, she joined Citibank in New York and then London in the Emerging Markets Group. In 1999, Miss Agarwal moved toward international development and sustainability issues by working with the World Bank in microfinance and from 2000 to 2002 with Domini Social Investments, one of the oldest US based socially responsible asset managers. From 2002 to 2004 she continued in sustainability by helping companies improve their environmental, ethical and social performance through PricewaterhouseCoopers' Sustainable Business Development group. In 2005, Miss Agarwal joined the Clinton Foundation, first with the HIV/AIDS Initiative, where she ran a global program across 25 countries which made a major contribution toward the provision of essential medications for children, then with the Clinton Climate Initiative where she worked with the C40 Largest Cities to assist governments identify cross-sector opportunities to reduce greenhouse gases. Her major focus was waste and water solutions. Miss Agarwal has a BSBA from the University of North Carolina Chapel Hill, an MBA from Thunderbird, the American Graduate School of International Management, and a Master of International Affairs from Columbia University in New York.

**Louise Freestone**, General Counsel of the Manager starting July 2008. Miss Freestone began her career as an articled clerk at Eversheds Solicitors in 1992 and qualified as an English solicitor in 1994. She joined the corporate division of Herbert Smith LLP as an assistant solicitor in 1997 specialising in takeovers, mergers and acquisitions, capital markets and general corporate advice. In 2002, Miss Freestone became a partner of Herbert Smith LLP and developed additional expertise in balance sheet restructurings, returns of capital, schemes of arrangement, tender offers and proxy battles. In 2007, she joined the investment funds team within the corporate division advising on the formation of, and fund raisings by, listed and unlisted closed ended investment vehicles, investment management agreements and related advisory matters. During her time at Herbert Smith LLP, Miss Freestone acted for major UK and international entities including AWG plc, Bank of Scotland plc, BSkyB plc, Hollinger International Inc, Koninklijke Hoogovens N. V., Next plc, O2 (UK) Limited, PwC Consulting and the Virgin group of companies. Miss Freestone has an LLB from Sheffield University.

### **Management Agreement**

The Company and the Manager have entered into a Management Agreement, a summary of which is set out in paragraph 6.1.2 of Part IV of this prospectus, under which the Manager has been given sole responsibility for the discretionary management of the Company's assets (including uninvested cash) in accordance with the Company's investment policy, subject to the overall control and supervision of the Directors.

Details of the fees and expenses payable to the Manager are set out in the section headed “Fees and expenses” below.

The Management Agreement is terminable by either the Manager or the Company giving to the other not less than 24 months’ written notice. Such notice may only be given to expire on the seventh anniversary of the initial Admission of the Shares or on any subsequent two year interval thereafter.

The Management Agreement may be terminated earlier by the Company with immediate effect on the occurrence of certain events, including: (i) if an order has been made or an effective resolution passed for the liquidation of the Manager; (ii) if the Manager ceases or threatens to cease to carry on its business; (iii) where the Company is required to do so by a relevant regulatory authority; (iv) on the liquidation of the Company; or (v) subject to certain conditions, where the Manager commits a material breach of the Management Agreement.

### **Administrator and Secretary**

HSBC Securities Services (Guernsey) Limited has been appointed as Administrator and Secretary of the Company pursuant to the Administration Agreement (further details of which are set out in paragraph 6.1.3 of Part IV of this prospectus). In such capacity, the Administrator will be responsible for the day to day administration of the Company and general secretarial functions required by the Companies Law. The Administrator will also be responsible for the Company’s general administrative functions such as the calculation and publication of the Net Asset Value and maintenance of the Company’s accounting and statutory records. The Administrator may, with the consent of the Directors, delegate in accordance with Guernsey law and any rule, regulation or guidance issued by the Guernsey Financial Services Commission the provision of administrative functions and other services to a third party where that third party is an affiliate of the Administrator, as defined in the Administration Agreement, but will remain liable for the acts of any such third party and will be responsible for their remuneration. The Administrator has delegated the provision of all administrative functions, except those of a corporate secretarial nature, to HSBC Securities Services (Isle of Man) Limited, which is an affiliate of the Administrator.

Investors should note that it is not possible for the Administrator to provide any investment advice to investors.

### **Fees and expenses**

#### ***Formation and initial expenses***

The formation and initial expenses of the Company are those which are necessary for the incorporation of the Company, the Admission and the Placing. These expenses will be met by the Company and paid on or around each Admission out of the Placing proceeds. Such expenses will be written off in the first year of incorporation and will include fees and commissions payable under the Placing Agreement.

Pursuant to the Placing Agreement, Landsbanki will receive a corporate finance fee of £125,000, Landsbanki will receive commission equivalent to 2.5 per cent. of such part of the Gross Proceeds as is attributable to Landsbanki and the Manager (as Co Placing Agent) will receive a commission equivalent to 2.5 per cent. of such part of Gross Proceeds as is attributable to the Manager. In addition, Landsbanki will receive a sponsor’s fee equivalent to 0.25 per cent. of the Gross Proceeds. The fees and other expenses mentioned above and payable under or pursuant to the Placing Agreement are stated exclusive of VAT, if any, payable thereon. Registration and admission fees, printing costs, legal fees and any other applicable expenses will also be payable by the Company. Landsbanki has agreed to waive up to 100 per cent. of the corporate finance fee referred to above if and to the extent the formation and initial expenses of the Company (excluding VAT) in relation to the First Placing would otherwise exceed 3.25 per cent. of the Gross Proceeds.

In aggregate, the Directors do not anticipate that these formation and initial expenses will exceed 3.25 per cent. of the Gross Proceeds of the First Placing.

The Directors anticipate that the costs of the Subsequent Placing will not exceed 3.25 per cent. of the Gross Proceeds of the Subsequent Placing and will primarily comprise of the fees payable under the Placing Agreement in connection with the Subsequent Placing.

Under the Placing Agreement, Landsbanki and the Manager are each entitled, each at their discretion and out of their respective own resources, at any time to rebate to some or all investors, or to other parties, all or part of their respective fees relating to the Placing. Each of Landsbanki and the Manager are also entitled under the Placing Agreement to retain agents and may pay commissions in respect of the Placing to any of those agents out of their respective own resources.

### ***Ongoing Annual Expenses***

The Company will also incur ongoing annual expenses. These expenses will include the following:

#### **(i) *Manager***

Under the terms of the Management Agreement, the Manager will be entitled to a base fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The base fee will be equal to 2.0 per cent. per annum of the Net Asset Value of the Company. The base fee will be calculated at the beginning of each quarter in advance using either: (i) an implied straight line increase in Net Asset Value (excluding Cash) of 10 per cent. per annum on a basis which increases 2.5 per cent. per quarter over the most recently published audited Net Asset Value plus the actual value of all Cash; or (ii) if higher, the most recently published estimated Net Asset Value. As the quarterly calculation will be based either on an implied increase or on an estimated Net Asset Value, following the calculation of the audited Net Asset Value at the end of each financial period, the base fee payable over such financial period will be recalculated and any deficiency will be payable by the Company to the Manager. To the extent that such post-audit recalculation demonstrates that an excess fee has been paid to the Manager, any such amount will be deducted from the payment due to the Manager in respect of the subsequent quarter or quarters, up until the amount equal to the excess has been repaid.

In addition, the Manager will in certain circumstances be entitled to a performance fee in respect of each Calculation Period. The first Calculation Period shall be the period from the initial Admission of the Shares to 31 December 2008 and, thereafter, the Calculation Periods shall be each 12 month period ending on 31 December. The final Calculation Period will end on the date of termination of the Management Agreement.

The performance fee will be payable where the Net Asset Value per Share at the end of the Calculation Period exceeds the Benchmark NAV per Share, which is the figure equal to the High Water Mark NAV per Share increased by 10 per cent. (or, if the period since a performance fee was last paid is not twelve months, an amount equating to an annual rate of 10 per cent.). The High Water Mark NAV per Share, is the Net Asset Value per Share at the end of the last Calculation Period in respect of which a performance fee was paid (or, if no performance fee has previously been paid, the Net Asset Value per Share immediately following initial Admission).

The performance fee per Share will be equal to 20 per cent. of the amount by which the Net Asset Value per Share at the end of the Calculation Period exceeds the High Water Mark NAV per Share, subject to the Net Asset Value per Share never being reduced as a result below the Benchmark NAV per Share.

Further details of the calculation of the performance fee and certain adjustments thereto are set out in paragraph 6.1.2 of Part IV of this prospectus.

The performance fee arrangement may create an incentive for the Manager to make investments which are more speculative or subject to a greater risk of loss than would be the case if no such fee arrangement existed.

Potential investors should note the calculation of the performance fee is based in part upon unrealised profits (as well as affected by unrealised losses) and that such unrealised profits may never be realised by the Company.

(ii) *Administrator and Secretary*

Under the terms of the Administration Agreement, HSBC Securities Services (Guernsey) Limited is entitled to an inception fee of €10,000 (to be waived if the Company successfully raises at least €250 million) and an administration and secretarial fee calculated as a percentage of Net Asset Value from time to time and subject to a minimum of €25,000 per quarter, payable in arrear. The Administrator is also entitled to a transaction fee of €35 per transaction, a minimum termination fee of €5,000 in the event of the termination or liquidation of the Company, and may be entitled to a minimum fee of €10,000 in the event of any future restructuring of the Company. The Administrator is also entitled to a corporate services management fee on a time charge basis, subject to a minimum of €2,000 per calendar month, a fee of €10,000 for the preparation of each set of financial statements and additional fees for any tax related services provided to the Company.

(iii) *Registrar and UK Transfer Agent*

Under the terms of the Registrar Agreement, the Registrar is entitled to an annual maintenance fee of £2.00 per Shareholder account per annum, subject to a minimum fee of £6,500 per annum. The Registrar is also entitled to activity fees under the Registrar Agreement.

(iv) *Directors*

Save for Kimberly Tara (who will not receive a director's fee), each of the Directors is entitled to receive a fee from the Company at such rate as may be determined in accordance with the Articles. Save for the Chairman of the Board and the Chairman of the Audit and Management Engagement Committee, the initial fees will be £15,000 for each Director per annum. The Chairman of the Board's initial fee will be £50,000 per annum which, in the first year, will be satisfied by the issue of Shares in the Company to that value to the Chairman. The Company reserves the right to pay the Chairman's remuneration in Shares in respect of any other year thereafter. Timothy Betley will receive £10,000 of his first year's fee in Shares with the remainder paid in cash. Andrea Rossi will receive his entire first year's fee of £15,000 in Shares. The Chairman of the Audit and Management Engagement Committee will receive an additional £5,000 for his services in that role. All of the Directors will also be entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

(v) *Other Operational Expenses*

Other ongoing operational expenses (excluding fees paid to service providers as detailed above) of the Company will be borne by the Company including travel, accommodation, printing, audit, due diligence and legal fees. These expenses will be deducted from the assets of the Company and are estimated to be in the region of €967,500 per annum based on the assumption that there will be €96.75 million assets under management. All out of pocket expenses of the Manager, the Administrator, the Registrar, the CREST Agent and the Directors relating to the Company will be borne by the Company.

**Conflicts of interest**

The Manager and its officers and employees may from time to time act for other clients or manage other funds, which have a similar or different investment objective and policy to that of the Company. Circumstances may arise where investment opportunities will be available to the Company and which are also suitable for one or more such clients of the Manager or funds. The Directors have satisfied themselves that the Manager has procedures in place to address potential conflicts of interest and that, where a conflict arises, the Manager will allocate the opportunity on a fair basis and in accordance with the contractual provisions described below.

The Manager is required to consult and discuss with the Board and the Company's corporate broker, prior to launch by the Manager, the likely impact on the Company of any new products or fund with the same or a similar investment strategy to the investment strategy of the Company (being investment in water or water-related investments) and until such time as the assets of the Company are at least 80

per cent. invested or committed, obtain the Board's prior written consent to such launch unless the new product or fund agrees that the Company shall have a right of first refusal in respect to any investment opportunities which fall within the Company's investment policy up to the full extent of the Company's available assets at the time of launch of the new product or fund.

