

# **PFS PRODIGY CAPITAL PARTNERS FUND**

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## **UK Authorised Investment Company with Variable Capital**

This document constitutes the Prospectus for the PFS Prodigy Capital Partners Fund (referred to as the "Company") which has been prepared in accordance with the rules contained in the COLL Sourcebook (the "FSA Regulations") published by the Financial Services Authority ("FSA") as part of the Handbook made under the Financial Services and Markets Act 2000. The Company is an umbrella open-ended investment company with variable capital classified as a UCITS Scheme.

The Prospectus is dated and is valid as at 5 August, 2009. Copies of this Prospectus have been sent to the FSA and the Depositary.

If you are in any doubt about the contents of this Prospectus you should consult your professional or financial adviser. The Prospectus is based on information, law and practice at the date hereof. The Company is not bound by any out of date prospectus when it has issued a new prospectus and potential investors should check that they have the most recently published version.

Phoenix Fund Services (UK) Ltd, the Authorised Company Director of the Company, is responsible for the information contained in this Prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained herein does not contain any untrue or misleading statement or omit any matters required by the FSA Regulations to be included in it. This document is only available in English.

The initial offering price and period for each Sub-Fund is included in the Appendix for that Sub-Fund

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## Definitions

<b>"Accumulation Share(s)" means</b>	Shares (of whatever class), denominated in the Base Currency, of the Company as may be in issue from time to time in respect of which income allocated thereto is credited periodically to capital pursuant to the FSA Rules;
<b>"ACD Agreement" means</b>	the agreement between the Company and the Manager dated 5 August 2009
<b>"Administrator" means</b>	Phoenix Fund Services (UK) Ltd
<b>"Administration Centre" means</b>	2nd Floor, Springfield Lodge, Colchester Road, Chelmsford. CM2 5PW
<b>"Base Currency" means</b>	Pounds sterling;
<b>"Business Day" means</b>	means a day on which banks in the United Kingdom are open for normal banking business.
<b>"the COLL Sourcebook" means</b>	The Collective Investment Schemes Sourcebook issued by the FSA as amended from time to time;
<b>"Company" means</b>	PFS Prodigy Capital Partners Fund, a UK authorised investment company with variable capital (ICVC);
<b>"Custodian" means</b>	Bank of New York Mellon Inc or any company the Depositary appoints from time to time to act as custodian for the Scheme Property;
<b>"Dealing Day" means</b>	Monday to Friday excluding UK public and bank holidays or any day on which the London Stock Exchange plc is not open for the normal full duration of its trading hours;
<b>"Depositary" means</b>	BNY Mellon Trust and Depositary (UK) Limited or such other entity as is appointed to act as Depositary;
<b>"Depositary Agreement" means</b>	the agreement dated 5 August 2009 between the Company, the Manager and the Depositary;
<b>"Eligible Market" means</b>	any securities or derivatives market set out in Appendix 2 to this Prospectus;
<b>"FDI" means</b>	financial derivative instruments;
<b>"FSA" means</b>	the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS, United Kingdom;

<b>"FSA Regulations" means</b>	the rules contained in the COLL Sourcebook of the FSA Rules as amended, excluding, for the avoidance of doubt, any guidance or evidential provisions;
<b>"FSA Rules" means</b>	the FSA handbook of rules as amended made under the Financial Services and Markets Act 2000 excluding, for the avoidance of any doubt, any guidance or evidential provisions;
<b>"ICVC Regulations" means</b>	the Open-Ended Investment Companies Regulations 2001 as amended or such other regulations as from time to time shall be in force;
<b>"Instrument of Incorporation" means</b>	the Instrument of Incorporation for the Company;
<b>"ISA" means</b>	an Individual Savings Account;
<b>"Investment Adviser" means</b>	an investment adviser acting for a Sub-Fund on the basis of an agreement with the Manager as set out in the appendix for each Sub-Fund;
<b>"London interbank Offered Rate" or "Libor" means</b>	a daily <u>reference rate</u> based on the <u>interest rates</u> at which <u>banks</u> borrow <u>unsecured</u> funds from other banks in the London wholesale <u>money market</u> (or <u>interbank market</u> ).
<b>"Manager" means</b>	Phoenix Fund Services (UK) Ltd the authorised corporate director (ACD) of the Company;
<b>"Net Asset Value" or "NAV" means</b>	the value of the Scheme Property of the Company (or of any Sub-Fund as the context requires) less the liabilities of the Company (or of the Sub-Fund concerned) as calculated in accordance with that Company's Instrument of Incorporation;
<b>"Performance Period" means</b>	either a 12 month period being July 1 to the following June 30 for continuous investors or the period in which the investor holds the investment in the Sub-Fund between 1 July and 30 June if they should invest and then subsequently redeem.
<b>"Prodigy Capital Partners" means</b>	Prodigy Capital Partners LLP, authorised and regulated by the FSA;
<b>"Regulated Activities Order" means</b>	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 as amended from time to time;
<b>"Second Scheme" means</b>	a collective investment scheme in compliance with Appendix 1 paragraph 6 ( <i>Investments in collective investment schemes</i> );

<b>"Section" means</b>	any section in this Prospectus;
<b>"Scheme Property" means</b>	the property of the Company to be given to the Depository for safe-keeping, as required by the FSA Regulations, including income on that property;
<b>"SDRT" means</b>	Stamp Duty Reserve Tax;
<b>"Share" or "Shares" means</b>	A share in a Sub-Fund;
<b>"Share Class(es)" means</b>	a particular class of Shares;
<b>"Sub-Fund" or "Sub-Funds" means</b>	a Sub-Fund of the Company (being part of the Scheme Property of the Company which is pooled separately) and to which specific assets and liabilities of the Company may be allocated and which is invested in accordance with the investment objective applicable to that Sub-Fund;
<b>"Transfer Agent" means</b>	Phoenix Fund Services (UK) Ltd
<b>"UCITS" means</b>	an Undertaking for Collective Investment in Transferable Securities within the meaning of Article 1(2) of Council Directive 85/611/EEC of 20 December 1985, as amended;
<b>"UCITS Directive" means</b>	the Council Directive of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to UCITS (No 85/611/EEC);
<b>"US law" means</b>	the United States Securities Act of 1933, the United States Investment Company Act of 1940 or the securities laws of any of the states of the United States of America;
<b>"Valuation Point" means</b>	the point, whether on a periodic basis or for a particular valuation, at which the Manager carries out a valuation of the Scheme Property or a Sub-Fund (as the case may be) for the purpose of determining the price at which Shares of a class may be issued, cancelled, sold, redeemed or exchanged.

## 2. The Company and Company Structure

PFS Prodigy Capital Partners Fund is an umbrella open-ended investment company with variable capital incorporated in England on 5 August 2009 under registered

number IC000759 and authorised by the FSA as a UCITS with effect from 5 August 2009 and has an unlimited duration.

The head office of the Company is at 2nd Floor, Springfield Lodge, Colchester Road, Chelmsford. CM2 5PW. The head office is also the address for service on the Company of notices or other documents. The maximum share capital of the Company is currently £100,000,000,000 and the minimum is £100. Shares in the Company have no par value and therefore the share capital at all times equals the Company's current Net Asset Value.

Shareholders in a Sub-Fund of the Company are not liable for the debts of the Company. The Company is an umbrella open ended UCITS (under the ICVC Regulations) and different Sub-Funds may be formed by the Manager, subject to approval from the FSA. On the establishment of a new Sub-Fund or Share Class an updated prospectus will be prepared setting out the relevant information concerning the new Sub-Fund.

Each Sub-Fund within the Company has a specific portfolio of assets and investments, and its own liabilities, and investors should view each Sub-Fund as a separate investment entity. Investors should however be aware that each Sub-Fund's creditors may look to all the Company's assets for payment regardless of the Sub-Fund in respect of which the debt has arisen. Assets may be re-allocated to and from other Sub-Funds within the Company if it is necessary to do so to satisfy any creditor proceeding against that Sub-Fund. In the event that any assets are so re-allocated, the Manager will advise shareholders of that Company in the next report to shareholders.

Each Sub-Fund will be charged with the liabilities, expenses, costs and charges of the Company attributable to that Sub-Fund. Any assets, liabilities, expenses, costs or charges not attributable to a particular Sub-Fund of the Company may be allocated by the Manager within the Company in a manner which is fair to shareholders as a whole and will normally be allocated to all Sub-Funds pro rata to the value of the net assets of the relevant Sub-Funds.

Details of the Sub-Funds of the Company, including their investment objectives and policies, are set out in Appendix 4.

### **3. Shares**

The Share Classes presently available for each Sub-Fund within the Company are set out in the Appendix for that Sub-Fund. Further Share Classes for each Sub-Fund may be made available in due course, as the Manager may decide after approval has been received from the FSA.

Shares issued by the Company are Accumulation Shares only. Holders of Accumulation Shares do not receive payment of income. Any income arising in respect of an Accumulation Share is automatically accumulated and added to the assets of the Fund and is reflected in the price of each Accumulation Share.

Shareholders are entitled (subject to certain restrictions) to switch all or part of their Shares in one Sub-Fund for Shares in a different Sub-Fund. Details of this switching facility and the restrictions are set out in Sections 16 and 17.

#### **4. The Manager**

The authorised corporate director of the Company is Phoenix Fund Services (UK) Ltd (the "Manager"), a private company limited by shares with registration number 6252939 and authorised and regulated by the FSA. The Manager was incorporated in England under the Companies Act 2002 on 18 May 2007. The Manager is the sole director of the Company.

The Manager also serves as authorised corporate director to the PFS Somerset Capital Management Funds ICVC & PFS Hawksmoor Open-Ended Investment Company. The Manager may in the future provide management, investment management and/or administration services to other funds and clients.

The Manager is responsible for managing and administering the Company's affairs in compliance with the FSA Regulations.

#### **Directors**

The directors of the Manager are:

##### Mr Steven King

Mr King trained in accountancy and established Phoenix Administration Ltd in June 1998. He began work in the investment industry in 1981 with the Britannia Group and moved to GT Asset Management PLC (now INVESCO Perpetual Limited) in 1982 leaving in 1998 to form Phoenix Administration Services Ltd. At GT Asset Management he was responsible for the building and development of their global proprietary asset administration system. At the time of leaving GT Asset Management he was Head of Business Administration including oversight of the authorised fund administration business. Mr King is the Managing Director of Phoenix Administration Services Limited.

##### Mr Stuart Mathieson

Mr Mathieson is a Fellow of the Institute of Chartered Accountants in England and Wales and has worked in financial services for over thirty five years. Until joining Phoenix Fund Services (UK) Ltd in 2007 he worked as an independent consultant to review the third party provision of services of Fund Management Groups. From 1994 to 2005 he was Deputy Managing Director for International Fund Managers UK Ltd with responsibility for Operations and Business Development. Until 1994 he was Finance & Administration Director at Sun Life Trust Management Ltd and joined this newly formed Unit Trust Management Company to establish and run the Operational areas; including Finance, Fund Valuation & Accounting, Dealing, Registration and IT. He also helped establish offshore operations in the Isle of Man and a Private Portfolio Management Service in the UK. From 1972 to 1985 he was Group Accountant at Save & Prosper Group.

#### **Registered office and Head office**

The Managers registered office is at 2nd Floor, Springfield Lodge, Colchester Road, Chelmsford. CM2 5PW, United Kingdom.

#### **Share Capital**

Authorised capital: £1,000,000

Issued and paid up: 450,000 ordinary shares at a price of £1.00 each.

## **Terms of Appointment**

The terms of the ACD Agreement between the Company and the Manager provide that the Manager is appointed to provide management, investment management and administration services to the Company in accordance with the terms of the FSA Regulations, the ICVC Regulations, the Instrument of Incorporation and this Prospectus. The ACD Agreement provides that the Manager is appointed for an initial period of 2 years and thereafter may be terminated upon 6 months' prior written notice expiring on the last Dealing Day in March, June, September or December of any year by either the Manager or the Company, although in certain circumstances the ACD Agreement may be terminated forthwith by notice in writing by the Manager to the Company or the Depositary, or by the Depositary or the Company to the Manager. Termination cannot take effect until the FSA has approved the appointment of another authorised corporate director in place of the retiring Manager.

The Manager is entitled to its pro rata fees and expenses to the date of termination and any additional expenses necessarily realised in settling or realising any outstanding obligations including those referred to in Section 31. No compensation for loss of office is provided for in the ACD Agreement. To the extent allowed by the FSA Regulations, the ACD Agreement provides indemnities to the Manager other than for matters due to its negligence, bad faith, wilful default or fraud of or by the Manager in the performance or non performance of its duties under the ACD Agreement or by reason of the reckless disregard of its duties and obligations under the ACD Agreement or by reason of the Manager being in breach of the ACD Agreement.

The Manager will provide Shareholders with a copy of the ACD Agreement on request.

The Manager is under no obligation to account to the Depositary or the shareholders for any profit it makes on the issue or re-issue of shares or cancellation of shares which it has redeemed. The fees to which the Manager is entitled are set out in Sections 30 and 31.

## **5. The Depositary**

BNY Mellon Trust and Depositary (UK) Limited is the Depositary of the Company. The Depositary is a private company with limited liability authorised and regulated by the FSA and incorporated in England and Wales on June 25 1998 with registered number 3588038. The ultimate parent company of the Depositary is Bank of New York Mellon Inc. Subject to the FSA Regulations and the ICVC Regulations, the Depositary is responsible for the safekeeping of the property of the Company entrusted to it and has a duty to take reasonable care to ensure that the Company is managed in accordance with the provisions of the FSA Regulations relating to the pricing of, and dealing in, shares of the Company and the allocation of the income of the Company. The appointment of the Depositary has been made under the Depositary Agreement.

## **Registered office and Principle Place of Business**

Registered office: 160 Queen Victoria Street, London, EC4 4LA

## **Principal business activity**

The principal business of the Depositary is that of acting as trustee of authorised unit trusts, acting as depositary of open-ended investment companies and acting as trustee or depositary in relation to recognised schemes.

## **Terms of appointment**

The terms of the Depositary Agreement between the Company, the Manager and the Depositary provide that the Depositary be engaged to perform all of the general duties of the depositary of the Company and be responsible for the control of the Scheme Property as described in COLL 6.6 of the FSA Regulations (as applicable to depositaries) and also to exercise all other duties, functions, powers and discretions as are required of or conferred on depositaries by the ICVC Regulations and the FSA Regulations. Subject to the FSA Regulations, the Depositary has full power under the Depositary Agreement to delegate (and authorise its delegate to sub-delegate) all or any part of its duties as depositary. The Depositary has appointed Bank of New York Mellon Inc to act as Custodian for the Scheme Property. The Depositary Agreement may be terminated on 6 months' written notice by the Depositary, the Company or the Manager provided that the Depositary may not retire voluntarily except upon the appointment of a new depositary. To the extent allowed by the ICVC Regulations and the FSA Regulations, the Depositary Agreement contain indemnities by the Company in favour of the Depositary against (other than in certain circumstances) any liability incurred by the Depositary as a consequence of its safe keeping of any of the Scheme Property of the Company or incurred by it as a consequence of the safe keeping of any of the Scheme Property by anyone retained by it to assist it to perform its function of the safekeeping of the Scheme Property and also (in certain circumstances) exempts the Depositary from liability. The fees to which the Depositary is entitled are set out in Section 33.