The Manager has also agreed that following the launch of any such new product or fund, to the extent that from time to time the Company has any assets which are neither invested nor committed, the Manager shall use a queuing policy that allocates such new product or fund based on a priority system that considers the amount of available capital, level of interest, and date raised with regard to future increases of capital for each vehicle to which the Manager acts as principal, adviser or manager. Under this system, the Manager is to consider the available assets of each vehicle before allocating such opportunities and is to offer the Company and each such vehicle the opportunity to co-invest in any investment opportunities which fall within the Company's and each vehicle's respective investment policies, in each case on a pro-rata basis to the Company's and each such vehicle's then level of uninvested and uncommitted assets.

For the purposes of the contractual provisions detailed above the terms "committed" and "invested" shall have the meanings set out in the Glossary in Part VI of this Prospectus.

### **Corporate governance**

There is no specific corporate governance regime in Guernsey and as a Guernsey registered company, the Company is not required to comply with the Combined Code on Corporate Governance (the "**Combined Code**"). Other than as set out below, the Company currently complies with, and will comply from the initial Admission of the Shares with, the AIC Code of Corporate Governance produced by the Association of Investment Companies and the Combined Code to the extent Directors consider appropriate, having regard to Company's size, stage of development and resources.

Save for departing from the requirement to form a remuneration committee or a nomination committee (since the Company will not have any executive Directors), the Company is not presently aware of any departures from the AIC Code of Corporate Governance or the Combined Code.

### **Audit and Management Engagement Committee**

The Company's Audit and Management Engagement Committee will meet formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and remuneration of the Auditors and to review the Company's annual accounts, interim reports and interim management statements. Where non audit services are to be provided by the Auditor, full consideration of the financial and other implications on the independence of the Auditors arising from any such engagement will be considered before proceeding. The Audit and Management Engagement Committee comprises each of the Directors except Kimberly Tara. Timothy Betley will act as Chairman of the Audit and Management Engagement Committee. The principal duties of the Audit and Management Engagement Committee will be to consider the appointment of external auditors, to discuss and agree with the external auditors the nature and scope of the audit, to keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditors, to review the external auditors' letter of engagement and management letter and to analyse the key procedures adopted by the Company's service providers.

The Committee will also consider the appointment and remuneration of the Manager and of other suppliers of services to the Company.

As all the Directors are non executive, it is not proposed to have a nomination or remuneration committee.

## PART III

### PLACING ARRANGEMENTS

#### **The Placing**

The Company is proposing to raise up to €500 million, before expenses, through a placing, to be undertaken by Landsbanki as Placing Agent with the Manager as Co Placing Agent, of up to 500 million Shares at a Placing Price of €1.00 per Share. The aggregate proceeds of the First Placing, after deduction of expenses are expected to be approximately €60,047,249 on the assumption that Gross Proceeds are not less than €62 million.

The Directors anticipate that the costs of the Subsequent Placing will not exceed 3.25 per cent. of the Gross Proceeds of the Subsequent Placing and will primarily comprise of the fees payable under the Placing Agreement in connection with the Subsequent Placing.

Under the Placing Agreement, Landsbanki and the Manager have each agreed to use their reasonable endeavours to procure subscribers for the Shares at the Placing Price.

The obligations of Landsbanki and the Manager under the Placing Agreement in respect of the First Placing are conditional, among other things, upon Admission of the Shares under the First Placing taking place by 8.00 a.m. on 24 July 2008 (or such later date, being not later than 8.00 a.m. on 1 August 2008, as may be agreed by the Company, Landsbanki and the Manager). The Placing Agreement contains provisions entitling Landsbanki to terminate the Placing Agreement in certain circumstances at any time prior to initial Admission, in which event the Placing will lapse.

In relation to the Subsequent Placing, the Placing Agreement contains provisions entitling Landsbanki to terminate the Placing Agreement in certain circumstances at any time prior to the Admission of Shares issued under the Subsequent Placing, in which event the Second Placing will lapse.

The Placing has not been underwritten by either Landsbanki or the Manager.

Upon Admission of the Shares issued under the First Placing, the interests of the Directors and the Manager will, in aggregate, amount to approximately 6.6 per cent. of the issued share capital of the Company. Details of the Directors' interests in Shares are set out in paragraph 3.1 of Part IV of this prospectus.

Further details of the Placing Agreement are set out in paragraph 6.1.1 of Part IV of this prospectus. Details in relation to the transfer of Shares are set out in paragraph 5.2.7 of Part IV of this prospectus.

500 million Shares of no par value are being marketed and are available under the Placing. Applications under the Placing are not subject to a minimum subscription amount.

The Subsequent Placing is conditional upon (among other things): (i) the Directors exercising their absolute discretion, following consultation with Landsbanki and the Manager, to proceed with the Subsequent Placing; (ii) Admission of the Shares issued under the First Placing; and (iii) Admission of the Shares issued under the Subsequent Placing taking place by 8.00 a.m. on 8 October 2008 (or such later date as may be agreed by the Company, Landsbanki and the Manager). There is no guarantee that the Subsequent Placing will occur.

For its services in connection with the Placing, Landsbanki will be entitled to a placing commission equivalent to 2.5 per cent. of such part of the Gross Proceeds as is attributable to Landsbanki together with a corporate finance fee of £125,000 and a sponsor's fee equivalent to 0.25 per cent. of the Gross Proceeds. For its services as Co Placing Agent the Manager will be entitled to a placing commission equivalent to 2.5 per cent. of such part of the Gross Proceeds as is attributable to the Manager. The fees and other expenses mentioned above and payable under or pursuant to the Placing Agreement are stated exclusive of VAT, if any, payable thereon. Landsbanki has agreed to waive up to 100 per cent. of the corporate finance fee of £125,000 if and to the extent the Company's formation and initial expenses (excluding VAT) would otherwise exceed 3.25 per cent. of the Gross Proceeds of the First Placing.

Under the Placing Agreement, Landsbanki and the Manager are each entitled, each at their discretion and out of their respective own resources, at any time to rebate to some or all investors, or to other parties, all or part of their respective fees relating to the Placing. Each of Landsbanki and the Manager are also entitled under the Placing Agreement to retain agents and may pay commissions in respect of the Placing to any of those agents out of their respective own resources.

### **General**

All applications for Shares at the Placing Price will be payable in full in cash. No commissions will be paid by the Company to any applicants under the Placing. Definitive certificates in respect of Shares in certificated form are expected to be dispatched by post on 7 August 2008, for Shares issued under the First Placing, and on 22 August 2008, for the Shares issued under the Subsequent Placing. Temporary documents of title will not be issued.

### **CREST**

Shares will be issued in registered form and may be held in either certificated or uncertificated form and settled through CREST. Shares issued pursuant to the Placing will be transferred to successful applicants through the CREST system.

It is expected that the Company will arrange for Euroclear to be instructed on 24 July 2008 to credit the appropriate CREST accounts of the subscribers concerned or their nominees, with their respective entitlements to Shares under the First Placing. With respect to the Subsequent Placing, it is expected that the Company will arrange for Euroclear to be instructed on 8 October 2008 to credit the appropriate CREST accounts of the subscribers concerned or their nominees, with the relevant entitlements to Shares.

The names of subscribers or their nominees investing through their CREST accounts will be entered directly on to the share register of the Company.

### **Dealings**

It is expected that dealings in the Shares issued under the First Placing will commence on the London Stock Exchange on 24 July 2008.

In respect of the Subsequent Placing, commitments under such a Placing must be received on or before 30 September 2008. It is expected that the basis of any allocation under the Subsequent Placing will be announced through a regulatory information service on or before 6 October 2008. It is also anticipated that allotment of any Shares under the Subsequent Placing will occur on or before 6 October 2008 and that dealings in such Shares will commence by 8 October 2008.

Any dealings in Shares in advance of the crediting of the relevant stock account would be at the risk of the person concerned.

The ISIN number and SEDOL code for the Shares are GG00B39T7V85 and B39T7V8 respectively.

### **Settlement**

Payment for Shares issued under the Placing should be made through Landsbanki, in accordance with settlement instructions to be notified to places by Landsbanki. To the extent that any application is rejected in whole or in part, monies received will be returned without interest at the risk of the applicant.

### **Transfer of Shares**

The transfer of Shares within the CREST system following the Placing should be arranged directly through CREST. However, an investor's beneficial holding held through the CREST system may be exchanged, in whole or in part, only upon the specific request of a beneficial owner to CREST for share certificates or an uncertificated holding in definitive registered form. If a Shareholder or transferee

requests Shares to be issued in certificated form and is holding such Shares outside CREST, a share certificate will be despatched either to him or his nominated agent (at his risk) within 21 days of completion of the registration process or transfer, as the case may be, of the Shares. Shareholders holding definitive certificates may elect at a later date to hold such Shares through CREST or in uncertificated form provided they surrender their definitive certificates.

Pursuant to anti money laundering laws and regulations with which the Company must comply in the UK and/or Guernsey, the Company and its agents or the Manager will require evidence in connection with any application for Shares, including further identification of the applicant(s), before any Shares are issued.

Investors should also have regard to the provisions set out in paragraph 5.2.7 of Part IV of this prospectus.

### **Overseas persons**

The attention of potential investors who are not resident in, or who are not citizens of, the United Kingdom and Guernsey is drawn to the paragraphs below.

The offer of Shares under the Placing to persons who are resident in, or citizens of, countries other than the United Kingdom and Guernsey (“Overseas Investors”) may be affected by the laws of the relevant jurisdictions. Such persons should consult their professional advisers as to whether they require any government or other consents or need to observe any applicable legal requirements to enable them to subscribe for Shares under the Placing. It is the responsibility of all Overseas Investors receiving this document and/or wishing to subscribe for Shares under the Placing to satisfy themselves as to full observance of the laws of the relevant territory in connection therewith, including obtaining all necessary governmental or other consents that may be required and observing all other formalities needing to be observed and paying any issue, transfer or other taxes due in such territory.

No person receiving a copy of this prospectus in any territory other than the United Kingdom or Guernsey may treat the same as constituting an offer or invitation to him/her, unless in the relevant territory such an offer can lawfully be made to him/her without compliance with any further registration or other legal requirements.

Persons (including, without limitation, nominees and trustees) receiving this prospectus should not distribute or send it to any US Person or in or into the United States or any other jurisdiction where to do so would or might contravene local securities laws or regulations. In particular, investors should note that the Company has not, and will not be, registered under the Investment Company Act and the offer, issue and sale of the Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States. Accordingly, the Shares are only being offered and sold outside the United States to non-US persons in reliance on the exemption from registration provided by Regulation S. The Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, any US Person.

Investors should additionally consider the provisions set out in paragraph 5.2.7 of Part IV of this prospectus.

In addition, until 40 days after the commencement of the Placing, an offer or sale of the Shares within the United States by any dealer (whether or not participating in the Placing) may violate the registration requirements of the Securities Act.

The Company reserves the right to treat as invalid any agreement to subscribe for Shares under the Placing if it appears to the Company or its agents to have been entered into in a manner that may involve a breach of the securities legislation of any jurisdiction.

### **United States transfer restrictions**

Each of Landsbanki and the Manager has acknowledged and warranted in the Placing Agreement that it will not offer or sell or procure the offer or sale of the Shares except in compliance with Regulation S.

The Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States. Accordingly, investors may not reoffer, resell, pledge or otherwise transfer or deliver, directly or indirectly, within the United States, or to, or for the account or benefit of, any US Person except in transactions that are exempt from registration under the Securities Act and under circumstances which will not require the Company to register as an investment company under the Investment Company Act.

The Shares are being offered and sold outside the United States to non US persons in reliance on Regulation S.