## **6. The Investment Adviser**

The Investment Adviser to the PFS Prodigy Capital Partners Fund is Prodigy Capital Partners LLP ("Prodigy"), which is authorised and regulated by the FSA was established in 2003 and is managing over GBP20 million, including hedge funds, segregated pension accounts and a number of retail funds.

The key employees of Prodigy are as follows:

### **David Robinson**

David Robinson (Principal and Portfolio Manager) graduated from the Yale School of Management in 1988. After graduation he moved to Hong Kong as Regional Investment Analyst at Baring Securities covering India, Hong Kong/China, Thailand, the Philippines, Malaysia and Vietnam. In 1992 he was promoted to the group management board of Baring Securities. In 1994, he left Barings to join HSBC (formerly James Capel) as Regional Investment Strategist, based in Hong Kong. In 1997 he joined Sofaer Capital, the first Asia ex-Japan equity long/short hedge fund, working in Hong Kong as a portfolio manager, becoming a Director in 1998. He left Sofaer Capital in 2000. He is the founder of Prodigy Capital Partners.

### **Chris Mader**

Chris Mader (Investment Analyst) contributes to the investment process providing detailed industry and company analysis, as well as risk analysis and execution trading. He also oversees trade support functions. He completed an MSc in

Economics at the University of Warwick and worked for UBS as an OTC credit derivatives analyst before joining Prodigy in June 2006, where he went through rigorous training tutored by David Robinson while completing all 3 CFA levels.

### **Fotos Peleties**

Fotos Peleties (Trading Assistant) obtained his PhD in Chemical Engineering from Imperial College, London, in 2007. In the same year he joined Prodigy Capital where he has developed Risk Management, Portfolio Attribution, Trade Management and Performance Measurement systems and is responsible for trade bookings. He has recently expanded his role as a buy-side analyst. He has passed the CFA Level 1 exam and is currently preparing to take Level 2.

### **Thomas Biley**

Thomas Biley (Trading Assistant) studied Economics and Finance at the University of Manchester before working as a data analyst at HSBC. He joined Prodigy in May 2007 and his responsibilities include monitoring FX exposure, delta adjusted option exposure, cash reconciliation, security and portfolio valuation and month end NAV calculation. He is also currently working on the development of a new in-house portfolio and risk management system that will provide on demand risk metrics and minimise downside portfolio risk.

Under an agreement between the Manager and Prodigy dated 5 August 2009, Prodigy has the authority of the Manager and the Company in respect of the PFS Prodigy Capital Partners Fund to exercise discretionary management powers in respect of the Company in accordance with the investment objective of that Sub-Fund, including the power to effect such investments and reinvestments on behalf of the Sub-Fund as it considers appropriate. The agreement may be terminated immediately by the Manager if it is in the best interests of shareholders. The Investment Adviser will receive a fee paid by the Manager.

The significant activities of Prodigy, other than providing services to the Company as an investment adviser, are described at Appendix 4.

The Investment Adviser will be entitled to a Performance Fee. The Performance Fee is based on a positive absolute return being achieved at 10% of any out performance being the difference between the percentage change in the NAV per share per investor and LIBOR plus an absolute 1.5% ("the Hurdle Rate") over the Performance Period. The use of the Hurdle Rate (as described below) ensures that investors will not be charged a Performance Fee until any previous losses both absolute and relative to the Hurdle Rate (or increases at less than the Hurdle Rate) are recovered ("the High Water Mark"). The methodology used by the Fund ensures each Share in the Fund is effectively charged a Performance Fee which equates precisely with that Share's performance relative to the Hurdle Rate. This method of calculation also ensures that (i) any Performance Fee paid to the Investment Manager is charged only to those Shares which have appreciated in value in absolute terms and relative to the Hurdle Rate; (ii) all Shareholders have the same amount of capital per Share at risk in the Fund; and (iii) all Shareholders of the same Share Class have the same Net Asset Value per Share.

Investors should note that the Performance Fee which is accrued on a daily basis and included in the Net Asset Value calculation will not be subject to an equalisation calculation or adjustment on the crystallisation of the Performance Fee. The Directors consider that to apply such an equalisation calculation or adjustment on the

crystallisation of the Performance Fee would be a cumbersome burden to Shareholders.

Investors should note that such Performance Fee may be charged to the capital of the relevant Sub-Fund. Therefore on redemption, investors may not receive back the full amount invested.

These fees are described in more detail in Section 32 of this Prospectus

The Manager may from time to time appoint other Investment Advisers in relation to one or more of the Sub-Funds.

## **7. The Auditor**

The auditor of the Company is Shipleys LLP, registered auditor, whose address is 10 Orange Street, Haymarket, London, WC2H 7DQ, United Kingdom.

## **8. Administrator and Registrar**

The Manager will act as registrar to the Company and provide certain administration functions; such as fund accounting and pricing. The register of shareholders for the Company is maintained at the address of the Administrator's registered office as noted below, and may be inspected (together with the plan registers) at that address between 8.30am and 4.30pm on each Dealing Day by any shareholder or any shareholder's duly authorised agent.

### **Registered office:**

2nd Floor,  
Springfield Lodge,  
Colchester Road,  
Chelmsford. CM2 5PW  
United Kingdom

## **9. Conflicts of interest**

The Manager, the Depositary and the Investment Adviser or any affected person are or may be involved in other financial, investment and professional activities which may, on occasion, cause conflicts of interest with the management of the Company or the Sub-Funds. The Manager will seek to identify the types of conflicts that may arise between the interests of the Company and those of their own with reference to: the likelihood of making a financial gain or avoiding a loss at the expense of the Company; whether the Manager has an interest in the outcome of a service or transaction it provides to the Company; whether there is a financial or other incentive to favour the interest of the Manager over the interests of the Company; and whether there are inducements deriving from sources in relation to the services the Manager provides to the Company, in the form of monies, goods or services, other than standard commission or fees for the service(s) in question. Where a potential conflict arises, the Manager is committed to managing these to prevent them from constituting or giving rise to a material risk of damage to the interests of the Company and to ensure that transactions and services are effected on terms which are not materially less favourable to the Company had the potential conflict not existed. The circumstances in which conflicts of interest might arise include

where the Manager acts for other investors with an interest in such investments or where the transactions are in shares of another fund for which the Manager is the ACD or investment advisor. The Manager is required to identify, manage, record and, where relevant, disclose actual or potential conflicts of interest between its self and other clients and between one client and another and to have a written policy in place. Further detail of the Manager's conflicts of interest policy is available on request.

## **10. Profile of a Typical Investor**

The PFS Prodigy Capital Partners Fund is designed to be marketable to retail and institutional investors. The choice of the Company and Sub-Fund should be determined by the attitude to risk, wish for income and/or growth, and intended length of time for investment and in the context of the investor's overall portfolio. The Manager recommends that investors always seek professional advice before making any investment decisions.

## **11. Buying, selling and switching shares**

The dealing office of the Manager is open on each Dealing Day from 8.30am to 6.00pm to receive requests for the buying, selling and switching of shares in the Sub-Funds, which will be effected at prices determined at the next Valuation Point following receipt of such request.

## **12. Buying shares**

### **Procedure**

All orders will be dealt at a forward price; this being the price calculated by reference to the next Valuation Point after the order is received by the Manager. Shares can be bought by sending a completed application form and payment to the Administration Centre of the Manager. Applications forms are available from the Manager's web site: [www.phoenixfundservice.com](http://www.phoenixfundservice.com). Alternatively, the buying of Shares may be effected by telephone on **0845 0264285** and/or Fax No:0845 2802423 Telephone conversations of all dealers, staff in the administration department and client services may be recorded for mutual protection.

The Manager has the right to reject, without providing an explanation, any application for Shares in whole or part, and in this event the Manager will return any money sent, or the balance of such monies, at the risk of the applicant. In addition the Manager may reject any application previously accepted if the applicant has paid by cheque and that cheque subsequently fails to be cleared. The Manager reserves the right to add other forms of dealing at its discretion. Any subscription monies that remain after a whole number of shares have been issued will not be returned to the applicant. Instead, smaller denomination shares will be issued equal to a fraction of a whole share.

### **Documents the buyer will receive**

A contract note or letter of acknowledgement as appropriate giving details of the Shares purchased and the price used will be issued by the end of the business day following the Valuation Point by reference to how the purchase price is determined, together with, where appropriate, a notice of the applicant's right to cancel. In

addition, statements of holdings as at 31 December and 30 June will be sent to all shareholders on or before 31 January and 31 July each year.

All sales will be made on a cash basis and payment for Shares must be made on receipt, by the purchaser, of the contract note or letter of acknowledgement. Share certificates will not be issued in respect of Shares. Ownership of Shares will be evidenced by an entry on that Company's register of shareholders. Entries are made after the later of the date the payment clears and any cancellation rights expire. Statements in respect of periodic allocations of income in each Sub-Fund will show the number of Shares held by the shareholder in the Sub-Fund in respect of which the allocation is made. Individual statements of a shareholder's (or, when Shares are jointly held, the first named holder's) Shares will also be issued annually and at any other time on request by that registered shareholder.

### **Minimum purchases and holdings**

Minimum initial investment limits as well as for any subsequent top up investments for each Share Class are stated in the respective Appendix for each Sub-Fund. The Manager may at its absolute discretion accept subscriptions lower than the minimum amount. If a holding is below the minimum holding the Manager has discretion to require redemption of the entire holding.

## **13. Selling shares**

### **Procedure**

Every shareholder has the right to require that the Company buys back his/her Shares on any Dealing Day unless this would reduce the value of his/her shareholding below the required minimum for the relevant Share Class. Requests to sell Shares may be directed to the Manager by telephone: 0845 0264285 and/or Fax No:0845 2802423 or in writing using the appropriate form to the Administration Centre: PO Box 10530, Chelsford, Essex CM1 9NR

### **Documents the seller will receive:**

A contract note giving details of the number and price of Shares sold will be sent to the selling shareholder (the first named, in the case of joint shareholders) and/or their duly authorised agent together (if sufficient written instructions have not already been given) with a form of renunciation, for joint holders, for completion and execution by the shareholder (and, in the case of a joint holding, by all the joint holders) not later than the end of the business day following the Valuation Point by reference to which the redemption price is determined. Cheques in satisfaction of the redemption monies will be issued within four business days after the later of:

- receipt by the Manager of the form of renunciation (or other sufficient written instructions) duly signed by all the relevant shareholders and completed as to the appropriate number of Shares, together with any other appropriate evidence of title; and
- the Valuation Point following receipt by the Manager of the request to sell.

### **Minimum sales and holdings**

The Manager reserves the right to refuse a sale request if the value of the Shares of any Sub-Fund of the Company to be sold would result in a shareholder holding less

than the minimum holding as detailed in the Appendix for that Sub-Fund. The shareholder may be required to sell his/her entire holding.

### **In specie redemption**

If a shareholder requests the sale of Shares, the Manager may, if in its sole discretion it considers the deal substantial in relation to the total size of the Sub-Fund concerned, arrange for the Company to cancel the Shares and transfer Scheme Property to the shareholder instead of paying the price of the Shares in cash, or, if required by the shareholder, pay the net proceeds of sale of the relevant Scheme Property to the shareholder. A deal involving Shares representing 5% or more in value of a Sub-Fund will normally be considered substantial, although the Manager may at its discretion agree an in specie redemption with a shareholder whose selling Shares represent less than 5% in value of the Sub-Fund concerned. Before the proceeds of cancellation of the Shares become payable, the Manager will give written notice to the shareholder that relevant Scheme Property (or the proceeds of sale of that relevant Scheme Property) will be transferred to that shareholder. The Manager will select the property to be transferred (or sold) in consultation with the Depositary. They must ensure that the selection is made with a view to achieving no greater advantage or disadvantage to the redeeming shareholder than to continuing shareholders. Any such redemption as set out above may be subject to a retention by the Depositary from that property (or proceeds), for the value (or amount) of any Stamp Duty Reserve Tax to be paid on the cancellation of Shares and any relevant transaction costs.

### **14. Buying shares for children**

Minors may not be registered as shareholders, but Shares may be bought on their behalf and registered in an adult shareholder's name and designated with the child's initials, e.g. John Smith a/c A.N.S. The holding(s) may be transferred into the name of the child when the child reaches 18 years upon receipt of a properly completed stock transfer form, which is available from the Manager.

### **15. Buying shares on behalf of a trust**

A trust cannot be registered as a shareholder and therefore any Shares bought on behalf of a trust are registered in the names of the individual trustees (maximum 4). Any appointment of new trustees or resignation of existing trustees should be notified to the Manager in writing as soon as possible after the change. It will be necessary to complete a stock transfer form in order to reflect the change on the register of shareholders. Failure to do this may result in a delay in releasing the proceeds of any sale of Shares. The Sub-Funds are 'wider range' investments under the Trustee Investments Act 1961.

### **16. Switching**

If applicable, a holder of Shares in a Sub-Fund may at any time switch all or some of those Shares ("Old Shares") for Shares of another Sub-Fund ("New Shares") in the Company. The number of New Shares issued will be determined by reference to the respective prices of New Shares and Old Shares at the next Valuation Point applicable when the Old Shares are repurchased and the New Shares are issued. In addition, a holder of Shares of a particular Share Class in a Sub-Fund ("Old Class

Shares") may at any time switch all or some of their Shares for Shares of another class in the same Sub-Fund ("New Class Shares"). The number of New Class Shares issued will be determined by reference to the respective prices of New Class Shares and Old Class Shares at the next Valuation Point after the instruction to switch is received.

Switching may be effected either by contacting the Manager by telephone: **0845 0264285** and/or Fax No: **0845 2802423** or in writing to the Administration Centre and the shareholder may be required to complete written instructions to switch (which, in the case of joint shareholders must be signed by all the joint holders). A switching shareholder must be eligible to hold the Shares into which the switch is to be made. The Manager may at its discretion charge a fee on the switching of Shares between Share Classes and between Sub-Funds. These fees are set out in Section 17.

If the switch would result in the shareholder holding a number of Old Shares, New Shares, Old Class Shares or New Class Shares of a value which is less than the applicable minimum holding, the Manager may, at its discretion, convert the whole of the applicant's holding of Old Shares to New Shares or of Old Class Shares to New Class Shares or refuse to effect any switch of the Old Shares or Old Class Shares. No switch will be made during any period when the right of shareholders to require the sale of their Shares is suspended. The general provisions on selling Shares shall apply equally to a switch. The Manager may adjust the number of New Shares or New Class Shares to be issued to reflect the imposition of any switching fee together with any other charges or levies in respect of the issue or purchase of the New Shares or New Class Shares or the sale or cancellation of the Old Shares or Old Class Shares as may be permitted pursuant to the FSA Regulations. Please note that, under current tax law, a switch of Shares in one Sub-Fund for Shares in any other Sub-Fund in the same Company or a different company is treated as a sale and purchase and will, for persons subject to UK tax, be a realisation for the purposes of capital gains tax although a switch between different Share Classes in the same Sub-Fund will not be deemed a realisation for the purposes of capital gains tax. A switch of Shares between Share Classes may be subject to income equalisation as referred to in Section 40.

A shareholder who switches Shares in one Sub-Fund for shares in any other Sub-Fund or for Shares in any other Share Class of the same Sub-Fund will not be given a right by law to withdraw from or cancel the transaction.

## **17. Dealing charges**

### **Preliminary charge**

The Manager may impose a charge on the buying of Shares by investors. The preliminary charge is payable to the Manager. Full details of the current preliminary charge for each Share Class in each Sub-Fund are set out in the respective Sub-Fund Appendix.

### **Switching fee**

On the switching of Shares of a Sub-Fund for Shares of another Sub-Fund within the Company the Instrument of Incorporation authorises the Company to impose a switching fee. The fee will not exceed an amount equal to the then prevailing

preliminary charge for the Sub-Fund or Share Class, as appropriate, into which Shares are being switched. The fee for switching between Sub-Funds and Share Classes is currently NIL of the value of the Shares being switched. If such a Switching Fee is introduced in the future, the switching fee will be payable to the Manager and a period of 60 days notice will be given to all shareholders.

### **Redemption fee**

There is currently no charge for redeeming Shares in any of the Share Classes. If such a Redemption Fee is introduced in the future, the switching fee will be payable to the Manager and a period of 60 days notice will be given to all shareholders.

## **18. Other dealing information**

### **Dilution adjustment**

The basis on which the Company's investments are valued for the purpose of calculating the buying and selling price of Shares as stipulated in the FSA Regulations and the Company's Instrument of Incorporation is summarised in Sections 24 and 25. The total proceeds of sale of a Sub-Fund's investments may be less than, and the total purchase price of a Sub-Fund's investments may be more than, the mid-market value used in calculating the share price - for example, due to dealing charges, or through dealing at prices other than the mid-market price. Under certain circumstances (for example, large volumes of deals) this may have an adverse effect on the shareholders' interest in a Sub-Fund. In order to mitigate this effect, called dilution, the Manager has the power to apply a dilution adjustment, as defined in the FSA Regulations on the issue and/or redemption of Shares in a Sub-Fund. A dilution adjustment is an adjustment to the share price. The Manager shall comply with COLL 6.3.8R of the FSA Regulations in its application of any such dilution adjustment. The dilution adjustment will not exceed 1% of the amount redeemed based on future projections.

The dilution adjustment for each Sub-Fund will be calculated by reference to the estimated costs of dealing in the underlying investments of that Sub-Fund, including any dealing spread, commission and transfer taxes. The need to apply a dilution adjustment will depend on the volume of sales (where they are issued) or redemptions (where they are cancelled) of Shares. The Manager may apply a dilution adjustment on the issue and redemption of such Shares if, in its opinion, the existing shareholders (for sales) or remaining shareholders (for redemptions) might otherwise be adversely affected. A dilution adjustment must, so far as practicable, be fair to all shareholders and potential shareholders. In particular, the dilution adjustment may be applied in the following circumstances for all Sub-Funds in the Company:

- where over a dealing period a Sub-Fund has experienced a large level of net issues or redemptions relative to its size. For these purposes a large level of net dealing is defined as 5% or more of the Net Asset Value of the Sub-Fund in question (as calculated at the last valuation point); or
- where over a dealing period, there has been net issues or redemptions which could lead to dilution of the Sub-Fund, regardless of whether this is below 5% of the Net Asset Value of the Sub-Fund; or

- where the Manager considers it necessary to protect the interests of the shareholders of the Company.

The Manager may alter its current dilution policy either by shareholder consent pursuant to the passing of a resolution to that effect at a properly convened meeting of shareholders and by amending this Prospectus or by giving shareholders notice and amending the Prospectus at least 60 days before the change to the dilution policy is to take effect. On the occasions that the dilution adjustment is not applied there may be an adverse impact on the total assets of the Sub-Fund which may otherwise constrain the future growth of the Sub-Fund in question. It should be noted that as dilution is directly related to the inflows and outflows of monies from the Sub-Fund it is not possible to predict accurately whether or not dilution will occur at any particular future point in time, and how frequently the Manager will need to make such a dilution adjustment, however the Manager expects to apply a dilution adjustment on most dealing days where there is a net flow into or out of the Sub-Fund.

### **19. Anti-Money laundering**

Under current laws, firms conducting investment business are required to maintain procedures to combat money laundering and other financial crime. Under these laws the Manager is legally obliged to carry out customer due diligence for anti-money laundering purposes. This means that, in certain circumstances shareholders or potential shareholders may be asked to provide some proof of their identity. Such proof may involve the Manager obtaining information directly from (potential) shareholders or from a third party such as a credit reference agency. Where the Manager seeks proof of identity on a sale or redemption, proceeds will not normally be paid until the Manager has received appropriate verification. The Manager reserves the right to reverse the transaction or to refuse to sell shares if it is not satisfied as to the identity of the applicant.

### **20. Restrictions and compulsory transfer and sale**

The Manager may from time to time impose such restrictions as it may think necessary for the purpose of ensuring that no Shares in the Company are acquired or continue to be held by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory. In this connection, the Manager may, inter alia, reject in its discretion any application for the purchase, sale, transfer or switching of Shares. The Manager has the ability to cancel the buying of Shares without notice in the event of default by an applicant or his agent. The Manager will in those circumstances hold the applicant liable or, if applicable, jointly and severally liable with his financial advisor, for any loss sustained by the Manager.

### **21. Suspension or deferrals of dealings**

#### **Suspension**

The Manager may, with the prior agreement of the Depositary, and must without delay, if the Depositary so requires, temporarily suspend the issue, cancellation, sale and redemption of Shares in any or all of the Sub-Funds of the Company, if the Manager or the Depositary is of the opinion that due to exceptional circumstances there is good and sufficient reason to do so having regard to the interests of

shareholders or potential shareholders. Re-calculation of the share price for the purpose of sales and purchases will commence on the next relevant Valuation Point following the ending of the suspension.

On suspension, the **Manager**, or the **depository** if it has required the **Manager** to suspend **dealings** in **Shares**, will immediately inform the **FSA**, stating the reason for its action and as soon as practicable give written confirmation of the suspension and the reasons for it to the **FSA** and the **Home State regulator** in each **EEA State** in which the **Manager** holds itself out as willing to **sell** or redeem **Shares**. The **Manager** will ensure that a notification of the suspension is made to **shareholders** of the **Sub-Fund** as soon as practicable after suspension commences drawing **Shareholders'** particular attention to the exceptional circumstance which resulted in the suspension. The **Manager** will publish (on its website or by other general means) sufficient details to keep **Shareholders** appropriately informed about the suspension including, if known, its likely duration. The suspension of **dealings** in **Shares** will cease as soon as practicable after the exceptional circumstances have ceased. The **Manager** and the **Depositary** will formally review the suspension at least every 28 days and inform the **FSA** of the results of this review and any change to the information previously provided. The **ACD** and the **Depositary** will ensure that the suspension is only allowed to continue for as long as it is justified having regard to the interests of the **unitholders**.

### **Deferred Redemption**

Each Sub-Fund permits deferral of redemptions at the Valuation Point to the next Valuation Point or points where the requested redemptions exceed 10% of the Sub-Fund's value. Redemptions not processed at a Valuation Point will be processed at the next Valuation Point, up to the 10% net asset value limit. Available **Shares** to be redeemed will be bought back in equal values (up to the amounts requested) across all shareholders who have sought to redeem **Shares** at any Valuation Point at which redemptions are deferred. All deals relating to an earlier Valuation Point will be completed before those relating to a later Valuation Point are considered.

### **22. Market Timing Policy**

The **Manager** does not knowingly allow investments which are associated with market timing activities, as these may adversely affect the interests of shareholders. In general, market timing refers to the investment behaviour of a person or group of persons buying, selling or switching **Shares** on the basis of predetermined market indicators. Market timing may also be characterised by transactions that seem to follow a timing pattern or by frequent or large transactions in **Shares**.

**Accordingly, the Manager reserves the right to reject any application for switching and/or subscription of Shares from investors whom it considers to be associated with market timing activity. In this connection the Manager may combine Shares which are under common ownership or control for the purposes of ascertaining whether investors can be deemed to be involved in such activities.**

### **23. Governing law**

All share dealings are governed by English law.

## **24. Valuation of the Company**

The Net Asset Value per Share of a Sub-Fund is currently calculated at 12.00 noon on each Dealing Day (the Valuation Point). Subject to the FSA Regulations the Manager may at any time carry out an additional valuation if the Manager considers it desirable to do so. Where a Sub-Fund is invested in stocks or markets which are closed at the time of the fund valuation, there is a risk that the quoted prices of those stocks may be out of date and unreliable. In accordance with the FSA regulations, the Manager may make adjustments to the value of any investments which may be materially impacted by out of date prices through a technique known as fair value pricing.

## **25. Calculation of the Net Asset Value**

There is only a single price for any Share as determined from time to time by reference to a particular Valuation Point. The value of the Scheme Property of the Company or of a Sub-Fund (as the case may be) shall be the value of its assets less the value of its liabilities determined in accordance with the Company's Instrument of Incorporation. The Shares will be valued in the base currency of the Fund being Great British Pounds.

All the Scheme Property (including receivables) of the Company (or the Sub-Fund) is to be included, subject to the following provisions.

25.1 Scheme Property which is not cash (or other assets dealt with below) or a contingent liability transaction shall be valued as follows:

- a) Units or shares in a collective investment scheme:
  - if a single price for buying and selling units or shares is quoted, at the most recent such price; or
  - if separate buying or selling prices are quoted, at the average of the two prices provided the buying price has been reduced by any preliminary charge included therein and the selling price has been increased by any exit or redemption charge attributable thereto; or
  - if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no price exists or if the most recent price available does not reflect the Manager's best estimate of the value of the units or shares, at a value which in the opinion of the Manager reflects a fair and reasonable price for that investment.
- b) Any other transferable security:
  - if a single price for buying and selling the security is quoted, at that price; or
  - if separate buying and selling prices are quoted, the average of those two prices; or
  - if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no price exists or if the most recent price available does not reflect the Manager's best estimate of the value of the units or shares, at a value which in the opinion of the Manager reflects a fair and reasonable price for that investment.
- c) Property other than that described in the Sections above:

- a value which, in the opinion of the Manager, represents a fair and reasonable mid-market price.
- 25.2 Cash and amounts held in current and deposit accounts and in other time-related deposits shall be valued at their nominal values.
- 25.3 Property which is a contingent liability transaction shall be treated as follows:
- if it is a written option (and the premium for writing the option has become part of the Scheme Property), the amount of the net valuation of premium receivable shall be deducted.
  - if it is an off-exchange future, it will be included at the net value of closing out in accordance with a valuation method agreed between the Manager and the Depositary;
  - if the property is an off-exchange derivative, it will be included at a valuation method agreed between the Manager and Depositary;
  - if it is any other form of contingent liability transaction, it will be included at the net value of margin on closing out (whether as a positive or negative value).
- 25.4 Any outstanding borrowings, whenever payable and any accrued but unpaid interest thereto shall be deducted
- 25.5 In determining the value of the Scheme Property, all instructions given to issue or cancel shares shall be assumed to have been carried out (and any cash paid or received) whether or not this is the case.
- 25.6 Agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the Manager, their omission will not materially affect the final net asset amount.
- 25.7 Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under this Section.
- 25.8 All agreements are to be included under this Section which are, or ought reasonably to have been, known to the person valuing the property.
- 25.9 An estimated amount for anticipated tax liabilities at that point in time including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty and stamp duty reserve tax will be deducted.
- 25.10 An estimated amount for any liabilities payable out of the Scheme Property and any tax thereon treating periodic items as accruing from day to day will be deducted.
- 25.11 An estimated amount for accrued claims for tax of whatever nature which may be recoverable will be added. Any other credits or amounts due to be paid into the Scheme Property will be added.

25.12 A sum representing any income accrued due or deemed to have accrued but not received and any stamp duty reserve tax provision anticipated to be received will be added.

25.13 Currency or values in currencies other than the Base Currency shall be converted at a rate of exchange that is not likely to result in any material prejudice to the interests of shareholder or potential shareholders.

## **26. Price per Share in each Sub-Fund and each Share Class**

The price of a Share in a Sub-fund is calculated by reference to the Net Asset Value of the Sub-Fund to which it relates. The price at which Shares may be bought or sold is the Net Asset Value of the respective Share and is to be quoted in pence to two decimal places. In addition a preliminary charge may be charged when buying shares, which is also quoted to two decimal places. There may also, for both buying and selling, be a dilution adjustment and Stamp Duty Reserve Tax, as described in Sections 18 and 38 respectively.

The income available for accumulation in relation to a Sub-Fund is determined in accordance with the COLL Sourcebook. Broadly it comprises all sums deemed by the Company, to be in the nature of income received or receivable for the account of the Company and attributable to the Sub-Fund in respect of the accounting period concerned, after deducting net charges and expenses paid or payable out of such income and after making such adjustments as the Manager considers appropriate, following consultation with the auditors in accordance with the COLL Sourcebook, in relation to taxation and other matters. Each allocation of income made in respect of any Sub-Fund at a time when more than one Share Class is in issue in respect of that Sub-Fund, shall be effected by reference to the relevant holder's proportionate interest in the scheme property of the Sub-Fund in question.

## **27. Pricing basis**

The Company deals on a forward pricing basis. A forward price is the price calculated at the next Valuation Point after the purchase or sale is agreed.

## **28. Publication of prices**

The most recent prices of Shares will appear daily on the Prodigy Capital Partners LLP website ([www.ProdigyCapital.com](http://www.ProdigyCapital.com)) and the IMA website ([www.investmentuk.org](http://www.investmentuk.org)). This is the primary method of price publication. The prices of Shares may also be obtained by calling the Manager by telephone: 08450264285 and/or Fax No:08452802423

## **29. Risk factors**

Potential investors should consider the following risk factors before investing in the Company and the Sub-Funds. Further risk factors relating to a specific Sub-Fund is included in the relevant Sub-Fund Appendix.

## **General**

An investment in one or more of the Sub-Funds of the Company will involve exposure to those risks normally associated with investment in stocks and shares. As

such, the price of shares and the income from them can go down as well as up and an investor may not get back the full amount he has invested. There is no assurance that investment objectives of any Sub-Fund will actually be achieved. The Sub-Funds of the Company may have significant investments in smaller companies, in which there may be no established market for the shares, or the market may be highly illiquid. Because of this potential illiquidity in the investments of certain Sub-Funds, such Sub-Funds may not be appropriate for all investors, including those who are not in a position to take a long-term view of their investment. Shares in all the Sub-Funds should generally be regarded as long-term investments. Details of specific risks in addition to the Risk Factors set out below; any additional risk factors relating to particular Sub-Funds are set out in the relevant Sub-Fund Appendix.

Charges in respect of certain Sub-Funds may be taken against capital rather than income. This may constrain capital growth of the Sub-Fund in question.

### **Emerging Markets**

The Company may invest in emerging markets. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include: (i) increased risk of nationalisation or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalisation of securities markets whereby the purchase and sale of investments may take longer than in developed markets and transactions may need to be conducted at unfavourable prices; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for Great British Pounds; (viii) increased likelihood of governmental decisions to cease support of economic reform programmes or to impose centrally planned economies; (ix) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (x) less extensive regulation of the securities markets; (xi) longer settlement periods for securities transactions and less reliable clearance and custody arrangements; and (xii) less stringent corporate laws regarding fiduciary duties of officers and directors and less developed mechanisms for the protection of investors.