The Company has not, and will not be, registered under the Investment Company Act.

Investors should also note the provisions set out in paragraph 5.2.7 of Part IV of this prospectus.

## PART IV

### ADDITIONAL INFORMATION

#### 1. Incorporation and administration

- 1.1 The Company was incorporated with limited liability in Guernsey under the Companies Laws (Guernsey) 1994 as amended on 12 June 2008 with registered number 49038 as a closed ended investment fund. The registered office and principal place of business of the Company is Arnold House, St. Julians Avenue, St Peter Port, Guernsey GY1 3NF and the telephone number is +44 (0) 1481 707 000. The Company operates under the Companies Law and ordinances and regulations made thereunder and has no subsidiaries or employees.
- 1.2 The Directors confirm that the Company has not commenced operations and no accounts of the Company have been made up since its incorporation on 12 June 2008. Therefore, no financial information has been included in this document. The Company's accounting period will terminate on 31 December of each year, with the first period end on 31 December 2008.
- 1.3 Save for its entry into the material contracts summarised in paragraph 6 of this Part IV and certain non material contracts, since its incorporation the Company has not carried on business nor traded nor incurred borrowings or indebtedness and has not granted any mortgages or charges over any property and has not provided any guarantees. The Company has applied for a certificate from H.M. Greffier in Guernsey entitling it to commence business and exercise borrowing powers.
- 1.4 Changes in the authorised and issued share capital of the Company since incorporation are summarised in paragraph 2 of this Part IV.
- 1.5 The Guernsey office of Ernst & Young LLP has been the only auditor of the Company since its incorporation. Ernst & Young LLP is a member of the Institute of Chartered Accountants of England & Wales. The annual report and accounts will be prepared according to United States Generally Accepted Accounting Principles. The values of the assets in the Portfolio will be determined in accordance with United States Generally Accepted Accounting Principles and (if applicable and to the extent consistent with International Financial Reporting Standards) in accordance with the International Private Equity and Venture Capital Valuation Guidelines (October 2006 edition, and any revision thereto).
- 1.6 There has been no significant change in the trading or financial position of the Company since its incorporation.

#### 2. Share capital

- 2.1 The authorised share capital of the Company on incorporation was represented by an unlimited number of ordinary shares of no par value. At incorporation, 2 ordinary shares were subscribed for by the subscribers to the Memorandum of Incorporation. The maximum issued share capital of the Company (all of which will be fully paid) immediately following initial Admission will be 500 million Shares.
- 2.2 The Directors are entitled to allot Shares immediately following the Placing for cash or otherwise. Neither the Companies Law nor the Articles confer any rights of pre-emption in favour of existing Shareholders in respect of such unissued share capital.
- 2.3 Subject to the exceptions set out in paragraph 5.2.7 of this Part IV, Shares are freely transferable and Shareholders are entitled to participate (in accordance with the rights specified in the Articles) in the assets of the Company attributable to their Shares in a winding up of the Company or a winding up of the business of the Company.
- 2.4 Save as disclosed in this paragraph 2, since the date of its incorporation, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, either for cash or any other consideration and no commissions, discounts, brokerages or other special

terms have been granted by the Company in connection with the issue or sale of any such capital. No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

- 2.5 All of the Shares will be in registered form and eligible for settlement in CREST. Temporary documents of title will not be issued.

### 3. Directors' and other interests

- 3.1 Insofar as is known to the Company, the interests of each Director, including any connected person, the existence of which is known to, or could with reasonable diligence be ascertained by, that Director whether or not held through another party, in the share capital of the Company immediately following the First Placing are set out below. All such Shares allotted and issued will be beneficially held by such Directors unless otherwise stated.

<i>Director</i>	<i>Value of Shares subscribed</i>	<i>Percentage (%)</i>
Hasan Askari	£50,000	0.12
Andrea Rossi	£15,000	0.04
Timothy Betley	£10,000	0.02
Kimberly Tara*	€3,985,000	6.42

\*The interest of Kimberly Tara who is a shareholder and officer of the Manager is in respect of the Shares acquired by the Manager in the Placing, as set out in paragraph 3.11 of this Part IV.

- 3.2 As at the date hereof, in so far as is known to the Company, the following persons will, immediately following the First Placing, be directly or indirectly interested in 5 per cent. or more of the Company's capital.

<i>Name</i>	<i>Shares</i>	<i>Percentage (%)</i>
West Midlands Metropolitan Authorities Pension Fund	18,600,000	29.97
Bank Pension	10,000,000	16.11
Fortis Insurance Belgium	10,000,000	16.11
Kredietbank Luxembourg	5,553,590	8.95
FourWinds Capital Management	3,985,000	6.42
Smith & Williamson	2,000,000	3.22
South Yorkshire Pensions Authority	2,000,000	3.22

On Admission, none of the Shareholders will have voting rights attached to the shares they hold which are different from the voting rights attached to any other Shares in the Company. There will be no voting rights attached to any treasury Shares held at any time by the Company.

- 3.3 The aggregate remuneration and benefits in kind of the Directors in respect of the Company's accounting period ending on 31 December 2008 which will be payable out of the assets of the Company are not expected to exceed £90,000. Each of the Directors (other than Kimberly Tara, who will not receive a fee, the Chairman and the Chairman of the Audit and Management Engagement Committee) will initially receive £15,000 per annum. The Chairman of the Board's initial fee will be £50,000 per annum which, in the first year, will be satisfied by the issue of Shares in the Company to that value to the Chairman. The Company reserves the right to pay the Chairman's remuneration in Shares in respect of any other year thereafter. Andrea Rossi will receive his entire first year's fee of £15,000 in Shares. Timothy Betley will receive £10,000 of his first year's fee in Shares, with the remainder paid in cash. The Chairman of the Audit and Management Engagement Committee will receive an additional £5,000 per annum for his services in that role.
- 3.4 No Director has a service contract with the Company, nor are any such contracts proposed, each Director having been appointed pursuant to a letter of appointment entered into with the Company. The Directors' appointments can be terminated in accordance with the Articles of

Incorporation and without compensation. There is no notice period specified in the letters of appointment or Articles of Incorporation for the removal of Directors. The Articles of Incorporation provide that the office of Director shall be terminated by, among other things: (i) written resignation; (ii) unauthorised absences from board meetings for 12 months or more; (iii) written request of the other Directors; and (iv) a resolution of a majority of the Shareholders eligible to vote. Kimberly Tara's letter of appointment also provides that she will retire and offer herself for re election at each annual general meeting of the Company.

- 3.5 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company.
- 3.6 Kimberly Tara works full time for the Manager and is an officer of and a shareholder of the Manager.
- 3.7 Save for the interest of Kimberly Tara in the Manager and, therefore, in the Management Agreement, none of the Directors has, or has had, an interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company or which has been effected by the Company since its incorporation.
- 3.8 Save as disclosed in this paragraph 3 there are no potential conflicts of interest between the duties the directors of the Company or any committee thereof owe to the Company and their private interests or other duties.
- 3.9 In addition to their directorships of the Company, the Directors hold or have held the following directorships, and are or were members of the following partnerships, over or within the past five years:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Hasan Askari	Kotak Mahindra Old Mutual Life Insurance Company Limited Kotak Mahindra (UK) Limited Fairbairn Private Bank Limited Fairbairn Private Bank (IOM) Limited Skandia-BSAM Life Insurance Company Limited	Australian Skandia Limited Bright Capital Limited Central Capital Acquisitions Limited Gerrard Investment Management Limited Gerrard Management Services Limited Great Ormond Street Hospital NHS Trust Intech Pty Limited Intech Fiduciaries Limited Intech Research Pty Limited Old Mutual Asset Managers (UK) Limited Old Mutual Asset Managers Holdings (UK) Limited Old Mutual Australia Pty Limited Old Mutual Australia Holdings Pty Limited Old Mutual Financial Services (UK) plc Old Mutual (US) Holdings Inc Old Mutual Fund Managers Limited Old Mutual UK Holdings Limited OMFS Central Services Limited OMFS (GGP) Limited OMFS (GVG) Limited Selestia Holdings Limited Selestia Investments Limited Selestia Life & Pensions Limited

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Hasan Askari (continued)		Selestia Nominee Limited Selestia Services Limited Sandlord Limited The Turquoise Mountain Trust Thornhill Holdings Limited
Andrea Rossi	AXA Italia SpA AXA Assicurazioni SpA AXA Interlife SpA AXA Carlink SpA AXA MPS vita SpA AXA MPS danni SpA AXA Insurance EC AXA Gulf BSC AXA KSA BSC AXA Middle East	AXA Seguros Espana AXA Seguros Portugal Direct Seguros (Espana) AXA Seguros Argentina AXA Seguros Brazil AXA BCI Seguros (Chile) AXA Assurances Maroc AXA ONA (maroc) AXA OYAK (Turkey) AXA Group Solutions
Timothy Betley	Addison Properties Limited Al Shams Continuation Limited Al Shams Holdings Limited Arkesden Aviation Limited The Bubbly Company Limited Canaletto Holdings Limited Canaletto Partners Limited Capital Generation Capital Limited Capital Generation Limited Dr Teuffel & Associates (International) Limited Dr Teuffel & Associates (Research & Consulting) Limited Font Management Limited Glympton Park Holdings Limited Glympton Services (Jersey) Limited Gulf Mining & Minerals (Holdings) Limited Gulf Mining & Minerals (International) Limited HFT Guernsey Limited HFT International Limited Lake Grace Limited Magna Holdings Limited Magna Services International Limited Novastel Limited Private & Corporate Trustees Limited PTC Trustees Limited Safingest International SA Safinvest Holdings (Bermuda) Limited Samar Telecommunications Limited SAMBL Limited SIL Limited SKO Investments International Limited TCCI Fund Services Limited Trust Corporation of the Channel Islands Limited Wahid Investments Limited Winstar Limited Yorkshire Guernsey Limited Yorksafes Insurance Co Limited Zenobia Maritime Limited	Bank Sarasin (Guernsey) Limited Close Trustees (Guernsey) Limited Just Forex Fund Limited Magna Holdings International Limited Magna Petrochemicals Limited Sagitta Aegis Fund

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Kimberly Tara	Ceres Agricultural Fund Limited Eco Integration Indonesia Limited FourWinds Capital Management Phaunos Timber Fund Limited Zephyr Commodity Fund	Sention Inc. Triton Water Fund

3.10 At the date of this prospectus:

3.10.1 none of the Directors has any convictions in relation to fraudulent offences for at least the previous five years;

3.10.2 none of the Directors was a director of a company, a member of an administrative, management or supervisory body or a senior manager of a company within the previous five years which has entered into any bankruptcy, receivership or liquidation proceedings; and

3.10.3 none of the Directors has been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.

3.11 The Manager intends to subscribe for Shares to the value of €3,985,000 at the Placing Price pursuant to the Placing.

3.12 The Company will maintain directors' and officers' liability insurance on behalf of the Directors at the expense of the Company.

3.13 The Company is not aware of any person who directly or indirectly, jointly or severally, exercises or, immediately following the Placing, could exercise control over the Company.

3.14 No members of the Administrator or the Manager have any service contracts with the Company.

## **4. Taxation**

### ***General***

The information below, which relates only to United Kingdom and Guernsey taxation, summarises the advice received by the Board and is applicable to the Company and to persons who are resident or ordinarily resident in the United Kingdom or Guernsey for taxation purposes and who hold absolute beneficial title to Shares in the Company as an investment. It is based on current United Kingdom and Guernsey revenue law and published practice, respectively, any of which law or practice is, in principle, subject to any subsequent changes therein.

**Potential investors who are in any doubt about their tax position, or may be subject to tax in a jurisdiction other than the United Kingdom or Guernsey, should consult their professional adviser.**

### ***United Kingdom***

#### ***(i) The Company***

It is intended that the Company will be managed and controlled in such a way that it should not be resident in the United Kingdom for United Kingdom tax purposes. Accordingly, and provided that the Company does not carry on a trade in the United Kingdom (whether or not through a branch or agency situated there), the Company will not be subject to United Kingdom income tax or corporation tax other than on certain types of United Kingdom sourced income.

(ii) *Shareholders*

*Capital Gains Tax*

The Directors have been advised that the Company should not be an offshore fund for the purposes of United Kingdom taxation and the provisions of Chapter V of Part XVII of the Taxes Act should not apply. Accordingly, Shareholders (other than those holding Shares as dealing stock, who are subject to separate rules) who are resident or ordinarily resident in the United Kingdom, or who carry on business in the United Kingdom through a branch, agency or permanent establishment with which their investment in the Company is connected, may, depending on their circumstances and subject as mentioned below, be liable to United Kingdom tax on capital gains realised on the disposal of their Shares. Investors should be aware that the offshore funds regime is currently the subject of a consultation by the United Kingdom Government, which is proposing to change the definition of offshore fund and to revise the offshore funds regime. Draft regulations revising the offshore funds regime have been published and the UK Government has stated that, subject to responses, it intends to lay the regulations towards the end of the year with a view to the modernised regime coming into effect in spring 2009. It is not currently clear whether the Shares would fall within the scope of the proposed new offshore funds regime.

A disposal of Shares by a Shareholder who is resident or, in the case of an individual, ordinarily resident in the United Kingdom for United Kingdom tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains or capital gains, depending on the Shareholder's circumstances and subject to any available exemption or relief. Investors who are individuals should be aware that taper relief has been abolished for disposals after 5 April 2008 and instead capital gains tax will be charged at a flat rate of 18 per cent. on gains realised on any disposal after that date. Individuals may still benefit from other reliefs and allowances (including a personal annual exemption allowance, which presently exempts the first £9,600 of gains from tax) depending on their circumstances. Shareholders which are bodies corporate resident in the United Kingdom for taxation purposes will benefit from indexation allowance which, in general terms, increases the capital gains tax base cost of an asset in accordance with the rise in the retail prices index.

*Stamp duty and Stamp Duty Reserve Tax ("SDRT")*

Generally, no United Kingdom stamp duty or SDRT is payable on a transfer of or agreement to transfer Shares provided nothing is done in relation to such transfer, or agreement to transfer, in the United Kingdom and the Shares are not registered in a register kept in the United Kingdom by or on behalf of the Company.

*ISAs and PEPs*

Investors are recommended to consult their professional tax and or investment advisers in relation to the eligibility of the Shares for savings schemes.

Shares allotted under the Placing are not eligible for direct transfer into an ISA. Shares acquired in the secondary market (after the Placing) may be eligible for inclusion in a stocks and shares ISA, although the account manager should be asked to confirm ISA eligibility. From 6 April 2008, mini and maxi ISAs no longer exist. Instead, investors will be able to invest in two separate ISAs each tax year: a cash ISA and a stocks and shares ISA. The annual ISA investment allowance is currently £7,200 per tax year. Up to £3,600 of that allowance can be invested as cash with one provider. The remainder of the £7,200 can be invested in a stocks and shares ISA with either the same or another provider.

From 6 April 2008, all PEP accounts automatically become stocks and shares ISAs.

*Other United Kingdom Tax Considerations*

United Kingdom resident companies having an interest in the Company, such that 25 per cent. or more of the Company's profits for an accounting period could be apportioned to them, may be liable to United Kingdom corporation tax in respect of their share of the Company's undistributed profits, if any, in accordance with the provisions of Chapter IV of Part XVII of the Taxes Act relating to controlled foreign companies. These provisions only apply if the Company

is controlled by United Kingdom residents. Investors should be aware that the controlled foreign companies regime is the subject of a consultation, which may result in the regime being reformed. The likely date for implementation of any resulting legislative changes has been stated as being Finance Bill 2009.

Individuals ordinarily resident in the United Kingdom should note that Chapter 2 of Part 13 of the ITA, which contains provisions for preventing avoidance of income tax by transactions resulting in the transfer of assets to a person (including a company) abroad, which result in income becoming payable to a person abroad, may render them liable to taxation in respect of any undistributed income and profits of the Company.

The attention of Shareholders resident or ordinarily resident in the United Kingdom and, if an individual, domiciled in the United Kingdom is drawn to the provisions of section 13 of the Taxation of Chargeable Gains Act 1992 under which, in certain circumstances, a portion of capital gains made by the Company can be attributed to a Shareholder who is resident or ordinarily resident in the United Kingdom and, if an individual, domiciled in the United Kingdom, and who holds, alone or together with associated persons, more than 10 per cent. of the Shares. Legislation proposed to have effect from 6 April 2008 would, if enacted, mean that Section 13 may apply to individual Shareholders who are resident or ordinarily resident in the United Kingdom but not domiciled in the United Kingdom.

If dividend payments are made to Shareholders then, according to their personal circumstances, Shareholders resident in the United Kingdom for taxation purposes will be liable to income tax or corporation tax in respect of any dividends or other income distributions of the Company. Legislation proposed to have effect from 6 April 2008 would, if enacted, entitle an individual Shareholder resident in the United Kingdom for tax purposes who receives a dividend from the Company to claim a non-payable tax credit of one ninth of the dividend paid, provided the individual owns less than a 10 per cent. shareholding in the Company and the Company is not an offshore fund for the purposes of United Kingdom taxation.

United Kingdom resident companies holding Shares should be aware of the provisions in the Finance Act (No 2) 2005, which, if they were to apply, would require such companies to treat the Shares as if they were loan relationships for the purposes of the Finance Act 1996.

### **Guernsey**

Guernsey currently does not levy taxes upon capital inheritances, capital gains (with the exception of a dwellings profit tax) gifts, sales or turnover, nor are there any estate duties, save for an *ad valorem* fee for the grant of probate or letters of administration. Document duty is payable on the creation or increase of authorised share capital at the rate of one half of one per cent. of the nominal value of the authorised share capital of a company incorporated in Guernsey up to a maximum of £5,000 in the lifetime of a company. In the case of a Guernsey company which is a closed ended investment company with an authorised share capital consisting of shares of no par value, such as the Company, the document duty is set at a flat rate of £2,000. No stamp duty is chargeable in Guernsey on the issue, transfer, switching or redemption of shares in the Company.

The Company is eligible for exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and has been granted tax exempt status by the Administrator of Income Tax in Guernsey for the year ended 31 December 2008. The Company will need to reapply annually for exempt status for Guernsey tax purposes, incurring the current fee of £600 per annum.

As exempt status has been granted, the Company will not be considered resident for Guernsey income tax purposes. A company that has exempt status for Guernsey tax purposes is exempt from tax in Guernsey on both bank deposit interest and any income that does not have its source in Guernsey. It is not anticipated that any income other than bank deposit interest will arise in Guernsey and therefore the Company is not expected to incur any additional liability to Guernsey tax.

Payments of dividends and interest by a company that has exempt status for Guernsey tax purposes are regarded as having their source outside Guernsey and hence are payable without deduction of tax in Guernsey.

In the absence of an exemption, the Company would be treated as resident in Guernsey for Guernsey income tax purposes and subject to the zero rate regime described below.

In response to the review carried out by the European Union Code of Conduct Group, the Policy Council of the States of Guernsey has agreed to abolish exempt tax status for the majority of companies and to introduce a zero rate of tax for companies carrying all but a few specified types of regulated business. In the absence of an exemption, the Company would become Guernsey tax resident subject to the zero rate of tax in Guernsey. Under this regime, the Company would not be required to withhold Guernsey income tax from interest or dividends paid by them other than in respect of distributions to Guernsey resident individuals.

The States of Guernsey Administrator of Income Tax has agreed that because closed ended investment vehicles are not one of the regimes in Guernsey classified by the EU Code of Conduct Group as being harmful, closed ended investment vehicles will continue to be able to apply for exempt status for Guernsey tax purposes. As the Company has been granted and will continue annually to apply for exempt tax status, the changes introduced by the zero tax regime are not expected to have a material impact on the Company.

The Policy Council of the States of Guernsey has stated that it may consider further revenue raising measures in 2011/2012, including possibly the introduction of a goods and services tax, depending on the state of Guernsey's public finances at that time.

#### *EU Savings Tax Directive*

Guernsey has introduced measures equivalent to the EU Savings Directive. However, closed ended funds established in Guernsey are outside the scope of those measures as they are not considered "UCITS equivalent" and therefore payments made by closed ended investment funds are not subject to the terms of the Directive or its equivalent measures.

#### *The Shareholders*

Any Shareholders who are resident for tax purposes in Guernsey, Alderney or Herm will incur Guernsey income tax on any dividend paid on Shares owned by them but will suffer no deduction of tax by the Company from any such dividends payable by the Company where the Company is granted exempt status. The Company is required to provide details of distributions made to Shareholders resident in the Islands of Guernsey, Alderney and Herm to the Administrator of Income Tax in Guernsey. Shareholders resident outside Guernsey will not be subject to any tax in Guernsey in respect of any Shares owned by them.

**If any Shareholder is in doubt as to his taxation position, he is strongly recommended to consult an independent professional adviser without delay.**

## **5. Memorandum and Articles of Incorporation**

5.1 The Memorandum of Incorporation of the Company provides for unlimited objects. Copies of the Memorandum of Incorporation, copies of which are available for inspection at the addresses specified in paragraph 16 of this Part IV.

5.2 The Articles of Incorporation contain provisions, among others, to the following effect:

### *5.2.1 Shares Generally*

- (i) The share capital is represented by an unlimited number of ordinary shares of no par value which are divided into a single class having the rights hereinafter described.
- (ii) Shareholders shall have the following rights:

#### *Dividends*

Shareholders (except for the holders of treasury shares, who shall have no such right) are entitled to receive, and participate in, any dividends or other distributions of the

Company available for distribution and resolved to be distributed in respect of any accounting period or other income or right to participate therein.

#### *Voting*

The Shareholders (except for the holders of treasury shares, who shall have no such right) shall have the right to receive notice of, and to attend and vote at, general meetings of the Company and each holder of Shares being present in person or by attorney at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by attorney shall have one vote in respect of each Share held by him.

- (iii) Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or restrictions whether as to dividend, voting, return of capital or otherwise as the Board may determine to the fullest extent permitted by Sections 292 and 293 of the Companies Law and, to the extent that the time limit imposed by Section 292(3)(b)(i) remains legally applicable such authority shall expire five (5) years after the date of incorporation or such later date as may be legally permissible. This authority may be further extended in accordance with the provisions of the Companies Law.
- (iv) Subject to the provisions of the Companies Law, the terms and rights attaching to any class of shares, the Articles and any guidelines established from time to time by the Directors, the Company may from time to time purchase or enter into a contract under which it will or may purchase any of its own shares. The making and timing of any buy back will be at the absolute discretion of the Directors.
- (v) If at any time the share capital is divided into further classes of shares the rights attached to any class (unless otherwise provided by the terms of issue and excluding treasury shares) may whether or not the Company is being wound up, be varied with the consent in writing of the holders of three fourths of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class.

#### 5.2.2 *Duration*

The Company will have an unlimited life, subject to a requirement to propose a resolution for the Company to continue in its present form at the annual general meeting following the tenth anniversary of the initial Admission of the Shares and every three years thereafter.