### **Global Economic and Market Conditions**

The Company will invest in currencies, securities and instruments traded in various markets throughout the world, including in global emerging markets, some of which are highly controlled by governmental authorities. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavourable currency exchange rate fluctuations, imposition of exchange control regulation by governments, withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalisation of their industries, political difficulties, including expropriation of assets, confiscatory taxation and social, economic or political instability in foreign nations. These factors may affect the level and volatility of securities prices and the liquidity of a

Sub-Funds' investments. Unexpected volatility or illiquidity could impair a Sub-Funds' profitability, or result in losses. The economies of countries differ in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

### **Political Risk**

The value of the Company's assets may be affected by uncertainties such as international political developments, changes in government policies, taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of the countries to which the Company is exposed.

### **Market Risks**

The investments of the Company are subject to normal market fluctuations and the risks inherent in investment in equity securities and similar instruments and there can be no assurance that appreciation will occur. The price of Shares can go down as well as up and investors may not realize their initial investment.

### **Liabilities of the Company**

As mentioned in Section 2, although each Sub-Fund so far as possible will be treated as bearing the liabilities, expenses, costs and charges attributable to it, if its assets are not sufficient the Manager may re-allocate assets, liabilities, expenses, costs and charges between the other Sub-Funds of the Company in a manner which is fair to the shareholders of the Company generally. The Manager would normally expect any such re-allocation to be effected on a *pro rata* basis having regard to the Net Asset Values of the relevant Sub-Funds. If there is any such re-allocation the Manager will advise shareholders of it in the succeeding annual or interim report to shareholders. Shareholders are not, however, liable for the debts of the Company. A shareholder is not liable to make any further payment to the Company after paying the purchase price of shares.

### **International Investing**

Investments on an international basis involve certain risks, including fluctuations in foreign exchange rates, future political and economic developments and the possible imposition of exchange controls or other governmental laws or restrictions. Prices of securities in different countries are subject to different economic, financial, political and social factors. Since the Company will invest in securities denominated in various currencies, changes in foreign currency exchange rates will affect the values of securities held by the Company. In addition, investments held by the Company may be subject to non-recoverable withholding taxes. Inflation in some countries in which investments are made may affect performance.

## **Investment and Trading Risks in general**

All securities investments present a risk of loss of capital. The Manager believes that the Company's investment policy for each Sub-Fund moderates this risk through a careful selection of securities and other financial instruments

### **Investing in Smaller Companies**

Investments in smaller companies may involve greater risks and thus may be considered speculative. Investment in a Sub-Fund investing in smaller companies should be considered long term and not as a vehicle for seeking short-term profits, nor should an investment in such Sub-Fund be considered a complete investment programme. Many small companies' stocks trade less frequently and in smaller volume and may be subject to more abrupt or erratic price movements than stocks of larger companies. The securities of small companies may also be more sensitive to market changes than the securities of large companies.

### **Restrictions on Foreign Investment**

Substantial limitations may exist in certain countries with respect to a Sub-Fund's ability to repatriate investment income, capital or the proceeds of sales of securities by foreign investors. A Sub-Fund 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.

### **Counterparty and Broker Risk**

The Company will be subject to counterparty risk with respect to transactions, whether due to the insolvency or bankruptcy of counterparties or brokers or other causes.

### **Currency Risk and Hedging**

Although shares in the Company are denominated in the Base Currency, the Company may invest its assets in securities denominated in a wide range of currencies, some of which may not be freely convertible. The Net Asset Value of the Sub-Fund as expressed in its Base Currency will fluctuate in accordance with the changes in the foreign exchange rate between the currency and the currencies in which the Company investments are denominated. The Sub-Fund may therefore be exposed to a foreign exchange / currency risk exposure. The Manager may enter into hedging transactions at its sole discretion and solely for the purposes of efficient portfolio management.

### **Transactions in Derivatives**

The value of derivative transactions may fluctuate and while they may in certain circumstances reduce or eliminate risk they may also limit the potential for capital appreciation. The use of derivatives may lead to higher volatility of the net asset value. In general the possible effect on the Company's or a Sub-Fund's risk profile from the use of derivatives will be to reduce volatility when used for hedging or efficient portfolio management and could increase volatility if used to take additional market or securities exposure.

Forward foreign exchange contracts may be used for hedging purposes. There can be no assurance that the objective sought to be attained from the use of these instruments will be achieved.

### **Investment Techniques and Instruments for Efficient Portfolio Management**

The Company will not invest in Financial Derivative Instruments (“FDIs”) for investment purposes unless otherwise described in the specific Appendix for a particular Sub-Fund. However it may engage in transactions in FDIs for efficient portfolio management purposes (including foreign exchange transactions which alter the currency characteristics of transferable securities and money market instruments held by the Sub-Fund).

The Manager will employ a risk management process which will enable it to monitor and measure the risks attached to FDI positions and details of this process will be provided to the FSA.

### **Financial Derivatives, Techniques and Instruments Risks**

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

Each Sub-Fund may from time to time utilise both exchange traded and over the counter credit derivatives, such as collateralised debt obligations or credit default swaps for hedging purposes and, if expressly permitted in the Appendix for a particular Sub-Fund, as part of that Sub-Fund’s investment policy. These instruments may be volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, a relatively small movement in the price of a contract may result in a profit or a loss that is high in proportion to the amount of the funds actually placed as initial margin and may result in unlimited further loss exceeding any

margin deposited. Furthermore, when used for hedging purposes there may be an imperfect correlation between these instruments and the investment or market sectors being hedged. Transactions in over the counter derivatives, such as credit derivatives, may involve additional risk as there is no exchange market on which to close out an open position.

**The aim of any derivative or forward used for such reasons is not to materially alter the risk profile of the Sub-Fund, rather their use is to assist the Manager in meeting the investment objectives of each Sub-Fund by:**

- **reducing risk and/or**
- **reducing cost, and/or**
- **generating additional income or capital for each Sub-Fund.**

**The aim of reducing risks or costs will allow the Manager to enter into exposures on permissible assets or currencies using derivatives or forwards as an alternative to selling or purchasing underlying assets or currencies. These exposures may continue for as long as the Manager considers that the use of derivatives continues to meet the original aim.**

**The aim of generating additional income allows the Manager to write options on existing assets where it considers the transaction will result in the Sub-Fund deriving a benefit, even if the benefit obtained results in the surrendering the chance of greater benefit in the future.**

**The aim of generating additional capital allows the Manager to take advantage of any pricing imperfections in relation to the acquisition and disposal (or disposal and acquisition) of rights relating to assets the same as, or equivalent to which the Sub-Fund holds or may hold.**

### **Potential Conflicts of Interest**

The Manager and the Investment Advisers and any of their directors, officers, employees, agents and affiliates and the directors or any officer or agent of the Company, and any person or company with whom they are affiliated or by whom they are employed may be involved in other financial, investment or other professional activities which may cause conflicts of interest with the Company.

The Manager and the Investment Advisers (and their affiliates, employees and agents) may promote, manage, advise or otherwise be involved in other collective investment schemes with similar or overlapping investment policies to the Company and, in particular, there could arise conflicts of interest relating to the allocation of investments or realisation opportunities between any Sub-Fund and also between a Sub-Fund and such other collective investment schemes or other clients of the Manager or the Investment Advisers. In such circumstances the Manager and the Investment Advisers will allocate such opportunities equitably. The Manager and the Investment Advisers shall manage any conflicts of interest that arise on an equitable basis having regard to their contractual obligations to the Company, to the Manager (in the case of the Investment Advisers), and to other clients.

In addition, the Manager and the Investment Advisers may provide to other entities services similar to those provided to the Company and shall not be liable to account for any profit earned from such services.

## **Related Party Transactions**

The Manager and the Investment Advisers, the Depositary, and the Custodian and/or their affiliates may have dealings in the assets of the Company provided that any such transactions are effected on normal commercial terms negotiated at arm's length and provided that each such transaction complies with any of the following:

- (i) A certified valuation of such transaction is provided by a person approved by the Manager as independent and competent;
- (ii) The transaction has been executed on best terms, on and under the rules of an organised investment exchange; or

Where neither i) or ii) is practical;

- (iii) Where the Manager is satisfied that the transaction has been executed on normal commercial terms negotiated at arm's length.

## **Past Performance Information**

Market conditions and trading approaches are continually changing and the fact that any adviser or investment manager happened to be successful in the past may largely be irrelevant to its prospects for future profitability. Past results are not necessarily indicative of future performance and no assurance can be given that profits will be achieved or that substantial losses will not be incurred.

## **Inadequate Return**

There can be no assurance that the returns on the Company's investment will be commensurate with the risk of an investment therein. Investors should not commit money to the Company unless they have the resources to sustain the loss of their entire investment in the Company.

## **Liquidity**

The Company invests in emerging markets which tend to be more volatile than mature markets and the value of your investment could move sharply up or down. In some circumstances the underlying investments may become illiquid which may constrain the Investment Adviser's ability to immediately realise the entire portfolio. The registration and settlement arrangements in emerging markets may be less developed than in more mature markets so the operational risks of investing are higher.

## **30. Fees and expenses**

### **General**

The Company may pay out of its property charges and expenses incurred by it, which will include the following expenses:

- the costs of authorising new Sub-Funds to the Company after its initial establishment;
- the costs of preparing the Prospectus and Simplified Prospectus, but does not include the dissemination of the Simplified Prospectus

- the fees and expenses payable to the Manager and to the Depositary (as detailed in Section 31 and 33 below); broker's commission, fiscal charges (including stamp duty and/or Stamp Duty Reserve Tax) and other disbursements which are necessarily incurred in effecting transactions for the Sub-Funds and normally shown in contract notes, confirmation notes and difference accounts as appropriate; fees and expenses in respect of establishing and maintaining the register of shareholders and any sub-register of shareholders, any costs incurred in or about the listing of shares in that Company on any Stock Exchange, and the creation, conversion and cancellation of shares;
- the fees and expenses payable to the Investment Advisor including Performance Fees
- any costs incurred by that Company in publishing the price of the shares in a national or other newspaper;
- any costs incurred in producing and dispatching any payments made by that Company, or the annual and interim reports of that Company;
- any fees, expenses or disbursements of any legal or other professional adviser of the Company;
- any costs incurred in taking out and maintaining any insurance policy in relation to the Company;
- any costs incurred in respect of meetings of shareholders convened for any purpose including those convened on a requisition by shareholders not including the Manager or an associate of the Manager;
- liabilities on amalgamation or reconstruction including certain liabilities arising after transfer of property to the Sub-Funds in consideration for the issue of shares as more fully detailed in the FSA Regulations;
- taxation and duties payable in respect of the property of the Sub-Funds or the issue or redemption of shares;
- the audit fees of the Auditor (including VAT) and any expenses of the Auditor;
- the fees of the FSA as detailed in the FEES sourcebook of the FSA Rules, together with any corresponding periodic fees of any regulatory authority in a country or territory outside the United Kingdom in which shares in that Company are or may be marketed;
- any expense incurred in relation to company secretarial duties including the cost of maintenance of minute books and other documentation required to be maintained by the Company;
- any payments otherwise due by virtue of the FSA Regulations; and
- any value added or similar tax relating to any charge or expense set out herein. Value Added Tax is payable on these charges where appropriate.

Expenses are allocated between capital and income in accordance with the FSA Regulations and the Statement of Recommended Practice relating to the Financial Statements of Authorised Funds, issued by the FSA in November 2003.

### **31. Charges payable to the Manager**

In payment for carrying out its duties and responsibilities the Manager is entitled to deduct from each Sub-Fund an annual management charge as set out in section 33. The annual management charge for each Share Class of each Sub-Fund is calculated and accrues daily and is payable monthly in arrears on the last business day of each month. The current management charges for each Sub-Fund and each Share Class are set out in the Sub-Fund Appendix.

The Manager is also entitled to reimbursement of all reasonable, properly vouched, out of pocket expenses incurred in the performance of its duties, including stamp duty and Stamp Duty Reserve Tax on transactions in shares.

It is expected that the Manager's annual management charge will generally be taken from income. However, where the amount of income received by a Sub-Fund or Share Class is insufficient to meet the annual management charge plus all other expenses attributable or apportioned to the Sub-Fund or Share Class, then some or all of such charge and expenses may be treated as capital expenses and be charged against the capital of the relevant Sub-Fund or Share Class. This will only be done with the approval of the Depositary and may constrain capital growth. In addition, where indicated in the relevant Sub-Fund Appendix, the Manager's annual management charge may be taken from the capital of the relevant Sub-Fund or Share Class.<sup>1</sup>

The Manager may not increase the current rate or amount of its remuneration payable out of the Scheme Property of the Company or the Preliminary charge unless, not less than 60 days before the increase, it gives notice in writing of the increase and the date of its commencement to all relevant shareholders and has revised and made available the Prospectus to reflect the introduction or new rate and the date of its commencement.

Any increase or an introduction of a new category of remuneration by the Manager will be carried out in accordance with the FSA Regulations.

## **32. Investment Advisers fees**

The Investment Adviser is entitled to receive out of the Scheme Property of each Sub-Fund by way of remuneration, a periodic charge which will accrue and be calculated daily and will be payable monthly in respect of each calendar month as practicable after the month end. The rate or rates and/or amounts of the Investment Adviser's periodic charge in respect of each Sub-Fund shall be agreed between the Manager and the Investment Adviser from time to time, subject to any approval by and/or notification to the FSA and/or shareholders that may be required under the ICVC Regulations or the FSA Regulations. The Fees for each Sub-Fund are included in the Appendix for the specific Sub-Fund (See Appendix 4)

The Investment Adviser is also entitled to receive a Performance Fee.

### **Performance Fee**

Share Classes will also incur a Performance Fee which is calculated on a daily accrual basis with annual crystallisation. The Performance Fee is accrued at each Valuation Point and is charged at the increase of the amount by which the performance of the Share Class exceeds the Hurdle Rate\* and provided the current NAV of the Share Class is higher than the High Water Mark\*\*.

\* The Hurdle Rate is in the first instance an absolute return and secondly 3 Months LIBOR plus an absolute 1.5% over the Performance Period. The use of the Hurdle Rate (as described below) ensures that investors will not be charged a

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<sup>1</sup> The Sub-Funds are issuing Accumulation Shares; therefore any income on the Shares will be added to the value of the Shares.

Performance Fee until any previous losses relative to the Hurdle Rate (or increases at less than the Hurdle Rate) are recovered ("the High Water Mark").

\*\* The High Water Mark ("HWM") is a performance measure that is used to ensure that a Performance Fee is only charged where the value of the Share Class has increased in absolute terms over the course of the Company's financial year or the relevant portion of it that an investment was held (the "Performance Period"). It is based on the NAV of the relevant Sub-Fund on the last business day of the Performance Period and where a Performance Fee is payable. If no Performance Fee is payable at the end of the Performance Period the HWM will remain unchanged as of the end of the prior Performance Period.

The methodology used by the Company ensures each Share Class in the relevant Sub-Fund is effectively charged a Performance Fee which equates precisely with that Share Class's performance relative to the Hurdle Rate. This method of calculation also ensures that (i) any Performance Fee paid to the Investment Adviser is charged only to those Shares Classes which have appreciated in value relative to the Hurdle Rate; and (ii) all Shareholders of the same Share Class have the same Net Asset Value per Share.