#### 5.2.3 *Winding up*

- (i) On a winding up the surplus assets remaining after payment of all creditors shall be divided amongst the holders of Shares then in issue (except for the holders of treasury shares), subject in any such case to the rights of any Shares which may be issued with special rights or privileges.
- (ii) On a winding up the liquidator may, with the authority of a special resolution, divide amongst the members (excluding the holders of treasury shares) in specie any part of the assets of the Company, whether or not the assets consist of a property of a single kind and may set such value as he deems fair upon any one or more class or classes of property, and may determine the method of division of such assets between members. The liquidator may with like authority vest any part of the assets in trustees upon such trusts for the benefit of members (except for the holders of treasury shares) as he shall think fit but no member shall be compelled to accept any shares or other assets in respect of which there is any liability.
- (iii) Where the Company is proposed to be, or is in the course of being, wound up and the whole or part of its business or property is proposed to be transferred or sold to another company the liquidator may, with the sanction of an ordinary resolution, conferring either a general authority on the liquidator or an authority in respect of any particular arrangements receive in compensation, or part compensation for the

transfer or sale, shares, policies or other like interest in the transferee for distribution or may enter into any other arrangements whereby the members may, in lieu of receiving cash, shares policies, or other like interests, participate in the profits of, or receive any other benefit from, the transferee.

#### 5.2.4 *Notice Requiring Disclosure of Interest in Shares*

The Directors shall have power by notice in writing to require any member to disclose to the Company the identity of any person other than the member (an interested party) who has any interest in the shares held by the member and the nature of such interest.

Any such notice shall require any information in response to such notice to be given in writing within the prescribed period (which is 28 days after the service of the notice, or 14 days if the shares concerned represent 0.25 per cent. or more in value of the issued shares of the relevant class). The Directors may be required to exercise their powers under the relevant Article on a requisition of members (except the holders of treasury shares) holding not less than 1/10th of the paid up capital of the Company that at that date carries voting rights. If any member is in default in supplying to the Company the information required by the Company within the prescribed period (which is 28 days after service of the notice or 14 days if the shares concerned represent 0.25 per cent. or more in value of the issued shares of the relevant class), the Directors in their absolute discretion may serve a direction notice on the member. The direction notice may direct that in respect of the shares in respect of which the default has occurred (the “default shares”) and any other shares held by the member, the member shall not be entitled to vote in general meetings or class meetings. Where the default shares represent at least 0.25 per cent. of the class of shares concerned, the direction notice may additionally direct that dividends on such shares will be retained by the Company (without interest) and that no transfer of the default shares (other than a transfer authorised under the Articles) shall be registered until the default is rectified.

#### 5.2.5 *Dividends*

Subject always to the Companies Law:

- (i) Subject to compliance with Section 304 of the Companies Law, the Board may if it thinks fit at any time declare and pay such annual or interim dividends (save in respect of shares held as treasury shares) as appear to be justified by the position of the Company. The Board may also declare and pay any fixed dividend which is payable in any shares of the Company half-yearly or otherwise on fixed dates whenever the position in the opinion of the Board so justifies.
- (ii) No dividend shall be paid in excess of the amounts permitted by the Companies Law.
- (iii) Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall be declared and paid pro rate according to the number of shares held by each member.
- (iv) The Board may carry forward any profits which it thinks prudent not to distribute by dividend.
- (v) The Board may deduct from any dividend payable to any Shareholder on or in respect of a share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.
- (vi) The Board may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the liabilities or obligations in respect of which the lien exists.
- (vii) The Board may retain dividends payable upon shares in respect of which any person is entitled to become a Shareholder until such person has become a Shareholder.
- (viii) Any dividend, interest or other moneys payable in cash in respect of shares entitled to receive dividends may be paid by cheque or warrant sent through the post at the risk of the person entitled to the money represented thereby to the registered address of the holder or in the case of joint holders to the registered address of that one of

the joint holders who is first named on the Register. Any one of two or more joint holders may give effectual receipts for any dividends, interest, bonuses or other moneys payable in respect of their joint holdings.

- (ix) No dividend or other moneys payable on or in respect of a share shall bear interest against the Company.
- (x) All unclaimed dividends may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of twelve years after having been declared or became due for payment shall be forfeited and shall revert to the Company.

#### 5.2.6 *Commission*

The Company may pay commission in money or shares to any person in consideration for his subscribing or agreeing to subscribe whether absolutely or conditionally for any shares in the Company or procuring or agreeing to procure subscriptions whether absolute or conditional for any shares in the Company provided that the rate or amount of commission shall be fixed by the Directors. The Company may also pay brokerages.

#### 5.2.7 *Transfer of Shares*

The Articles are subject to, and do not limit or restrict the Company's powers to transfer shares in accordance with the Uncertificated Securities (Enabling Provisions) (Guernsey) Law, 2005 and any legislation or rules enacted in respect of it.

The Articles provide that the Directors may implement such arrangements as they may think fit in order for any class of shares to be admitted to settlement by means of the CREST system. If the Directors implement any such arrangements no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

- (i) the holding of shares of that class in uncertificated form;
- (ii) the transfer of title to shares of that class by means of the CREST system; or
- (iii) the CREST Guernsey Requirements.

Where any class of shares is, for the time being, admitted to settlement by means of the CREST system such securities may be issued in uncertificated form in accordance with and subject as provided in the CREST Guernsey Requirements. Unless the Directors otherwise determine, such securities held by the same holder or joint holders in certificated form and uncertificated form shall be treated as separate holdings. Such securities may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with and subject as provided in the CREST Guernsey Requirements. Title to such of the shares as are recorded on the register as being held in uncertificated form may be transferred only by means of the CREST system and as provided in the CREST Guernsey Requirements. Every transfer of shares from a CREST account of a CREST member to a CREST account of another CREST member shall vest in the transferee a beneficial interest in the shares transferred, notwithstanding any agreements or arrangements to the contrary, however and whenever arising and however expressed.

Subject to such of the restrictions of the Articles as are described in this paragraph 5, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Directors may approve. The instrument of transfer of a share shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The Directors may refuse to register a transfer of any share in certificated form which is not fully paid up or on which the Company has a lien provided that this would not prevent dealings from taking place on an open and proper basis. The Directors may also refuse to register any transfer of certificated shares which is prohibited by the provisions described above, or any transfer of shares unless such transfer is in respect of only one class of shares, is in favour of a single transferee or no more than four joint transferees, is delivered for registration to the registered office or such other place as the Directors may decide, and is accompanied by

the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

Subject to such of the restrictions of the Articles as are described in this paragraph 5, any member may transfer all or any of his uncertificated shares by means of a relevant system authorised by the Directors in such manner provided for, and subject as provided, in any regulations issued for this purpose under the Companies Law or such as may otherwise from time to time be adopted by the Directors on behalf of the Company and the rules of any relevant system and accordingly no provision of the Articles shall apply in respect of an uncertificated share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the shares to be transferred.

Subject to the provisions of the CREST Guernsey Requirements, the registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided that such suspension shall not be for more than 30 days in any year.

No transfer to any person, without the consent of the Directors, will be registered if it would (a) give rise to an obligation on the Company to register as an “investment company” under the Investment Company Act; or (b) give rise to an obligation on the Company to register any class of securities under the Securities Exchange Act of 1934, as amended (each such person, a “Prohibited Person”).

If at any time (a) a Prohibited Person is a beneficial owner of Shares; (b) the aggregate number of US residents who are beneficial owners of Shares (which shall include beneficial ownership by attribution pursuant to section 3(c)(1) of the Investment Company Act) (being referred to as “US-held Shares”) is more than 80 or (c) the holding or beneficial ownership of any Shares would (whether on its own or taken with other Shares), in the opinion of the Directors, cause the assets of the Company to be considered “plan assets” within the meaning of the plan asset regulations 29 C.F.R. § 2510.3 101 adopted by the United States Department of Labor under the Employee Retirement Income Security Act of 1974, as amended, then any Shares which the Directors decide are Shares which are held or beneficially owned by a Prohibited Person or are held or beneficially owned as referred to in (b) and (c) above (together, “Prohibited Shares”) must be dealt with in accordance with the paragraph below. The Directors may at any time give notice in writing to the holder of a Share requiring him to make a declaration as to whether or not the Share is a US-held Share or a Prohibited Share.

The Directors shall give written notice to the most recently registered holder of any share which appears to them to be a Prohibited Share requiring him within 21 days (or such extended time as the Directors consider reasonable) to transfer and/or procure the disposal of interests in such Share to another person so that it will cease to be a Prohibited Share. From the date of such notice until registration for such a transfer or a transfer arranged by the Directors as referred to below, the share will not confer any right on the holder to receive notice of or to attend and vote at general meetings of the Company and of any class of Members and those rights will vest in the Chairman of any such meeting, who may exercise or refrain from exercising them entirely at his discretion. If the notice is not complied with within 21 days to the satisfaction of the Directors, the Directors shall arrange for the Company to sell the share at the best price reasonably obtainable to any other person so that the share will cease to be a Prohibited Share. The net proceeds of sale (with interest at such rate as the Directors consider appropriate) shall be paid over by the Company to the former holder upon surrender by him of the relevant share certificate.

#### 5.2.8 *Alteration of Capital and Purchase of Shares*

The Company may by ordinary resolution: consolidate all or any of its share capital into shares of larger amount than its existing Shares; subdivide all or any of its shares into shares of a smaller amount than is fixed by the Memorandum of Incorporation of the Company; cancel any shares which at the date of the resolution have not been taken or agreed to be taken and diminish the amount of its authorised share capital by the amount

of shares so cancelled; convert all or any of its shares the nominal amount of which is expressed in a particular currency or former currency into shares of a nominal amount of a different currency, the conversion being effected at the rate of exchange (calculated to not less than three (3) significant figures) current on the date of the resolution or on such other day as may be specified therein; or where its share capital is expressed in a particular currency or former currency, denominate or redenominated it whether by expressing its amount in units or subdivisions of that currency or former currency, or otherwise.

The Company may reduce its share capital, any capital account or any share premium account in any manner and with and subject to any authority and consent required by the Companies Law.

#### 5.2.9 *Notices*

Any notice to be given to or by any person pursuant to the Articles shall be in writing except that a notice calling a meeting of the Directors need not be in writing. A notice may be given by the Company to any member (except for holders of treasury shares) either personally or by sending it by post in a pre paid envelope addressed to the member at his registered address or by leaving it at their address or by electronic means. Electronic Communication of a notice (properly addressed and dispatched to the members electronic address last notified in writing) is given or deemed to have been given at the time the electronic notice leaves the information system of the Company or the information system of any other person sending notices on behalf of the Company (as the case may be). A notice sent by post shall, unless the contrary is shown, be deemed to have been received:

- (i) in the case of a notice sent to an address in the United Kingdom, Channel Islands or the Isle of Man, on the third day after the day of posting;
- (ii) in the case of a notice sent elsewhere by airmail on the seventh day after posting;

excluding in each case any day which is a Sunday, Good Friday, Christmas Day, a bank holiday in Guernsey or a day appointed as a day of public thanksgiving or public mourning in Guernsey.

A notice may be given by the Company to the joint holders of a share by giving the notice to the joint holder first named in respect of the share in the register of members to be kept pursuant to the Companies Law.

A notice may be given by the Company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending it through the post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, supplied for the purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

All Members shall be deemed to have agreed to accept communication from the Company by electronic means unless a Member notifies the Company otherwise. Notice under this Article must be in writing and signed by the Member and delivered to the Company's registered office or such other place as the Board directs.

Notice of any general meeting (other than an adjourned meeting) must be called by notice of at least ten (10) clear days. A general meeting may be called by shorter notice than otherwise required if all the Members entitled to attend and vote so agree.

Notices may be published on a website in accordance with Section 208 of the Law. Notice of a general meeting of the Company must be sent to every Member (excluding the holders of Treasury Shares) and every Director.

Members includes any person who is entitled to a share in consequence of the death or bankruptcy of a Member, if the Company has been notified of their entitlement. No other person shall be entitled to receive notices of general meetings.

Notice of a general meeting of the Company must state the time and date of the meeting, state the place of the meeting, contain any information which may be required in accordance with Section 176(6) of the Law, in respect of an ordinary resolution which is to be proposed at the meeting, contain the information required under Section 178(6)(a) of the Law in respect of a resolution which is to be proposed as a special resolution at the meeting, contain the information required under Section 179(6)(a) of the Law in respect of a resolution which is to be proposed as a waiver resolution at the meeting, and contain the information required under Section 180(3)(a) of the Law in respect of a resolution which is to be proposed as a unanimous resolution at the meeting. Notice of a general meeting must state the general nature of the business to be dealt with at the meeting.

The accidental omission to give notice of any meeting or the non receipt of such notice by any Member shall not invalidate any resolution, or any proposed resolution otherwise duly approved, passed or proceeding at any meeting.

#### 5.2.10 *Interests of Directors*

- (i) A Director must, immediately after becoming aware of the fact that he is interested in a transaction or proposed transaction with the Company, disclose to the Board in accordance with Section 162 of the Law if the monetary value of the Director's interest is quantifiable, the nature and monetary value of that interest; or if the monetary value of the Director's interest is not quantifiable, the nature and extent of that interest.

The above paragraph does not apply if the transaction or proposed transaction is between the Director and the Company and the transaction or proposed transaction is or is to be entered into in the ordinary course of the Company's business and on usual terms and conditions.

- (ii) A general disclosure to the Board to the effect that a Director has an interest (as director, officer, employee, member or otherwise) in a party and is to be regarded as interested in any transaction which may after the date of the disclosure be entered into with that party is sufficient disclosure of interest in relation to that transaction.
- (iii) Nothing in paragraphs above applies in relation to remuneration or other benefit given to a Director; insurance purchased or maintained for a director in accordance with Section 158 of the Companies Law; or qualifying third party indemnity provision provided for a Director in accordance with Section 159 of the Companies Law.
- (iv) A director who is interested in a transaction entered into, or to be entered into, by the Company, may: vote on a matter relating to the transaction; attend a meeting of Directors at which a matter relating to the transaction arises and be included among the directors present at the meeting for the purpose of a quorum; sign a document relating to the transaction on behalf of the Company; and do any other thing in his capacity as a Director in relation to the transaction; as if the Director was not interested in the transaction.
- (v) Subject to the paragraph below, a Director is interested in a transaction to which the Company is a party if the director is a party to, or may derive a material benefit from, the transaction; has a material financial interest in another party to the transaction; is a director, officer, employee or member of another party (other than a party which is an associated company) who may derive a material financial benefit from the transaction; or is the parent, child or spouse of another party who may derive a material financial benefit from the transaction; or is otherwise directly or indirectly materially interested in the transaction.
- (vi) A Director is not interested in a transaction to which the Company is a party if the transaction comprises only the giving by the Company of security to a third party which has no connection with the Director, at the request of the third party in respect of a debt or obligation of the Company for which the Director or another person has

personally assumed responsibility in whole or in part under a guarantee, indemnity or security.

- (vii) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company, or whereat the terms of any such appointment are arranged or whereat any contract in which he is interested is considered, and he may vote on any such appointment or arrangement other than his own appointment or the arrangement of the terms thereof. Where proposals are under consideration concerning the appointment (including without limitation fixing or varying the terms of appointment or its termination) of two or more directors to offices or places of profit with the Company or a company in which the Company is interested, such proposals shall be divided and a separate resolution considered in relation to each director. In such case each of the directors concerned (if not otherwise debarred from voting under these provisions) is entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (viii) Any Director may act by himself or by his firm in a professional capacity for the Company, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (ix) Any Director may continue to be or become a director, managing director or other officer or member of a company in which the Company is interested, and any such Director shall not be accountable to the Company for any remuneration or other benefits received by him. The Directors may exercise the voting power conferred by the shares in any other company held or owned by the Company or exercisable by them as directors of such other company, in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, managers or other officers of such company, or voting or providing for the payment of remuneration to themselves as directors, managing directors, managers or other officers of such company) and any Director of the Company may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be or be about to be appointed a director, managing director, manager or other officer of such other company, and as such is or may become interested in the exercise of such voting rights in manner aforesaid.
- (x) A Director may hold any other office or place of profit under the Company (other than Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Board may determine and no Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as vendor purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to the Company for any profits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.

#### 5.2.11 *Remuneration and Appointment of Directors*

- (i) The Directors shall be remunerated for their services at such rate as the Directors shall determine provided that the aggregate amount of such fees shall not exceed £250,000 per annum (or such sum as the Company in general meeting shall from time to time determine). The Directors shall also be entitled to be paid all reasonable travelling, hotel and incidental expenses properly incurred by them in attending and returning from general meetings, board or committee meetings or otherwise in connection with the performance of their duties.
- (ii) A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director on such terms as the Directors may determine.

- (iii) The Directors may from time to time appoint one or more of their body (other than a director resident in the United Kingdom) to the office of managing director for such term and at such remuneration and upon such terms as they determine.
- (iv) The Directors may at any time appoint any person eligible in accordance with Section 137 of the Companies Law to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall be eligible for re election at the next annual general meeting following his appointment. Without prejudice to those powers, the Company in general meeting may by ordinary resolution appoint any person to be a Director either to fill a casual vacancy or as an additional Director.

#### 5.2.12 *Retirement of Directors*

- (i) At each annual general meeting of the Company all the Directors who held office at the two preceding annual general meetings and did not retire shall retire from office and shall be available for re election at the same meeting.
- (ii) A Director shall not be required to hold any shares in the Company in order to qualify to be a Director.
- (iii) There is no age limit at which a Director is required to retire.
- (iv) The office of Director shall be vacated: (1) if the Director resigns his office by written notice, (2) if he shall have absented himself from meetings of the Board for a consecutive period of twelve months and the Board resolves that his office shall be vacated, (3) if he becomes of unsound mind or incapable, (4) if he becomes insolvent, suspends payment or compounds with his creditors, (5) if he is requested to resign by written notice signed by all his co Directors, (6) if the Company in general meeting by ordinary resolution shall declare that he shall cease to be a Director, (7) if he becomes resident in the United Kingdom and, as a result, a majority of the Directors are resident in the United Kingdom or (8) if he becomes ineligible to be a Director in accordance with Section 137 of the Companies Law of (9) if he becomes prohibited from being a Director by reason of any order made under any provisions or any law or enactment.

#### 5.2.13 *Insurance*

Subject to the Companies Law and without prejudice to any other provisions of these Articles, the Directors may exercise all the powers of the Company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time Directors of the Company in accordance with Section 158 of the Companies Law.

#### 5.2.14 *Indemnity*

Subject always to the Companies Law, the Directors, Secretary and officers for the time being of the Company and the trustees (if any) for the time being acting in relation to any of the affairs of the Company and their respective heirs and executors shall, to the extent permitted by Section 157 of the Companies Law, be fully indemnified out of the assets and profits of the Company.

#### 5.2.15 *Borrowing Powers*

The Board may exercise all the powers of the Company to borrow money and to give guarantees, mortgage, hypothecate, pledge or charge all or part of its undertaking, property or assets and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any liability or obligation of the Company or of any third party provided always that the aggregate principal amount of all borrowings (as defined in the Articles) by the Company shall not at the point of drawdown of any borrowings exceed 30 per cent. of the Net Asset Value of the Company.

#### 5.2.16 *Discount management*

If the sum equal to the amounts (expressed as percentages) of **A** minus **B**, the sum of which is divided by **B** (i.e.  $((\mathbf{A}-\mathbf{B})/\mathbf{B})$ ) in relation to Shares during any period of 12 months, divided by 12, is greater than 10 per cent. (being a discount) where:

**A** is the closing mid market price of a Share on the London Stock Exchange as at each NAV Calculation Date; and

**B** is the Net Asset Value per Share as at each NAV Calculation Date,

the Directors may, in their absolute discretion, implement a tender offer for up to 25 per cent. of the Shares. The tender offer will be at a price per Share which is below the then prevailing Net Asset Value per Share less attributable costs and as otherwise determined by the Directors in their discretion. Not more than one such tender offer shall be made in any 12 month period unless the Directors, acting in their sole discretion, determine otherwise. Any Shares repurchased by way of such a tender offer will, unless they are able to be held in treasury, be cancelled by the Company.

### **6. Material and other contracts**

6.1 The following are all of the contracts, not being contracts entered into in the ordinary course of business, that have been entered into by the Company since its incorporation and are, or may be, material or that contain any provision under which the Company has any obligation or entitlement which is or may be material to the Company as at the date of this prospectus:

6.1.1 The Placing Agreement, dated 21 July 2008, between the Company, the Manager and Landsbanki pursuant to which each of Landsbanki and the Manager has agreed to use its reasonable endeavours to arrange for placees to subscribe for up to 500 million Shares at the Placing Price. The agreement in respect of the First Placing is conditional, *inter alia*, upon initial Admission taking place on or before 24 July 2008 or such later date as the Company, Landsbanki and the Manager may agree but in any event not later than 1 August 2008. For its services in connection with the Placing and Admission, Landsbanki is entitled to a corporate finance fee of £125,000 and a sponsor's fee equivalent to 0.25 per cent. of the Gross Proceeds. In addition, each of Landsbanki and the Manager is entitled to a commission of 2.5 per cent. of such part of the Gross Proceeds as is represented by placees procured by each of them. The fees and other expenses mentioned above and payable under or pursuant to the Placing Agreement are stated exclusive of VAT, if any, payable thereon.

The Placing Agreement provides for the Company to pay expenses (subject to certain specified caps) of and incidental to the Placing and the application for Admission, including the fees and costs of other professional advisers, all costs relating to the Placing, including printing, advertising and distribution charges, the fees of the Registrars and the fees payable to the London Stock Exchange.

Landsbanki has agreed to waive up to 100 per cent. of the corporate finance fee of £125,000 if and to the extent the formation and initial expenses of the Company (excluding VAT) would otherwise exceed 3.25 per cent. of the Gross Proceeds of the First Placing. Under the Placing Agreement, Landsbanki agrees to act as sponsor to the Company in connection with the Placing and Admission.

Landsbanki and the Manager are also each entitled, each at their discretion and out of their respective own resources, at any time to rebate to some or all investors, or to other parties, all or part of their respective fees relating to the Placing. Each of Landsbanki and the Manager are also entitled under the Placing Agreement to retain agents and may pay commissions in respect of the Placing to any of those agents out of their respective own resources.

Under the Placing Agreement, which is subject to certain customary conditions precedent and which may be terminated by Landsbanki in certain customary circumstances prior to

Admission of Shares issued under the First Placing, the Company and the Manager have given warranties to Landsbanki concerning, *inter alia*, the accuracy of the information contained in this prospectus. The warranties given by the Company and the Manager are standard for an agreement of this nature and there is no cap on their liability. In addition, the Company and the Manager have given indemnities to Landsbanki.

If the Placing Agreement is terminated prior to initial Admission of the Shares, the Placing will lapse.

In relation to the Subsequent Placing, the Placing Agreement contains provisions entitling Landsbanki to terminate the Placing Agreement in certain circumstances at any time prior to the Admission of the Shares issued under the Subsequent Placing.

The Subsequent Placing is conditional upon (among other things): (i) the Directors exercising their absolute discretion, following consultation with Landsbanki and the Manager, to proceed with the Subsequent Placing; (ii) Admission of the Shares issued under the First Placing; and (iii) Admission of the Shares issued under the Subsequent Placing taking place by 8.30 a.m. on 8 October 2008 (or such later date, being not later than 8.30 a.m. on 22 October 2008, as may be agreed by the Company, Landsbanki and the Manager).

- 6.1.2 The Management Agreement, dated 21 July 2008, between the Company and the Manager whereby the Manager is appointed to act as investment manager of the Company, with sole responsibility to manage the assets of the Company and to advise the Company on a day to day basis in accordance with the investment policy of the Company and subject to the overall control and supervision of the Board. Under the terms of the Management Agreement, the Manager has discretion to buy, sell, retain, exchange or otherwise deal in investment assets for the account of the Company. Any services provided by third parties, advisers or consultants to or with respect to the Company or the Portfolio, or both, will be paid directly by the Company or reimbursed in full to the Manager.