The Performance Fee accrual will be included in the calculation of the daily Share price at which Shares will be subscribed and redeemed. However, if at any Valuation Point, the current NAV falls below the High Water Mark and/or the NAV fails to exceed the Hurdle Rate no Performance Fee will be accrued in the daily Share price. This will remain the case until such a fall or "underperformance" has been made good.

In the event that there is a net redemption of Shares in a Share Class during a Performance Period the Performance Fee accrual to be added to each Share will be calculated on the reduced number of Shares in issue for that Share Class. In such circumstances, the Performance Fee accrued per redeemed Share will be crystallised and paid to the Investment Adviser from the Fund.

In order for a Performance Fee to be payable in respect of a Performance Period, the Net Asset Value per Share Class on the last Business Day of the relevant Performance Period (before deducting the amount of any accrual for a Performance Fee) (the "Final Net Asset Value per Share Class") must exceed the "Hurdle Rate" for that Performance Period. Where the Hurdle Rate is exceeded, the Performance Fee payable per Share Class is equal to 10% of the amount by which the Final Net Asset Value per Share Class for the Performance Period exceeds the relevant Hurdle Rate.

The total Performance Fee payable in respect of the relevant Performance Period will be an amount equal to the Performance Fee per Share Class as calculated above multiplied by the number of Shares in issue for that Share Class on each Dealing Day in the relevant Performance Period.

Crystallisation of the Performance Fee occurs on the last day of each Performance Period provided that the Hurdle Rate has been exceeded. Any Performance Fee due is payable out of the relevant Sub-Fund to the Investment Adviser in arrears at the end of the Performance Period. Accordingly, once the Performance Fee has crystallised no refund will be made in respect of any Performance Fee paid out at that point in subsequent Performance Periods.

The Auditors of the Fund will audit the calculations of the Performance Fees paid out on an annual basis. The Manager shall ensure that the accrual represents fairly and accurately the Performance Fee liability that may eventually be payable by each relevant Sub-Fund.

Further details of the Performance Fee are available to Shareholders on request.

**Examples 1 to 3 show how the new Performance Fee is calculated.**

For simplicity these examples refer to a single Share using the following data and on the basis of the proposed 10% of the amount by which the performance of the Share Class exceeds the Hurdle Rate and provided the current NAV of the Share Class is higher than the High Water Mark per cent Performance Fee on any out performance against the Hurdle and the previous High Water Mark.

<b>Valuation Point</b>	1	2	3	4
<b>Gross NAV*</b>	100.00p	101.00p	99.00p	101.95p
Assumed Hurdle	100.00p	100.50p	101.00p	101.50

\*Gross NAV is the NAV of the Fund after deduction of all charges but prior to the deduction of any Performance Fee

In the above example the High Water Mark is 100.00p throughout the period.

**Example 1**

Investor A acquires Shares at Valuation Point 1 at 100p. At Valuation Point 2 the gross NAV has risen to 101.00p i.e. the Gross NAV has increased by 1.0p in the period. This is in excess of the Hurdle Rate (100.50p) so the Performance Fee is 0.050p (10% of 0.50p). This Performance Fee is then accrued in the Sub-Fund resulting in a net NAV of 100.95p. The Performance Fee will not be crystallised (paid to the Investment Adviser) until the end of the Performance Period. An accrual will be made for the AMC in the normal way.

**Example 2**

At Valuation Point 3 the gross NAV has fallen to 99.00p. Since this is below the Hurdle Rate of 101.00p, the Sub-Fund has accrued no Performance Fee. As the Sub-Fund has underperformed its Hurdle Rate since Valuation Point 1 the Performance Fee accrued to date (0.050p) will be reduced to zero. This means the net NAV will now be set at 99.050p. The Shares acquired by Investor A at 100p have no longer incurred a Performance Fee as the value is below the price they paid for their Shares. Consequently if Investor A redeems at Valuation Point 3 they will receive less than they initially invested but neither will they have suffered any Performance Fee. An accrual will be made for the AMC in the normal way.

### Example 3

Investor B acquires Shares at the Valuation Point 3 at 99.05p. At Valuation Point 4 the gross NAV has risen to 101.95p, an increase of 2.9p. The new Hurdle Rate is 101.50p, so Performance Fees are only charged on the 0.45p increase from 101.50p to 101.95p. This equates to a charge of 0.045p (10% of 0.45p) resulting in a net NAV of 101.905p. Investor B's units will only incur a Performance Fee on that proportion of the NAV which is in excess of 101.50p **but not on the increase in value from 99.00p to 101.50p**. The Shares acquired by Investor A will not therefore incur a Performance Fee twice for the same period of performance. An accrual will be made for the AMC in the normal way.

### Examples 4 illustrates how the growth of the Fund effects the fees paid

In the example below, an investor makes an initial investment of £10,000 and invests for three years. These examples only show the effect on the payment of management fees to the Manager as other charges and expenses, such as Depositary and Registrar fees, remain unchanged. We have used an assumed Hurdle (3 Month LIBOR) of 1.0% plus absolute return of 1.5% (Total Hurdle equal to 2.5%). All figures are rounded up or down to the nearest whole number. During the three years the Fund produces a positive return of 8% in year one, 0% in year two and a loss of 8% in year three.

	Year One	Year Two	Year Three
	8% growth	0% Growth	8% Loss
Value at year end	£10,800	£10,599	£9605
AMC payable at 1.50%	£162	£159	£144
Gross Valuation	£10,638	£10,440	£9,461
Hurdle Rate	£10,250	£10,864	£11,136
Performance Fee	£39	£NIL	£NIL
Net Valuation	£10,599	£10,440	£9,461
High Water Mark	£10,000	£10,599	£10,599
Total Fees Paid	£201	£159	£144

### 33. Depositary's, Transfer Agent/Administrator's fee and expenses

#### Depositary's fees

The Depositary is entitled to receive out of the property of each Sub-Fund by way of remuneration, a periodic charge which will accrue and be calculated daily and will be payable monthly in respect of each calendar month as soon as practicable after the month end. The rate or rates and/or amounts of the Depositary's periodic charge in respect of each Sub-Fund shall be agreed between the Manager and the Depositary from time to time, subject to any approval by and/or notification to the FSA and/or shareholders that may be required under the ICVC Regulations or the FSA Regulations.

The rate of the Depositary's periodic charge in respect of each Sub-Fund is currently:

0.04% per annum on the first £70 million of the Net Asset Value of each Sub-Fund, then  
0.03% on the next £30 million, then  
0.02% on the next £50 million, and  
0.01% on the remainder of the property of the Sub-Fund  
subject to a minimum fee of £7,500 per annum, per Sub-Fund.

The Depositary's periodic charge is calculated daily on the Net Asset Value of each Sub-Fund on the previous business day. The valuation used for each day which is not a business day will be the value calculated on the previous business day. In addition Value Added Tax on the amount of the periodic charge will be paid out of each Sub-Fund.

In the event of the termination of a Sub-Fund, the Depositary shall continue to be entitled to a periodic charge in respect of that Sub-Fund for the period down to and including the day on which the final distribution in the termination of the Sub-Fund shall be made or, in the case of a termination following the passing of an extraordinary resolution approving the scheme of arrangement, down to and including the final day on which the Depositary is responsible for the safekeeping of the Scheme Property of the Sub-Fund. Such periodic charge will be calculated, be subject to the terms and accrue and be paid as described above, except that for the purpose of calculating the periodic charge in respect of any day falling after the day on which the termination day of the Sub-Fund commences, the value of the Scheme Property of the Sub-Fund shall be the Net Asset Value determined at the beginning of each such day.

The Depositary Agreement between the Company and the Depositary provides that in addition to a periodic charge the Depositary may also be paid by way of remuneration custody fees where it acts as Custodian and other transaction and bank charges. At present the Depositary delegates the function of custody of the Scheme Property to Bank of New York Mellon Inc. The remuneration for acting as custodian is calculated at such rate, rates and/or amounts as may be agreed from time to time. The current remuneration ranges from between 0.01% per annum to 0.04 % per annum of the value of the property of each Sub-Fund, plus VAT (if any) represented by the Net Asset Value of the Sub-Fund calculated on the last business day of each month. The valuation used for each day which is not a business day will be the value calculated on the previous business day. The current range of transaction charges is between £5.00 and £250.00 per transaction plus VAT (if any). Custody and transaction charges will be payable monthly out of the property of each Sub-Fund in arrears.

In addition to the remuneration referred to above, the Depositary is entitled to receive reimbursement for expenses properly incurred by it in discharge of its duties or exercising any powers conferred upon it in relation to the Company and each Sub-Fund. Such expenses include, but are not restricted to:

- (i) charges and expenses payable to BNY Mellon Trust and Depositary (UK) Limited or to any person (whether or not an associate of the Depositary) to whom any function of custody or control in relation to Scheme Property is delegated or whose services are retained to assist in the performance of any such function;

- (ii) all charges imposed by, and any expenses of, any agents appointed by the Depositary to assist in the discharge of its duties;
- (iii) all charges and expenses incurred in connection with the collection and distribution of income;
- (iv) all charges and expenses incurred in relation to the preparation of the Depositary's annual report to shareholders;
- (v) all charges and expenses incurred in relation to stock lending or other transactions;
- (vi) fees and expenses payable to any professional advisors advising or assisting the Depositary.

VAT (if any) in connection with any of the above is payable in addition.

#### Registrar/Administrators fees

The Registrar/Administrator is entitled to receive out of the property of each Sub-Fund by way of remuneration, a periodic charge which will accrue and be calculated daily and will be payable monthly in respect of each calendar month as soon as practicable after the month end. The rate or rates and/or amounts of the Registrar/Administrator's periodic charges in respect of each Sub-Fund are as follows:

Annual Management Fee, including fund valuation and accounting, based on the value of the deposited property of the Sub-Fund as follows:

- £0 - £49,999,999 0.12%
- £50,000,000 - £99,999,999 0.09%
- £100,000,000 – £199,999,999 0.06%
- >£200,000,000 0.03%

There will be a Fund Valuation and Accounting minimum fee of £23,000 per annum. For each share class above two share classes there will be an additional £7,500 minimum fee per share class.

Other fund expenses will be charged as follows:

- Dealing charges for subscriptions / redemptions £25 per transaction
- Registration charges £12 per account per annum
- Management Accounting £1,500 per annum

Dealing and Registration fees are subject to a combined minimum of £10,000

#### **34. Exemption from Liability to Account for Profits**

The Manager, Investment Advisers, Depositary and Custodian or any affected persons in accordance with the FSA Regulations are not liable to account to the

shareholders of any Sub-Fund for any profits or benefits they make or receive that are derived from or in connection with:

- i) dealings in the Shares of a Sub-Fund,
- ii) any transaction in Sub-Fund property, and/or
- iii) the supply of services to the Sub-Fund.

### **35. Allocation of fees and expenses between Sub-Funds and Share Classes**

All the above fees, duties and charges will be charged to the Sub-Fund or Share Class in respect of which they were incurred. Where an expense is not considered to be attributable to any one Sub-Fund or Share Class, the expense will normally be allocated to all Sub-Funds or Share Classes *pro rata* to the Net Asset Value of the Sub-Funds or Share Classes, although the Manager has discretion, after consultation with the Depositary and Auditor, to allocate these fees and expenses in a manner which it considers fair to shareholders generally.

### **36. Shareholder meetings and voting rights**

#### **Annual General Meetings (“AGM”)**

No AGMs will be held. A copy of the ACD Agreement will be provided to shareholders on request.

#### **Requisitions of Extraordinary General Meetings**

The Manager may requisition an extraordinary general meeting at any time. Shareholders may also requisition an extraordinary general meeting of the Company. A requisition by shareholders must state the objects of the meeting, be dated, be signed by shareholders who, at the date of the requisition, are registered as holding not less than one-tenth in value of all shares then in issue and the requisition must be deposited at the head office of the Company. The Manager must convene an extraordinary general meeting no later than eight weeks after receipt of such requisition.

#### **Notice and quorum**

Shareholders will receive at least 14 days’ notice of a shareholders’ meeting and are entitled to be counted in the quorum and vote at such meeting either in person or by proxy. The quorum for a meeting is two shareholders, present in person or by proxy. The quorum for an adjourned meeting is two shareholders present in person or by proxy although this may be reduced to one if two shareholders are not present after 15 minutes (which shall be deemed to be a reasonable time). Notices of meetings and adjourned meetings will be sent to shareholders at their registered addresses.

#### **Voting rights**

At a meeting of shareholders, on a show of hands every shareholder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, has one vote. On a poll vote, a shareholder may vote either in person or by proxy. The voting rights attaching to each share are such proportion of the voting rights attached to all the shares in issue that the price of the share bears to the aggregate price(s) of all the shares in issue

at the date seven days before the notice of meeting is deemed to have been served. A shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way. For joint shareholders only the vote of the first named in the register of shareholders, being the most senior of the joint shareholders, can be taken. Except where the FSA Regulations or the Instrument of Incorporation of the Company requires an extraordinary resolution (which needs 75% of the votes cast at the meeting to be in favour if the resolution is to be passed) any resolution will be passed by a simple majority of the votes validly cast for and against the resolution.

The Manager may not be counted in the quorum for a meeting and neither the Manager nor any associate (as defined in the FSA Rules) of the Manager is entitled to vote at any meeting of the Company except in respect of shares which the Manager or associate holds on behalf of or jointly with a person who, if the registered shareholder, would be entitled to vote and from whom the Manager or associate has received voting instructions. "Shareholders" in this context means shareholders on the date seven days before the notice of the relevant meeting was deemed to have been served.

### **37. Sub-Fund and Share Class meetings**

The above provisions, unless the context otherwise requires, apply to meetings of Sub-Funds and Share Classes as they apply to general meetings of shareholders.

### **Variation of Sub-Fund and Share Class rights**

The rights attached to a Sub-Fund or Share Class may not be varied without the sanction of an extraordinary resolution passed at a meeting of shareholders of that Share Class or Sub-Fund (which needs 75% of the votes cast at the meeting to be in favour if the resolution is to be passed).

### **38. Taxation**

**The following summary is based on current United Kingdom law and HMRC practice. It is intended to offer information on UK taxation of the Sub-Funds. However, it should not be regarded as definitive nor as removing the desirability of taking separate professional advice. Any investor or potential investors must consult their professional taxation adviser. Levels and bases of, and reliefs from, taxation are subject to change in the future.**

Each Sub-Fund is taxed as if it were a separate company. The tax issues relating to the Sub-Funds in respect of the funds and the investors within them are treated separately in this Section.

#### **Taxation of Sub-Funds**

##### **Tax on capital gains**

As funds of an open-ended investment company, the Equity Sub-Funds are not subject to UK taxation on capital gains arising on the disposal of their investments. In the unlikely event that a Sub-Fund should be considered to be trading in securities for tax purposes, however, any gains made will be treated as income and taxed accordingly.

## **Tax on income**

Each Equity Sub-Fund will be liable to corporation tax at a rate equal to the lower rate of income tax, currently 20%, on its income after relief for expenses (which include fees payable to the Manager and to the Depositary). Dividends and similar income distributions from UK resident companies are exempt from corporation tax. Dividends and similar income distributions from UK authorised unit trusts are exempt from corporation tax to the extent the underlying income derives from dividends.

However, legislation is included in the Finance Bill 2009 to change the way in which dividends and other income distributions received by companies within the charge to UK corporation tax (which will include the Sub-Funds) are treated for UK tax purposes. The legislation provides, with effect from 1 July 2009, for a wide exemption from UK corporation tax on such distributions (including received from non-UK companies) subject to certain exclusions and specific anti-avoidance rules.

It is also been proposed that regulations will be implemented to allow open-ended investment companies, with effect from 1 September 2009, to elect to become "Tax Elected Funds" ("TEF"), subject to certain exclusions. The effect of such an election will mean that a fund will not pay tax on its investment income and the point of taxation on such income will shift to the investors in the fund. If such changes are implemented the Company reserves the right to elect as a "TEF" in respect of any Sub-Fund. Shareholders should note that these proposals are in draft form only and may not be implemented or may be implemented in substantially different form.

## **Relief for foreign withholding taxes**

To the extent that an Equity Sub-Fund receives income from, or realises gains on disposal of investments in, foreign countries it may be subject to foreign withholding or other taxation in those jurisdictions. To the extent it relates to income, this foreign tax may be able to be treated as an expense for UK corporation tax purposes, or it may be treated as a credit against the UK corporation tax charge (up to the amount of tax so chargeable in the year on each foreign source).

## **Stamp Duty Reserve Tax**

Stamp Duty Reserve Tax ("SDRT") is only applicable to Sub-Funds which invest wholly or in part in UK equities. (The following can be ignored for any Sub-Funds that do not invest in such investments). SDRT is charged at the rate of 0.5% of the value of the shares surrendered in a weekly charging period. The amount of SDRT is reduced by the proportion by which sales of shares are less than surrenders, by number, in that week and the following week. The charge is also reduced by the proportion of the fund that is invested in exempt assets – that is those other than UK equities. In simple terms, this has the effect of charging a 0.5% tax on the value of each surrender of shares, where those shares are subsequently sold to another investor, and in proportion to how much of that fund invests in UK equities. The Manager settles this liability from the assets of the particular Sub-Fund itself. This will obviously reduce the assets of the Sub-Fund. It is the Manager's estimate that the effect of this will be immaterial compared to the total assets of the Sub-Fund. To compensate the Sub-Fund for this liability, the Manager is entitled to charge a "provision" against SDRT to both buyers and sellers of shares. This provision would

be added to the purchase price of shares when they are bought, or deducted from the sales proceeds when sold. It would then be paid to that Sub-Fund. This would cause the purchase price to the investor to rise, or the sales proceeds to fall. It is not the Manager's intention to charge a Provision against SDRT to buyers or sellers of shares on normal transactions. However, the Manager reserves the right to charge a SDRT provision of up to 0.5% of its value, on a deal in any of the following circumstances:

- On a single deal which exceeds 5% of the value of a Sub-Fund itself, and in the estimation of the Manager, is likely to cause a significant liability to SDRT falling on the Sub-Fund:
- On a non *pro rata* in specie redemption; and
- On a third party transfer of shares.

The Manager has also reserved the right, at its discretion, on transactions greater than £500,000 in value, to require the buyer and/or seller of shares (including transferors and/or transferees) to pay to the Sub-Fund from the redemption proceeds/purchase cost (or value of transfer), an amount of SDRT provision of up to 0.5% as a contribution towards the SDRT payable. This would have the effect of reducing the proceeds payable to shareholders on the sale of shares by up to a maximum of 0.5% and/or increasing the purchase cost of shares by up to a maximum of 0.5%.

### **39. Taxation treatment – the shareholders**

#### **The Shareholder – Equity Sub-Funds**

##### **Income accumulations**

Accumulations of income (hereinafter 'accumulations') comprise income for UK tax purposes. Except for shareholders within the charge to corporation tax (as explained below), accumulations carry a tax credit equivalent to 10% of the aggregate of the accumulation and the tax credit (i.e. one-ninth of the amount accumulated). UK resident individuals and (the trustees of) certain trusts liable to UK income tax will be taxable on the sum of their accumulations and associated tax credits but will be entitled to set the tax credits against their UK income tax liability. Associated tax credits will satisfy the liability to income tax of starting and basic rate taxpayers. Higher rate taxpayers who are individuals will have additional tax to pay, the accumulations and associated tax credits being taxed at a special rate of 32.5% with the offset of a 10% tax credit. Shareholders should note that it is proposed that from tax year 2010-11 dividends forming a part of an individual's taxable income in excess of £150,000 will be taxable at a new 42.5% dividend rate, subject to the 10% tax credit. If the total income of a shareholder who is an individual is less than his/her personal allowances, the associated tax credits applicable to accumulations cannot be repaid.

##### **Revenue on a sliding scale**

Accumulations to shareholders within the charge to corporation tax are deemed to comprise two elements. Where an equity Sub-Fund's gross income is not wholly derived from franked investment income, part of any accumulation will be deemed to be reclassified as an annual payment received by such shareholders after deduction of income tax at the lower rate, currently 20% ("deemed tax deducted"). Such

shareholders will be subject to corporation tax on the grossed-up amount of the annual accumulations but will be entitled to offset the deemed tax deductible against any corporation tax liability. Where there is no corporation tax liability repayment is restricted to the lower of the deemed tax and the shareholder's share of the equity Sub-Fund's corporation tax liability (after double tax relief on overseas income) for the period; and the remainder, which comprises franked investment income after grossing up the net accumulation for the 10% tax credit. Such franked investment income, as it is known, is exempt from UK corporation tax. Details of the proportions of accumulations comprising franked investment income and annual payments will be shown on the tax voucher of the Sub-Fund concerned. These rules do not apply to life companies to the extent that income is referable to pensions and ISA business, life reinsurance business and overseas life assurance business, where such income (net of the 10% credit) is taxed when it falls due.

### **Capital gains**

Shareholders who are resident or ordinarily resident in the UK may be liable to UK taxation on capital gains arising from the sale or other disposal, including redemption, of shares. Individuals and certain trusts compute their gains by deducting from the net sale proceeds the capital gains base cost in respect of shares. Exempt shareholders, which include UK charities, and UK approved pension funds would not normally be expected to be liable to capital gains tax on their disposal of shares. Shareholders within the charge to corporation tax are taxed on the capital gain made computed on the basis of the rules described above. Special rules apply to life assurance companies who beneficially own Shares:

- to the extent that such gains are referable to basic life and general annuity business, the shareholding in each Sub-Fund is deemed to be realised at the end of the investors' corporation tax accounting period and immediately reacquired; however, capital gains and losses may be spread on a seven year basis; or
- to the extent that such gains are referable to pensions and ISA business, life reinsurance business and overseas life assurance business, gains (or losses) are taxed (or relieved) on the mark to market method (which entails holdings being valued at the end of each accounting period and unrealised gains being recognised/taxed and unrealised losses being recognised/relieved)

### **Inheritance tax**

A gift by a shareholder of his shareholding in a Sub-Fund or the death of a shareholder may give rise to a liability to inheritance tax, even if the shareholder is neither domiciled in the UK, nor deemed to be domiciled there under special rules relating to long residence or previous domicile in the UK. For these purposes, a transfer of a shareholding at less than the full market value may be treated as a gift.

**The above statements are only intended as a general summary of UK tax law and practice as at the date of this Prospectus (which may change in the future) applicable to individual and corporate investors who are the absolute beneficial owners of a holding in the Company and their applicability will depend upon the particular circumstances of each investor. In particular, the summary may not apply to certain classes of investors (such as dealers in securities). Any investor who is in any doubt as to his UK tax position in relation to the Company should consult his UK professional adviser.**

**Investment returns may be affected by changes in the basis of taxation.**

**40. Income equalisation**

Income equalisation, as explained below, may apply in relation to each Sub-Fund in the Company. Part of the purchase price of a share reflects the relevant share of accrued income received or to be received by a Sub-Fund. This capital sum is returned to a shareholder with the first allocation of income in respect of a share issued during a distribution period. The amount of income equalisation is either the actual amount of income included in the issue price of that share or is calculated by dividing the aggregate of the amounts of income included in the price of shares issued or sold to shareholders in an annual or interim distribution period by the number of those shares and applying the resultant average to each of the shares in question.

**41. Winding up of the Company or a Sub-Fund of the Company**

The Company shall not be wound up except as an unregistered company under Part V of the Insolvency Act 1986 or, if solvent, under the FSA Regulations. A Sub-Fund may only be wound up under the FSA Regulations. Where the Company or a Sub-Fund is to be wound up under the FSA Regulations, such winding up may only be commenced following approval by the FSA. The FSA may only give such approval if the Manager provides a statement (following an investigation into the affairs of the Company) either that that Company will be able to meet its liabilities within 12 months of the date of the statement or that the Company will be unable to do so. The Company may not be wound up under the FSA Regulations if there is a vacancy in the position of Manager at the relevant time.

The Company or a Sub-Fund may be wound up under the FSA Regulations if:

- an extraordinary resolution to that effect is passed by shareholders; or
- the period (if any) fixed for the duration of that Company or a particular Sub-Fund by the Instrument of Incorporation expires, or an event (if any) occurs on the occurrence of which the Instrument of Incorporation provides that the Company or a particular Sub-Fund is to be wound up (for example, if in relation to any Sub-Fund the Net Asset Value of the Sub-Fund is less than £1,000,000); or
- on the effective date stated in an agreement by the FSA in response to a request from the Manager for the revocation of the authorisation order in respect of the Company or for the termination of the Sub-Fund;

On the occurrence of any of the above:

- the FSA Regulations relating to valuation and pricing and investment and borrowing powers will cease to apply to the Company or the Sub-Fund;
- The Company will cease to issue and cancel Shares in the Company or the Sub-Fund and the Manager shall cease to buy or sell Shares or arrange for the Company to issue or cancel them for the Company or the Sub-Fund;
- No transfer of a Share shall be registered and no other change to the register shall be made without the sanction of the Manager;
- Where the Company is being wound up, the Company shall cease to carry on its business except in so far as it is beneficial for the winding up of the Company;

- The corporate status and powers of the Company and, subject to the provisions above, the powers of the Manager shall remain until the Company is dissolved.

The Manager shall, as soon as practicable after the Company or the Sub-Fund falls to be wound up, realise the assets and meet the liabilities of the Company or the Sub-Fund and, after paying out or retaining adequate provision for all liabilities properly payable and retaining provision for the costs of winding up, arrange for the Depositary to make one or more interim distributions out of the proceeds remaining (if any) to shareholders proportionately to their rights to participate in the Scheme Property of the Company or the Sub-Fund. When the Manager has caused all of the Scheme Property to be realised and all of the liabilities of the Company or the Sub-Fund to be realised, the Manager shall arrange for the Depositary to make a final distribution to shareholders (if any Scheme Property remains to be distributed) on or prior to the date on which the final account is sent to shareholders of any balance remaining in proportion to their holdings in the Company or the Sub-Fund. As soon as reasonably practicable after completion of the winding up of the Company or the Sub-Fund, the Manager shall notify the FSA.

On completion of a winding up of the Company, the Company will be dissolved and any money (including unclaimed distributions) standing to the account of the Company, will be paid into court within one month of dissolution. Following the completion of the winding up of the Company, the Manager shall notify the Registrar of Companies and shall notify the FSA that it has done so. Following the completion of a winding up of either the Company or a Sub-Fund, the Manager must prepare a final account showing how the winding up took place and how the Scheme Property was distributed. The auditors of the Company shall make a report in respect of the final account stating their opinion as to whether the final account has been properly prepared. This final account and the auditors' report must be sent to the FSA, to each shareholder and, in the case of the winding up of the Company, to the Registrar of Companies within two months of the termination of the winding up. As the Company is an umbrella scheme any liabilities attributable or allocated to a Sub-Fund under the FSA Regulations shall be met first out of the Scheme Property attributable or allocated to that Sub-Fund. If the liabilities of a Sub-Fund are greater than the proceeds of the realisation of the Scheme Property attributable or allocated to the Sub-Fund, the deficit shall be met out of the Scheme Property attributable or allocated to Sub-Funds in respect of which the proceeds of realisation exceed liabilities and will be divided between the Sub-Funds in a manner which is fair to shareholders in those Sub-Funds.

## **42. General information**

### **Accounting periods and Income Allocations**

The Manager will, within four months after the end of each annual accounting period ending on 30 June and two months after the end of each half-yearly accounting period ending on 31 December respectively, send a short report to each shareholder (or the first named shareholder) entered on the register. Long form report and accounts for each period will also be available, free of charge, on request. The amount of income available for allocation in any accounting period is calculated by taking the aggregate of the income received or receivable for the account of the relevant Sub-Fund in respect of that period, and deducting the charges and expenses of the relevant Sub-Fund paid or payable out of income in respect of that accounting period. The Manager then makes such other adjustments as it considers appropriate

(and after consulting the Auditor as appropriate) in relation to taxation, income equalisation, income unlikely to be received within 12 months following the relevant income allocation date, income which should not be accounted for on an accrual basis because of lack of information as to how it accrues, transfers between the income and capital account and any other adjustments which the Manager considers appropriate after consulting the Auditor. The amount of income allocated to accumulation shares becomes part of the capital property. Allocation statements and tax vouchers will be sent to holders of accumulation shares.

### **Fewer than two Sub-Funds**

If for a period of 24 consecutive months, beginning at any time after the first issue of Shares in the Company, Shares of less than two Sub-Funds are in issue, the Manager must take such action as is necessary to change the category of the Company or cause shares in respect of more than one Sub-Fund to be in issue. This does not apply if winding up of the Company has begun on or before the expiry of the 24 month period.

### **Documents of the Company**

The following documents may be inspected free of charge between 9.00am and 5.00pm on each Dealing Day at the offices of the Manager at 2nd Floor, Springfield Lodge, Colchester Road, Chelmsford. CM2 5PW:

- The most recent annual and interim reports of the Company;
- The Instrument of Incorporation (and any amending instrument of incorporation); and
- This Prospectus and the Simplified Prospectus for the Company and Sub-Funds.

The Manager may make a charge at its discretion for copies of documents, except for copies of long form accounts and the Prospectus which can be obtained free of charge.

### **Complaints**

If you have a complaint you should write to the Manager, at 2nd Floor, Springfield Lodge, Colchester Road, Chelmsford. CM2 5PW, United Kingdom. If your complaint is not resolved by us to your satisfaction, you may be entitled to refer it to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR, UK. We will inform you of your rights when answering your complaint. A summary of our internal process for dealing with complaints is available upon request. The Financial Services Compensation Scheme offers compensation when an authorised firm is unable to pay claims against it, usually because the firm has gone out of business. Phoenix Fund Services (UK) Ltd is covered by the Financial Services Compensation Scheme. You may be entitled to compensation from the scheme if we cannot meet our obligations. Most types of investment business are covered by 100% of the first £30,000 and 90% of the next £20,000, so the maximum compensation is £48,000. Details of the Scheme are included in a leaflet that you can request from us. Further information is available from the Financial Services Authority and the Financial Services Compensation Scheme.