Under the terms of the Management Agreement, the Manager will be entitled to a base fee together with reimbursement of expenses for costs, expenses, outgoings and liabilities incurred by or on behalf of the Company.

The base fee will be equal to 2.0 per cent. per annum of the Net Asset Value of the Company. The base fee will be payable quarterly in advance and will be calculated at the beginning of each quarter in advance using either: (i) an implied straight line increase in Net Asset Value (excluding Cash) of 10 per cent. per annum on a basis which increases 2.5 per cent. per quarter over the most recently published audited Net Asset Value plus the actual value of all Cash; or (ii) if higher, the most recently published estimated Net Asset Value. As the quarterly calculation will be based either on an implied increase or on an estimated Net Asset Value, following the calculation of the audited Net Asset Value at the end of each financial period, the base fee payable over such financial period will be recalculated and any deficiency will be payable by the Company to the Manager. To the extent that such post-audit recalculation demonstrates that an excess fee has been paid to the Manager, any such amount will be deducted from the payment due to the Manager in respect of the subsequent quarter or quarters, up until the amount equal to the excess has been repaid.

In addition, the Manager will in certain circumstances be entitled to a performance fee in respect of each Calculation Period. The first Calculation Period shall be the period from initial Admission to 31 December 2008 and, thereafter, the Calculation Periods shall be each financial period of the Company.

The performance fee will be payable where the Net Asset Value per Share at the end of the Calculation Period exceeds the Benchmark NAV per Share, which is the figure equal to the High Water Mark NAV per Share increased by 10 per cent. per annum (or, if the period since a performance fee was last paid is not twelve months, an amount equating to an annual compound rate of 10 per cent.). The High Water Mark NAV per Share is the Net

Asset Value per Share at the end of the last Calculation Period in respect of which a performance fee was paid (or if no performance fee has previously been paid the Net Asset Value per Share immediately following initial Admission).

The performance fee will be equal to 20 per cent. of the amount by which the Net Asset Value per Share at the end of the Calculation Period exceeds the High Water Mark NAV per Share, subject to the Net Asset Value per Share never being reduced as a result below the Benchmark NAV Share.

For the purposes of calculating the performance fee in respect of any Calculation Period the Net Asset Value at the end of that Calculation Period shall be adjusted so as to (i) add back the gross amount of any dividends per Share provided for during such Calculation Period and any undistributed net revenue in respect of such Calculation Period not otherwise taken into account for the purposes of calculating such Net Asset Value; (ii) not take account of any accrual made in respect of the performance fee itself for that Calculation Period; and (iii) not take into account any increase in Net Asset Value per Share attributable to the issue of Shares at a premium to Net Asset Value or any buy back of any Shares at a discount to Net Asset Value. Finally, there shall be included any other adjustment, the Auditors consider, in their absolute discretion, to be appropriate.

For the purposes of calculating the Net Asset Value at the end of any prior Calculation Period in respect of which a performance fee was paid (in order to determine the High Watermark NAV), such Net Asset Value shall (i) exclude the gross amount of any dividends declared or announced in respect of the prior Calculation Period and (ii) take account of any Performance Fee actually paid in respect of the prior Calculation Period.

The performance fee, if payable, in respect of any Calculation Period shall be paid 30 days of receipt by the Company of the calculation of the performance fee for the Calculation Period.

The Management Agreement is terminable by either the Manager or the Company giving to the other not less than 24 months' written notice. Such notice may only be given to expire on the seventh anniversary of the initial Admission of the Shares or on any subsequent two year interval thereafter. However, the Management Agreement may be terminated earlier by the Company with immediate effect on the occurrence of certain events, including: (i) if an order has been made or an effective resolution passed for the liquidation of the Manager; (ii) if the Manager ceases or threatens to cease to carry on its business; (iii) where the Company is required to do so by a relevant regulatory authority; (iv) on the liquidation of the Company; or (v) subject to certain conditions, where the Manager commits a material breach of the Management Agreement.

In the event the Management Agreement is terminated, the base fee and the performance fee will be calculated for the period up to and including the date of termination. Any calculation of fees payable in lieu of notice shall be based upon the Net Asset Value and Cash amounts as at the date on which any notice of termination is deemed received, notwithstanding any changes to such amounts in the period prior to notice of termination being served.

The Company has given certain market standard indemnities in favour of the Manager in respect of the Manager's potential losses in carrying on its responsibilities under the Management Agreement.

The Management Agreement is governed by Guernsey Law.

- 6.1.3 The Administration Agreement, dated 21 July 2008, between the Company and the Administrator pursuant to the terms of which the Administrator has been appointed the Secretary and Administrator of the Company.

Under the terms of the Administration Agreement, HSBC Securities Services (Guernsey) Limited is entitled to an inception fee of €10,000 (to be waived if the Company

successfully raises at least €250 million) and an administration and secretarial fee calculated as a percentage of Net Asset Value from time to time and subject to a minimum of €25,000 per quarter, payable in arrear. The Administrator is also entitled to a fee of €35 per transaction, a minimum termination fee of €5,000 in the event of the termination or liquidation of the Company, and may be entitled to a minimum fee of €10,000 in the event of any future restructuring of the Company. The Administrator is also entitled to a corporate services management fee on a time charge basis, subject to a minimum of €2,000 per calendar month, a fee of €10,000 for the preparation of each set of financial statements and additional fees for any tax related services provided to the Company.

The Administrator will also be entitled to reimbursement of all out of pocket expenses reasonably and properly incurred by it in connection with its duties.

The Administration Agreement contains provisions under which the Company exempts the Administrator from liability and indemnifies the Administrator against liability in the absence of some acts of, *inter alia*, negligence, fraud or wilful default for any loss, cost, expense or damage suffered by the Company in connection with the duties carried out by the Administrator. This exemption from liability and indemnity is of a customary nature for contracts of this type.

The Administration Agreement also contains a provision under which the Administrator indemnifies the Company against any loss, damage, claims, costs and expenses suffered or incurred by or made against the Company arising out of or in connection with such negligence, fraud or wilful default on the part of the Administrator.

The Administration Agreement may be terminated by either party on not less than three months' written notice (or such shorter notice as the parties may agree). The Administration Agreement may be terminated immediately in certain circumstances, including, amongst others:

- (i) by either party if the other party commits a material breach or is in persistent breach of any of its obligations under the Administration Agreement which is not remedied within thirty days of a notice requiring the same to be remedied;
- (ii) by either party if the other party goes into liquidation (except a voluntary liquidation for the purposes of reconstruction, amalgamation or merger on terms previously approved in writing), commences liquidation proceedings or a receiver is appointed over any of its assets; or
- (iii) by the Company if the Administrator ceases to hold the necessary licences, approvals, permits, consents or authorisations to perform its duties under the Administration Agreement.

The Administrator may terminate the Administration Agreement by notice in writing taking immediate or subsequent effect if:

- (i) the Company or the Manager is in wilful violation or default or in non compliance with any securities or taxation laws or regulations applicable to the Company; or
- (ii) the Administrator is notified by the Company that the assets of the Company will constitute "plan assets" within the meaning of the plan asset regulations 29 C.F.R. § 2510.3 101 adopted by the United States Department of Labor under the United States Employee Retirement Income Security Act of 1974, as amended.

Termination of the Administration Agreement will be without prejudice to any claim or rights which any of the parties may have by reason of any breach of any other party's obligations and any indemnity provisions and provisions limiting the liabilities of any party will survive termination of the Administration Agreement.

The Administration Agreement is governed by Guernsey law.

- 6.1.4 The Registrar Agreement, dated 21 July 2008, between the Company and the Registrar pursuant to the terms of which the Registrar has been appointed as registrar to the

Company subject to Admission of the Shares issued under the First Placing and has agreed to procure on behalf of the Company the services of a UK transfer agent from initial Admission. The Registrar Agreement may be terminated by either party on not less than 3 months' written notice expiring no earlier than the first anniversary of the date of the Agreement. Under the Registrar Agreement the Registrar is entitled to receive a fee of £2.00 per Shareholder account per annum subject to a minimum annual fee of £6,500 together with other agreed transaction charges. The Registrar intends to appoint Capita Registrars Limited as UK transfer agent. The fees of the UK transfer agent will be borne by the Registrar as agreed between them separately and from time to time, although the Company will reimburse the Registrar for all out of pocket costs and reasonable expenses reasonably and properly incurred in connection with the performance of the services of the UK transfer agent.

## **7. Litigation**

Since its incorporation the Company is not, nor has been, involved in any governmental, legal or arbitration proceedings nor, so far as the Directors are aware, are there any governmental, legal or arbitration proceedings pending or threatened by or against the Company which may have, or have since incorporation had, a significant effect on the Company's financial position or profitability.

## **8. City Code on Takeovers and Mergers**

The City Code on Takeovers and Mergers applies, *inter alia*, to offers for public companies (other than open ended investment companies) which have their registered office in the United Kingdom, the Channel Islands or the Isle of Man and which are considered by the Takeover Panel to have their place of central management and control in the United Kingdom, the Channel Islands or the Isle of Man. As a company incorporated in Guernsey, the Company is subject to the provisions of the City Code on Takeovers and Mergers. Should the Company's place of central management alter from Guernsey or be determined by the Takeover Panel to be outside the United Kingdom, the Channel Islands or the Isle of Man, investors would not be afforded the protections of the City Code.

## **9. General**

- 9.1 The Placing is being carried out on behalf of the Company by Landsbanki and the Manager. Landsbanki is authorised and regulated in the UK by the FSA.
- 9.2 The Manager is or may be a promoter of the Company. Save as disclosed in paragraphs 6.1.1, 6.1.2 and 6.1.3 above no amount or benefit has been paid, or given, to the promoters or any of their subsidiaries since the incorporation of the Company and none is intended to be paid, or given.
- 9.3 The expected costs and expenses (including VAT where relevant) of, and incidental to, the First Placing are 3.25 per cent. of the Gross Proceeds of the First Placing and will be borne by the Company. On that basis, the net proceeds of the First Placing will be €60,047,249 and will be applied as described in the section headed "Investment Policy" in Part I of this prospectus. The Directors do not anticipate that the costs and expenses of the Subsequent Placing will exceed 3.25 per cent. of the Gross Proceeds of the Subsequent Placing. Net proceeds of the Subsequent Placing will also be applied as described in the section headed "Investment Policy" in Part I of this prospectus.
- 9.4 As the Shares do not have a par value, the Placing Price of €1.00 per Share consists solely of share premium.
- 9.5 The Manager has given and not withdrawn its written consent to the issue of this prospectus with references to its name in the form and context in which such references appear. The Manager accepts responsibility for information attributed to it in this prospectus, authorises the contents of this prospectus to the extent that they constitute information attributed to it in this prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information attributed to it in this prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

- 9.6 Landsbanki has given and not withdrawn its written consent to the issue of this prospectus with references to its name in the form and context in which such references appear.
- 9.7 CREST is a paperless settlement procedure enabling securities to be evidenced other than by certificates and transferred other than by written instrument. The Articles permit the holding of the Shares under the CREST system. The Directors intend to apply for the Shares to be admitted to CREST with effect from initial Admission. Accordingly it is intended that settlement of transactions in the Shares following the relevant Admission may take place within the CREST system if the relevant Shareholders so wish. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so, upon request, from the Registrar.
- 9.8 Applications have been made to the UK Listing Authority for all of the Shares in the Company (issued and to be issued under the First Placing) to be admitted to the Official List and to trading on the main market for listed securities of the London Stock Exchange. It is expected that such admissions will become effective, and that dealings in Shares issued under the First Placing will commence, on 24 July 2008. Application will be made for the Admission of any Shares issued in connection with the Subsequent Placing. It is anticipated that Shares issued under the Subsequent Placing will commence dealing by 8 October 2008. No application is being made for the Shares to be listed or dealt with in or on any stock exchange or investment exchange other than the London Stock Exchange.
- 9.9 The Company does not own any premises and does not lease any premises.