### **Investors Outside the UK**

The distribution of this Prospectus and the offering or purchase of Shares in any of the Sub-Funds may be restricted in certain jurisdictions. No persons receiving a copy of this Prospectus in any such jurisdiction may treat this Prospectus as constituting an invitation to them to subscribe for Shares unless, in the relevant jurisdiction, such an invitation could lawfully be made to them. Accordingly this Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. It is the responsibility of any persons in possession of this Prospectus and any persons wishing to apply for Shares in any of the Sub-Funds to inform themselves of and to observe all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for Shares in any of the Sub-Funds should inform themselves as to legal requirements of so applying and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile. The Manager therefore reserves the right to reject applications in Shares of any of the Sub-Funds from any non-UK investor. The Shares in the Company and in the Sub-Funds which are described in this Prospectus and the respective Appendixes have not been and will not be registered under US law and may not be directly or indirectly offered or sold in the United States of America to or for the account or benefit of any U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US law. The Manager reserves the right not to accept applications for Shares until all appropriate checks, including money laundering verification, have been completed.

### **Client classification**

According to FSA Conduct of Business rules the Manager may classify investors either as retail clients or professional clients. Retail clients that are not individuals, or individuals that represent entities, may not necessarily have rights under the Financial Ombudsman Service or the Financial Services Compensation Scheme.

### **Appropriateness**

The Manager is not required to assess the suitability of the investment or service provided or offered and, as a result, the investors will not benefit from the protection of the FSA Rules on assessing suitability. Therefore, the Manager will not assess whether: -

- (i) the investment or service meets the investors' investment objectives;
- (ii) the investor is able financially to bear the risk of any loss that the investment or service may cause; and
- (iii) the investor has the necessary knowledge and experience to understand the risks involved.

### **Best Execution**

When dealing in securities within the Sub-Funds, the Manager and/or Investment Adviser will endeavour to achieve the best result. The Investment Advisers will review the arrangements that they have in place with counterparties from time to time to assess their ability to provide "best execution" of such dealing on a consistent basis. A variety of factors will be considered to ensure that the best possible result is achieved. These include, but will not be limited to, price, cost, size of order, nature of order and speed and likelihood of execution and settlement.

Where the Manager or Investment Adviser considers these are not met on a consistent basis they will cease placing orders with that counterparty. Details of the Investment Advisers' best execution arrangements are included in their trade execution policy which is available upon request from the Manager.

### **Use of Dealing Commission Arrangements**

The level of equity securities trading on relevant Sub-Funds is determined by portfolio management decisions and the main impact on the relevant Sub-Funds from this trading is the buying and selling values of trades. It is the Investment Advisor's intention that buying and selling values of securities always meet current best execution regulations. Commissions are paid to brokers for these trades. The Company will not enter into any Dealing Commission arrangements.

### **Data Protection Act**

The Manager will use, analyse and assess information held about investors in servicing its relationship with them and in providing them with information. If you do not wish to receive this information please tick the 'opt-out' box on the application form.

### **European Savings Directive**

The EU Council Directive 2003/048/EC on taxation of savings income (the "Directive") came into force on 1 July 2005. Member States of the European Union ("Member States") are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person who is a "paying agent" to an individual (or certain entities) resident in another Member State. Austria, Belgium and Luxembourg will apply a withholding tax for a transitional period, unless during such period they elect otherwise. For a collective investment scheme income may include distributions or dividends whether paid or accumulated, together with income arising as a result of the sale or redemption of shares. Investors resident in prescribed territories outside of the EU may also be included in the exchange of information. Information on these territories can be obtained from HM Revenue & Customs or your professional adviser.

### **Direct debit guarantee**

The guarantee is offered by all banks and building societies that take part in the direct debit scheme. The efficiency and security of the scheme is monitored and protected by your own bank or building society. If the amounts to be paid or the payment date changes, we will notify you within 10 working days in advance of your account being debited or as otherwise agreed. If an error is made by us or your bank or building society, you are guaranteed a full and immediate refund from your branch of the amount paid. You can cancel a direct debit at any time by writing to your bank or building society.

**Investment objectives, policies and other details of the Company**

Investment of the assets of each of the Sub-Funds of the Company must comply with the FSA Regulations and its own investment objective and policy. Details of the Sub-Funds' investment objectives and policies are set out in each Sub-Fund Appendix with other information, including available Share Classes, charges, minimum investment levels and distribution dates. The property of each Sub-Fund of the Company will be invested with the aim of achieving the investment objective of that Sub-Fund as contained in the relevant Sub-Fund Appendix.

A detailed statement of the investment and borrowing restrictions applicable to the Company is set out below. These restrictions apply to each Sub-Fund separately. **Please refer to the individual Sub-Fund Appendix (Appendix 4) for specific Sub-Fund additional restrictions.**

A list of eligible markets on which the Sub-Funds may invest is contained in Appendix 2.

**Important note:** Please remember that the value of investments and the income from them can go down as well as up (this may partly be the result of exchange rate fluctuations in investments which have an exposure to foreign currencies) and investors may not get back the full amount invested. Past performance is not necessarily a guide to the future and cannot provide a guarantee of the future returns of a Sub-Fund. Investment returns may be affected by changes in the basis of taxation.

**Investment and borrowing powers of the Company**

**1 General rules of investment**

- 1.1 The property of the Company will be invested with the aim of achieving the investment objective of each Sub-Fund but subject to the limits on investment set out in Chapter 5 of the FSA Regulations (COLL 5.2) that are applicable to a UCITS Scheme.
- 1.2 The investment policy of a Sub-Fund may mean that at times, where it is considered appropriate, the property of a Sub-Fund will not be fully invested and that prudent levels of liquidity will be maintained.
- 1.3 The Manager must ensure that, taking account of the investment objectives and policy of a Sub-Fund, the property of a Sub-Fund aims to provide a prudent spread of risk.
- 1.4 Treatment of obligations
  - (a) Where the FSA Regulations allow a transaction to be entered into or an investment to be retained only if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5 (for example, investment nil and partly paid securities and the general power to accept or underwrite), it must be assumed that the maximum possible liability

of a Sub-Fund under any other of those rules has also to be provided for.

- (b) Where a rule in the FSA Regulations permits an investment transaction to be entered into or an investment to be retained only if that investment transactions, or the retention, or other similar transactions, are covered:
- it must be assumed that in applying any of those rules, a Sub-Fund must also simultaneously satisfy any other obligation relating to cover; and
  - no element of cover must be used more than once.

## 1.5 Transferable Securities

- (a) A transferable security is an investment which is a share, a debenture, a government and public security, a warrant, or a certificate representing certain securities.
- (b) An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party.
- (c) In applying paragraph (b) to an investment which is issued by a body corporate, and which is a share or a debenture, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.
- (d) An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.
- (e) A unit in a closed end fund shall be taken to be a *transferable security* for the purposes of investment by a *UCITS scheme*, provided it fulfils the criteria for *transferable securities* set out in [COLL 5.2.7A R](#), and either:
- (1) where the closed end fund is constituted as an investment company or a unit trust:
- (a) it is subject to corporate governance mechanisms applied to companies; and
- (b) where another *person* carries out asset management activity on its behalf, that *person* is subject to national regulation for the purpose of investor protection; or
- (2) where the closed end fund is constituted under the law of contract:
- (a) it is subject to corporate governance mechanisms equivalent to those applied to companies; and
- (b) it is managed by a *person* who is subject to national regulation for the purpose of investor protection.

## 2 UCITS Schemes – general

- 2.1 The Scheme Property of a Sub-Fund must, except where otherwise provided in the COLL Sourcebook, only consist of any or all of:
- (a) transferable securities;
  - (b) approved money market instruments;
  - (c) permitted deposits;
  - (d) permitted units in collective investment schemes;
  - (e) permitted derivatives and forward transactions;

- 2.2 A Sub-Fund may invest in a transferable security only to the extent that the transferable security fulfils the following criteria:
- (a) the potential loss which the Sub-Fund may incur with respect to holding the transferable security is limited to the amount paid for it;
  - (b) its liquidity does not compromise the ability of the Manager to comply with its obligation to redeem units at the request of any qualifying shareholder;
  - (c) reliable valuation is available for it as follows:
    - (i) in the case of a transferable security admitted to or dealt in on an eligible market, where there are accurate, reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers;
    - (ii) in the case of a transferable security not admitted to or dealt in on an eligible market, where there is a valuation on a periodic basis which is derived from information from the issuer of the transferable security or from competent investment research;
  - (d) appropriate information is available for it as follows:
    - (i) in the case of a transferable security admitted to or dealt in on an eligible market, where there is regular, accurate and comprehensive information available to the market on the transferable security or, where relevant, on the portfolio of the transferable security;
    - (ii) in the case of a transferable security not admitted to or dealt in on an eligible market, where there is regular and accurate information available to the authorised fund manager on the transferable security or, where relevant, on the portfolio of the transferable security;
  - (e) it is negotiable; and
  - (f) its risks are adequately captured by the risk management process of the Manager.

Unless there is information available to the Manager that would lead to a different determination, a transferable security which is admitted to or dealt in on an eligible market shall be presumed not to compromise the ability of the Manager to comply with its obligation to redeem units at the request of any qualifying shareholder and to be negotiable.

- 2.3 Transferable securities and approved money market instruments held within a Sub-Fund must be:
- (a) admitted to or dealt in on an eligible market within paragraph 3.3(a) or 3.4 or dealt in on an eligible market within paragraph 3.3(b), recently issued transferable securities (provided that the terms of issue include an undertaking that application will be made to be admitted to an eligible market and such admission is secured within a

year of issue), or approved money-market instruments not admitted to or dealt in on an eligible market which satisfy the requirements of paragraph 8.3;

- (b) Not more than 10% in value of the Scheme Property of a Sub-Fund is to consist of transferable securities and approved money market instruments that do not fall within sub-paragraph (a) above.
- 2.4 The requirements on spread and investment in government and public securities do not apply until the expiry of a period of six months after the date of which the authorisation order of the Company takes effect (or on which any initial offer period commenced, if later) provided that the requirement to maintain prudent spread of risk in paragraph 1.3 is complied with during such period.
- 2.5 Each Sub-Fund may invest in units of other collective investment schemes, deposits or derivatives, or replicate an index subject to each Sub-Fund's Appendix. Such investments are to be made in accordance with the FSA Regulations.
- 2.6 It is not intended at the date of this Prospectus that any Sub-Funds will invest directly (or indirectly through any intermediate holding vehicle) in movable and immovable property that is necessary for the direct pursuit of the Fund's business;

### **3 Eligible markets regime: purpose**

- 3.1 To protect investors the markets on which investments of a Sub-Fund are dealt in or traded on should be of an adequate quality ("eligible") at the time of acquisition of the investment and until it is sold.
- 3.2 Where a market ceases to be eligible, investments on that market cease to be approved securities. The 10% restriction on investing in non approved securities applies and exceeding this limit because a market ceases to be eligible will generally be regarded as an inadvertent breach.
- 3.3 A market is eligible for the purposes of the rules if it is:
- (a) a regulated market; or
  - (b) a market in an EEA State which is regulated, operates regularly and is open to the public.
- 3.4 A market not falling within paragraph 3.3 is eligible for the purposes of Chapter 5 of the FSA Regulations if:
- (a) the Manager, after consultation with and notification to the Depositary decides that market is appropriate for investment of, or dealing in, the Scheme Property;
  - (b) the market is included in a list in the prospectus; and
  - (c) the Depositary has taken reasonable care to determine that:
    - (i) adequate custody arrangements can be provided for the investment dealt in on that market; and
    - (ii) all reasonable steps have been taken by the Manager in deciding whether that market is eligible.

3.5 In paragraph 3.4(a) a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self-regulating organisation by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or for the order of investors.

3.6 The eligible markets for each Sub-Fund are set out in Appendix 2.

#### **4 Spread: General**

4.1 This paragraph 4 on spread does not apply to government and public securities (refer to paragraph 5).

4.2 Not more than 20% in value of the Scheme Property is to consist of deposits with a single body.

4.3 Not more than 5% in value of the Scheme Property is to consist of transferable securities or approved money market instruments issued by any single body.

4.4 In applying paragraph 4.3, the limit of 5% is raised to 10% in respect of up to 40% in value of the property of each Sub-Fund. Covered bonds need not be taken into account for the purpose of applying the limit of 40%.

4.5 The limit of 5% in 4.3 is raised to 25% in value of the Scheme Property in respect of covered bonds, provided that when the Sub-Fund invests more than 5% in covered bonds issued by a single body, the total value of covered bonds held must not exceed 80% in value of the Sub-Fund.

4.6 In applying paragraph 4.3, 4.4 and 4.5 certificates representing certain securities are treated as equivalent to the underlying security.

4.7 The exposure to any one counterparty in an OTC derivative transaction must not exceed 5% in value of the Scheme Property; this limit being raised to 10% where the counterparty is an approved bank (as defined in the COLL Sourcebook).

4.8 Not more than 20% in value of Scheme Property is to consist of units of any one collective investment scheme.

4.9 For the purpose of calculating the limit in paragraph 4.7 and 4.14, the exposure in respect of an OTC derivative may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the conditions specified in paragraph 4.10

4.10 The conditions referred to in paragraph 4.9 are that the collateral:  
(a) is marked-to-market on a daily basis and exceeds the value of the amount at risk;  
(b) is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;

- (c) is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
  - (d) can be fully enforced by the Company at any time.
- 4.11 For the purpose of calculating the limit in paragraph 4.8 and 4.11 OTC derivative positions with the same counterparty may be netted provided that the netting procedures:
- (a) comply with the conditions set out in Section 3 (Contractual netting (Contracts for novation and other netting agreements)) of Annex III to the Banking Consolidation Directive; and
  - (b) are based on legally binding agreements.
- 4.12 In applying paragraph 4, all derivatives transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:
- (a) it is backed by an appropriate performance guarantee; and
  - (b) it is characterised by a daily mark-to-market valuation of the derivative positions and an at least daily margining.
- 4.13 Not more than 20% in value of the property of each Sub-Fund is to consist of transferable securities and approved money market instruments issued by the same group.
- 4.14 In applying the limits in 4.2, 4.3, 4.4, 4.6 and 4.7, and subject to 4.5, not more than 20% in value of the property of the Sub-Fund is to consist of any combination of two or more of the following:
- (a) transferable securities or approved money-market instruments issued by; or
  - (b) deposits made with; or
  - (c) exposures from OTC derivatives transactions made with; a single body.

## **5 Spread: Government and public securities**

- 5.1 With regard to government and public securities ("Public Securities") the following restrictions apply.
- 5.2 No more than 35% in value of the Scheme Property of a Sub-Fund is invested in Public Securities issued by any one body. Subject to this restriction, there is no limit on the amount which may be invested in Public Securities or in Public Securities issued by any one issuer or of any one issue.
- 5.3 In relation to Public Securities:
- (a) Issue, issued and issuer include guarantee, guaranteed and guarantor; and
  - (b) An issue differs from another if there is a difference as to repayment date, guarantor or other material terms of the issue.
- 5.4 Notwithstanding paragraph 4.1, and subject to paragraph 5.2, in applying the 20% limit in paragraph 4.14 with respect to a single body, Public Securities issued by that body shall be taken into account.