#### **10. Impact of Placing on the Company**

The Placing will increase the net assets of the Company by the amount subscribed less formation and initial expenses. The expenses of the Placing will reduce the earnings, or increase the losses of the Company, as the formation and initial expenses will be written off in the first year of incorporation. It is anticipated that the Company will have no liabilities after the Placing, other than those incurred in its ordinary course of business.

#### **11. For the attention of US residents**

The Company has not been, and will not be, registered under the Investment Company Act. In addition, the offer, issue and sale of the Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any State or other jurisdiction of the United States. Accordingly, the Shares are only being offered and sold outside the United States to non-US persons in reliance on the exemption from registration provided by Regulation S under the Securities Act ("Regulation S"). The Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any US Person.

Investors should also have regard to the provisions set out in paragraph 5.2.7 of Part IV of this prospectus.

#### **12. Investment restrictions**

- 12.1 The Company will manage and invest its assets in accordance with its investment policy as disclosed in Part I of this prospectus and will comply with the following investment restrictions for so long as they remain requirements of the UK Listing Authority:
- 12.1.1 the Company and any of its subsidiaries must not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Portfolio from conducting trading activities themselves; and
- 12.1.2 not more than 10 per cent. in aggregate of the value of the total assets of the Company at the time of Admission may be invested in other listed closed ended investment funds except that this restriction shall not apply to investments in closed ended investment funds which themselves have published investment policies to invest no more than 15 per cent. of their total assets in other listed closed ended investment funds; and
- 12.1.3 the Company will notify to a regulatory information service within five business days of the end of each quarter, a list of all investments in other listed closed ended investment

funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15 per cent. of their total assets in other listed closed ended investment funds.

12.2 Although there is no restriction on the Company taking a controlling stake in an investee company, to ensure a spread of investment risk the Company will avoid:

- (a) cross financing between the businesses forming part of its Portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and
- (b) the operation of common treasury functions as between the Company and investee companies.

12.3 The Company will, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with the Investment Policy set out in Part I of this document.

### **13. Working capital**

The Company is of the opinion that the working capital available to the Company is sufficient for its present requirements, that is for at least the next 12 months from the date of this prospectus.

### **14. Capitalisation and indebtedness**

As at the date of this prospectus, the Company has no guaranteed, secured, unguaranteed or unsecured debt and no indirect or contingent indebtedness and the Company's issued share capital consists of two Shares.

### **15. Documents available for inspection**

Copies of the following documents will be available for inspection at the registered office of the Company and the offices of Herbert Smith LLP, Exchange House, Primrose Street, London EC2A 2HS during normal business hours on any weekday (Saturdays and Public Holidays excepted) until the date of Admission of any Shares issued under the Subsequent Placing, or until 30 September 2008, where no Subsequent Placing occurs:

- (a) the Memorandum and Articles of Incorporation of the Company; and
- (b) this prospectus.

In addition, copies of this prospectus are available from the Document Viewing Facility, UK Listing Authority, The Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Dated 21 July 2008

## PART V

### DEFINITIONS

The following definitions and terms apply in this prospectus unless the context otherwise requires:

“Administration Agreement”	means the administration agreement between the Company and the Administrator, a summary of which is set out in paragraph 6.1.3 of Part IV of this prospectus;
“Administrator” or “Secretary”	means HSBC Securities Services (Guernsey) Limited;
“Admission”	means, as the context requires, the admission to the Official List and/or admission to trading on the London Stock Exchange of the Shares becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards as the context may require;
“Articles of Incorporation” or “Articles”	means the Memorandum and Articles of Incorporation of the Company;
“Auditors”	means Ernst & Young LLP;
“Benchmark NAV per Share”	has the meaning given to such term in paragraph 6.1.2 in Part IV of this prospectus;
“Business Day”	means a day on which each of the London Stock Exchange and banks in Guernsey and the Isle of Man are normally open for business;
“Calculation Period”	means each financial period of the Company, provided that the first Calculation Period will be the period commencing on the date of initial Admission and ending on 31 December 2008 and the last Calculation Period shall end on the date of termination of the Management Agreement;
“Cash”	means cash, near cash investments or highly liquid investments immediately convertible into cash;
“certificated” or “certificated form”	means not in uncertificated form;
“Commission”	means the Guernsey Financial Services Commission;
“Companies Law”	means The Companies (Guernsey) Law, 2008;
“Company”	means Aqua Resources Fund Limited, a closed-ended investment fund incorporated in Guernsey with registered number 49038;
“CREST”	means the facilities and procedures for the time being of the relevant system of which Euroclear has been approved as Operator pursuant to the Regulations;
“CREST Agent”	means Capita Registrars (Guernsey) Limited, or such other person or persons as from time to time appointed by the Company;
“CREST Guernsey Requirements”	means Rule 8 and such other rules and requirements of Euroclear as may be applicable to issuers as from time to time specified in the CREST Manual;

“CREST Manual”	means the compendium of documents entitled CREST Manual issued by Euroclear from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, the CREST Rules, the CCSS Operations Manual and the CREST Glossary of Terms;
“Directors” or “Board”	means the directors of the Company;
“Disclosure and Transparency Rules”	means the disclosure and transparency rules made by the FSA under Part VI of the UK Financial Services and Markets Act 2000;
“EBITDA”	means earnings before interest, tax, depreciation and amortisation;
“EEA”	means European Economic Area;
“EU”	means the European Union;
“Euro” or “€”	means the lawful currency of the European Union;
“Euroclear”	means Euroclear UK & Ireland Limited;
“First Placing”	means the Placing of Shares at the Placing Price in respect of which dealings in Shares are expected to commence on the LSE on 24 July 2008;
“FSA”	means the UK Financial Services Authority;
“FSMA”	means the UK Financial Markets and Services Act 2000;
“Gross Assets”	means the value of the assets of the Company determined in accordance with the Company’s usual accounting policies and practices;
“Gross Proceeds”	means the aggregate value of the Shares issued under the Placing (taken at the Placing Price);
“Guernsey”	means the Bailiwick of Guernsey, her territories and dependencies;
“Guidance Document”	means the guidance document “Registered Closed-Ended Investment Funds – Guidance” dated February 2007 and issued by the Commission;
“High Water Mark NAV per Share”	has the meaning given to such term in paragraph 6.1.2 of Part IV of this prospectus;
“Investment Company Act”	means the US Investment Company Act of 1940, as amended;
“ISA”	means an individual savings account;
“ITA”	means the UK Income Tax Act 2007;
“Landsbanki”	means Landsbanki Securities (UK) Limited;
“listed investment companies” or “listed investment trusts”	means investment companies or investment trusts (within the meaning of section 842 Taxes Act) listed on the Official List of the UK Listing Authority and admitted to trading on the main market for securities of the London Stock Exchange;

“Listing Rules”	means the listing rules made by the UK Listing Authority under section 73A of the UK Financial Services and Markets Act 2000;
“London Stock Exchange” or “LSE”	means London Stock Exchange plc;
“LSE Admission Standards”	means the rules issued by the London Stock Exchange in relation to the admission to trading of, and continuing requirements for, securities admitted to the Official List;
“Management Agreement”	means the management agreement between the Company and the Manager, a summary of which is set out in paragraph 6.1.2 of Part IV of this prospectus;
“Manager”	means FourWinds Capital Management;
“NAV Calculation Date”	the last Business Day of each calendar quarter or such other date as the Directors may, in their absolute discretion, determine;
“Net Asset Value” or “NAV”	means the value of the assets of the Company less its liabilities determined in accordance with the Company’s usual accounting policies and practices;
“Net Asset Value per Share”	means the Net Asset Value divided by the number of Shares in issue;
“Official List”	means the list maintained by the UK Listing Authority pursuant to Part VI of the UK Financial Services and Markets Act 2000;
“PEP”	means a personal equity plan;
“Placing”	means the placing of Shares by Landsbanki and the Manager pursuant to the terms of the Placing Agreement as described in this prospectus and comprising the First Placing and/or the Subsequent Placing (as the context requires);
“Placing Agreement”	means the conditional agreement between the Company, the Manager and Landsbanki, a summary of which is set out in paragraph 6.1.1 of Part IV of this prospectus;
“Placing Price”	means €1.00 per Share;
“Portfolio”	means the portfolio of assets and investments acquired by the Company from time to time comprising primarily direct stakes in unquoted investments in water-related companies and projects and including, but not limited to, real property, cash and other property whatsoever and all income derived therefrom;
“Pounds Sterling” or “£” or “Sterling”	means the lawful currency of the United Kingdom;
“Prospectus Directive”	means Directive 2003/71 of the European Parliament and of the Council of 4 November 2003;
“Prospectus Rules”	means the prospectus rules made by the UK Listing Authority under section 73A of the UK Financial Services and Markets Act 2000;
“Registrar”	means Capita Registrars (Guernsey) Limited, or such other person or persons from time to time appointed by the Company;

“Regulations”	means the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755);
“Regulation S”	means Regulation S under the Securities Act;
“Risk Factors”	means the risk factors pertaining to the Company set out on pages 7 to 22 of this prospectus;
“Securities Act”	means the US Securities Act of 1933, as amended;
“Shareholder”	means a holder of Shares;
“Shareholding”	means a holding of Shares;
“Shares”	means ordinary shares of no par value in the capital of the Company;
“Subsequent Placing”	means the Placing of Shares, conditional on (among other things) the Directors exercising their absolute discretion (after consultation with Landsbanki and the Manager) to proceed with such a Placing, at the Placing Price and in respect of which commitments must be received on or before 30 September 2008;
“Taxes Act”	means the UK Income and Corporation Taxes Act 1988, as amended;
“UK” or “United Kingdom”	means the United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	means the FSA as the competent authority for listing in the United Kingdom;
“UK Transfer Agent”	means Capita Registrars Limited;
“uncertificated form” or “in uncertificated form”	means recorded on the register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST; and
“United States”, “USA” or “US”	means the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

## PART VI

### GLOSSARY OF TERMS

#### **Committed/commitments/invested/investments**

Commitments/investments entered into by the Company may take a variety of different forms which can be legally binding or non-binding, or binding in part only. The forms of commitments/investments may, without limitation, include letters of intent, commitment letters, memoranda of understanding, indicative heads of terms, in principle agreements and full contractual agreements. Such forms may relate to options to participate in, rights of first refusal in respect of participation in, or obligations to participate in, an investment or opportunity. Commitment and investment structures may take the form of interests in or arrangements with companies, partnerships, joint ventures, consortia, collaborations and may involve either or both of equity and debt investments and arrangements. Commitments and investments may be subject to pre-conditions for the benefit of either or both of the Company and its counterparties including pre-conditions in respect of satisfactory due diligence, financing availability, taxation and/or regulatory and/or other consents and approvals and any other conditions whatsoever. Commitments and investments may also be for variable amounts of capital (at the option of either or both of the Company and its counterparties) with any one or more of minimum specified investment amounts, variable investment amounts, maximum specified initial investment amounts and options, rights or obligations to participate in further investment or co-investment opportunities.

Commitments and investments may be subject to call down/draw down/investment requirements which arise over time such that draw down or call down of the full amount of any commitment or investment may only be required to be funded over a number of years.

For the numerous reasons above, including in particular the non-binding and/or pre-conditional nature of certain commitments and investments, the flexible amounts of commitments and investments and the phased timing of the possible draw down or call down of commitments and investments, it is possible for the Company, at any one time and subject to compliance with any guidelines set by the Board, to enter into commitments and investments with an aggregate value which exceeds the Gross Assets of the Company from time to time.

In consequence of the nature of the various types of commitment and investment as described above, there can be no certainty that the full amount of all funds committed by the Company will in fact be drawn down in due course or at all.

#### **Draw down/drawn down/called down**

Amounts of committed/invested capital which have been expended in relation to, or paid or transferred to or for the benefit of, an investment target.