## **6 Investment in collective investment schemes**

- 6.1 A Sub-Fund may invest up to 10% in units of a Second Collective Investment Scheme provided that such investment is permitted under each of paragraphs 6.2 to 6.5 and provided that no more than 30% of the value of the Sub-Fund is invested in Second Collective Investment Schemes within paragraph 6.2(b) to (e).
- 6.2 The Second Collective Investment Scheme is a scheme which:
- (a) complies with the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or
  - (b) is a Non UCITS Retail Scheme ("NURS") (provided the requirements of article 19(1)(e) of the UCITS Directive are met);; or
  - (c) is recognised under the provisions of section 270 of the Act (Schemes authorised in designated countries or territories);
  - (d) is authorised in another EEA state (provided the requirements of article 19(1)(e) of the UCITS Directive are met); or
  - (e) is authorised by the competent authority of an OECD member country (other than an EEA State) which has signed the IOSCO Multilateral Memorandum of Understanding and approved the scheme's management company, rules and depository/custody arrangements (provided the requirements of article 19(1)(e) of the UCITS Directive are met).
- 6.3 The Second Collective Investment Scheme must comply, where relevant, with COLL 5.2.15R (Investment in associated collective investment schemes) and COLL 5.2.16R (Investment in other group schemes).
- 6.4 The Second Collective Investment Scheme must have terms which prohibit it from having more than 10% in value of its property consisting of units in collective investment schemes.
- 6.5 Where the Second Collective Investment Scheme is an umbrella, the provisions in paragraphs 6.3 and 6.4 and in paragraph 4 apply to each sub-fund as if it were a separate collective investment scheme.
- 6.6 In accordance with COLL 5.2.15R of the FSA Regulations (Investment in associated collective investment schemes) each of the Sub-Funds may include units in a Second Collective Investment Scheme managed or operated by the Manager or an associate of the Manager (an "Associated Scheme"), provided the conditions in paragraph 6.7 are complied with.
- 6.7 A Sub-Fund must not invest in or dispose of units in an Associated Collective Investment Scheme unless:
- (a) there is no charge in respect of the investment in or the disposal of units in the Second Collective Investment Scheme; or
  - (b) the Manager is under a duty to pay the Sub-Fund by the close of business on the fourth business day following the date of the agreement to invest or dispose the amount referred to in paragraphs 6.8(i) and (ii) below.
- (i) Where an investment is made, the amount referred to in paragraph 6.8(b) is either:

- (A) any amount by which the consideration paid by the Sub-Fund for the units in the Associated Collective Investment Scheme exceeds the price that would have been paid for the benefit of the Associated Collective Investment Scheme had the units been newly issued or sold by it; or
- (B) if such price cannot be ascertained by the Manager, the maximum amount of any charge permitted to be made by the seller of units in the Second Collective Investment Scheme;
- (ii) Where a disposal is made, the amount referred to in paragraph 6.8(b) is the amount of any charge made for the account of the authorised fund manager or operator of the Associated Collective Investment Scheme or an associate of any of them in respect of the disposal.

6.8 In paragraph 6.7:

- (a) any addition to or deduction from the consideration paid on the acquisition or disposal of units in the Associated Collective Investment Scheme, which is applied for the benefit of the Associated Collective Investment Scheme and is, or is like, a dilution levy or SDRT provision, is to be treated as part of the price of the units and not as part of any charge; and
- (b) any switching charge made in respect of an exchange of units in one sub-fund or separate part of the Associated Collective Investment Scheme for units in another sub-fund or separate part of that collective investment [Aurigny](#).scheme is to be included as part of the consideration paid for the units.

6.9 No Sub-Fund may invest in another Sub-Fund of the Company.

## **7 Investment in nil and partly paid securities**

7.1 A transferable security or an approved money market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Sub-Fund, at the time when payment is required, without contravening the rules in COLL 5.

## **8 Investment in approved money market instruments**

8.1 A Sub-Fund may invest in approved money market instruments, which are those normally dealt in on the money market, that are liquid and whose value can be accurately determined at any time.

8.2 For the purposes of 8.1:

- i. a money market instrument shall be regarded as normally dealt in on the money market if it:
  1. has a maturity at issuance of up to and including 397 days;
  2. has a residual maturity of up to and including 397 days;
  3. undergoes regular yield adjustments in line with money market conditions at least every 397 days; or
  4. has a risk profile, including credit and interest rate risks, corresponding to that of an instrument which has a

maturity as set out in paragraph 8.2(a)(i) or (ii) or is subject to yield adjustments as set out in paragraph 8.2(a)(iii).

- ii. a money market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the Manager to redeem units at the request of any qualifying unitholder; and
- iii. a money market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuations systems, which fulfil the following criteria, are available:
  - 1. enabling the Manager to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and
  - 2. based either on market data or on valuation models including systems based on amortised costs.

A money market instrument that is normally dealt in on the money market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time unless there is information available to the Manager that would lead to a different determination.

8.3 A Sub-Fund may invest in an approved money market instrument that is not admitted to or dealt in on an eligible market, provided it fulfils the following requirements:

- (a) the issue or the issuer is regulated for the purpose of protecting investors and savings;
- (b) the instrument is issued or guaranteed by a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation, a regional or local authority of an EEA State, the European Central Bank or a central bank of an EEA State, the European Union or the European Investment Bank, a non-EEA State or, in the case of a federal state, by one of the members making up the federation, or a public international body to which one or more EEA States belong; or
- (c) issued by a body, any securities of which are dealt in on an eligible market; or
- (d) issued or guaranteed by an establishment which is:
  - (i) subject to prudential supervision in accordance with criteria defined by Community law; or
  - (ii) subject to and complies with prudential rules considered by the FSA to be at least as stringent as those laid down by Community law. An establishment shall be considered to satisfy this requirement if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria: it is located in the European Economic Area, it is located in an OECD country belonging to the Group of Ten, it has at least investment grade rating, or on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by Community law.

## 9 Investment in deposits

- 9.1 A Sub-Fund may invest in deposits only with an Approved Bank (as defined in or for the purposes of the FSA Regulations) and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.

## 10 Derivatives

**Under the FSA Regulations, a Sub-Fund is permitted to use derivatives for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives or both. Where expressly permitted in the Appendix for a particular Sub-Fund, the Manager may use that Sub-Fund's Scheme Property to invest in derivatives and forward currency transactions under the FSA Regulations for purposes other than efficient portfolio management (see paragraph 18). Using derivatives for investment purposes may alter the risk profile of those Sub-Funds. PFS PRODIGY ASIA EMERGING MARKETS FUND may use derivatives for investment purposes, which means that the net asset value may have higher volatility owing to their portfolio composition. In pursuing the Sub-Fund's objective the Manager may make use of a variety of derivative instruments in accordance with the COLL sourcebook. If derivatives are being used for efficient portfolio management or hedging, then this should not compromise the risk profile of the relevant Fund. The use of derivatives will not be permitted to contravene any relevant investment objectives or limits.**

- 10.1 A transaction in derivatives or a forward transaction must not be effected for a Sub-Fund unless the transaction is:
- (a) of a kind specified in paragraph 10.3 below; and
  - (b) covered, as required by COLL 5.3.3R of the FSA Regulations.
- Where a Sub-Fund invests in derivatives, the exposure to the underlying assets must not exceed the limits in paragraph 4 (Spread: General) and paragraph 5 (Spread: government and public securities). Where a transferable security or money-market instrument embeds a derivative, this must be taken into account for the purposes of calculating any limit in this paragraph.
- 10.2 A transaction in a derivative must be either in an "approved derivative" (*i.e.* a derivative which is traded or dealt in on an eligible derivatives market) or one which complies with paragraph 10.6, and in either case, the underlying must consist of any one or more of the following to which the Sub-Fund is dedicated:
- (a) transferable securities admitted to or dealt in on an eligible market within paragraph 3.3(a) or 3.4 or dealt in on an eligible market within paragraph 3.3(b) or recently issued transferable securities (provided that the terms of issue include an undertaking that application will be made to be admitted to an eligible market and such admission is secured within a year of issue);
  - (b) approved money-market instruments admitted to or dealt in on an eligible market within paragraph 3.3(a) or 3.4 or dealt in on an eligible market within paragraph 3.3(b) or approved money-market instruments not admitted to or dealt in on an eligible market which satisfy the requirements of paragraph 8.3;
  - (c) deposits permitted under paragraph 9.1;
  - (d) derivatives permitted under this paragraph 10.3;
  - (e) collective investment scheme units permitted under paragraph 6;
  - (f) financial indices (which satisfy the criteria set out in COLL 5.2.20AR of the FSA Regulations);

- (g) interest rates;
- (h) foreign exchange rates; or
- (i) currencies.

A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market. The eligible derivatives markets for each Sub-Fund are set out in Appendix 2.

A transaction in a derivative must not cause a Sub-Fund to diverge from its investment objectives as stated in the instrument constituting the scheme and the most recently published prospectus.

A transaction in a derivative must not be effected if the intended effect is to create the potential for an uncovered sale of:

- (i) transferable securities;
- (ii) approved money-market instruments;
- (iii) units in collective investment schemes; or
- (iv) derivatives.

A sale is not to be regarded as uncovered if the conditions in COLL 5.2.22R(3) are satisfied.

Any forward transaction must be made with an eligible institution or an approved bank. The Manager must ensure compliance with COLL 5.3.6R (Continuing nature of limits and requirements) of the FSA Regulations.

A Sub-Fund may not undertake transactions in derivatives on commodities.

10.3 A derivative or forward transaction which will or could lead to the delivery of property for the account of a Sub-Fund may be entered into only if:

- (1) that property can be held for the account of the Sub-Fund; and
- (2) the Manager having taken reasonable care determines that delivery of the property under the transaction will not occur or will not lead to a breach of the FSA Regulations.

10.4 No agreement by or on behalf of a Sub-Fund to dispose of property or rights may be made unless:

- (a) the obligation to make the disposal and any other similar obligation could immediately be honoured by the Sub-Fund by delivery of property or the assignment of rights; and
- (b) the property and rights at (a) are owned by the Sub-Fund at the time of the agreement.

The above requirement does not apply to a deposit or where:

- (i) the risks of the underlying financial instrument of a derivative can be appropriately represented by another financial instrument and the underlying financial instrument is highly liquid; or
- (ii) the Manager or the Depositary has the right to settle the derivative in cash, and cover exists within the scheme property which falls within one of the following asset classes:
  - (A) cash;
  - (B) liquid debt instruments (e.g. government bonds of first credit rating) with appropriate safeguards; or
  - (C) other highly liquid assets having regard to their correlation with the underlying of the financial derivative instruments, subject to appropriate safeguards (e.g. haircuts where relevant).

For these purposes, an asset may be considered as liquid where the instrument can be converted into cash in no more than seven business days at a price closely corresponding to the current valuation of the financial instrument on its own market.

- 10.5 A transaction in an OTC derivative must be:
- (1) with an approved counterparty; a counterparty to a transaction in derivatives is approved only if the counterparty is:
    - (a) an eligible institution or an approved bank; or
    - (b) a person whose permission (including any requirements or limitations), as published in the FSA Register, or whose Home State authorisation, permits it to enter into the transaction as principal off-exchange;
  - (2) on approved terms; the terms of the transaction in derivatives are approved only if, before the transaction is entered into, the Depositary is satisfied that the counterparty has agreed with the Company or the Manager:
    - (a) to provide, at least daily and at any other time at the request of the Company or Manager, a reliable and verifiable valuation in respect of that transaction corresponding to its fair value (being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction) and which does not rely only on market quotations by the counterparty; and
    - (b) that it or an alternative counterparty will, at the request of the Company or Manager, enter into a further transaction to sell, liquidate or close out that transaction at any time, at a fair value arrived at under the reliable market value basis or pricing model agreed under (3);
  - (3) capable of reliable valuation; a transaction in derivatives is capable of reliable valuation only if the Manager having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy:
    - (a) on the basis of an up-to-date market value which the Manager and the Depositary have agreed is reliable; or
    - (b) if the value referred to in (a) is not available, on the basis of a pricing model which the Manager and the Depositary have agreed uses an adequate recognised methodology; and
  - (4) subject to verifiable valuation; a transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into) verification of the valuation is carried out by:
    - (a) an appropriate third party which is independent from the counterparty of the derivative, at an adequate frequency and in such a way that the Manager is able to check it; or
    - (b) a department within the Manager which is independent from the department in charge of managing the scheme property and which is adequately equipped for such a purpose.
- 10.6 The Manager must use a risk management process enabling it to monitor and measure as frequently as appropriate the risk associated with a Sub-Fund's positions and their contribution to the overall risk profile of the scheme.
- 10.8 A transaction in derivatives or forward transaction is to be entered into only if the maximum exposure, in terms of the principal or notional principal created by the transaction to which the scheme is or may be committed by another person is covered globally under 10.8.1.
- 10.8.1 Exposure is covered globally if adequate cover from within the scheme property for the Fund is available to meet its total exposure, taking into account the initial outlay, the value of the underlying assets, any reasonably foreseeable

market movement, counterparty risk, and the time available to liquidate any positions.

10.8.2 Cash not yet received into the scheme property of the Fund, but due to be received within one month, is available as cover for the purposes of 10.8.1.

10.8.3 Property the subject of a stock lending transaction is only available for cover if the ACD has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.

10.8.4 The global exposure relating to derivatives held in the Fund may not exceed the net value of its scheme property.

10.9 The aim of generating additional income allows the Manager to write call options on existing assets where it considers the transaction will result in the Sub-Fund deriving a benefit, even if the benefit obtained results in the surrendering of the chance of greater benefit in the future. The writing of a put option allows the Manager to generate income at the risk of having to purchase stock at a pre-determined price greater than the prevailing market price. The purchase of a call option permits the Sub-Fund to gain in the increase of a share price above a pre-determined set price at the cost of the premium paid. The purchase of a put option allows the Manager, at the expense of the premium paid, to gain from the reduction in market value of a particular stock by selling the stock at a pre-determined higher price.

10.10 Use of derivatives will not be permitted to contravene any relevant investment objective of the Sub-Funds.

### **10.13 Financial Derivatives, Techniques and Instruments Risks**

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

**Each Sub-Fund may from time to time utilise both exchange traded and over the counter credit derivatives, such as collateralised debt obligations or credit default swaps for hedging purposes and, if expressly permitted in the Appendix for a particular Sub-Fund, as**

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

## **11 Cash and near cash**

- 11.1 Cash and near cash must not be retained in the Scheme Property except to the extent that, where this may reasonably be regarded as necessary in order to enable:
- (a) the pursuit of a Sub-Fund's investment objectives; or
  - (b) redemption of Shares; or
  - (c) efficient management of a Sub-Fund in accordance with its investment objectives; or
  - (d) other purposes which may reasonably be regarded as ancillary to the investment objectives of the Sub-Fund.

## **12 General power to borrow**

- 12.1 The Company may, in accordance with this paragraph and paragraph 13, borrow money for the use of the Sub-Fund on terms that the borrowing is to be repayable out of the Scheme Property. This power to borrow is subject to the obligation of the Sub-Fund to comply with any restriction in the Instruments of Incorporation.
- 12.2 A Sub-Fund may borrow under paragraph 12.1 only from institutions as stated in COLL 5.5.4R (3) of the FSA Regulations.
- 12.3 Borrowing must be on a temporary basis, must not be persistent and in any event must not exceed three months without the prior consent of the Depositary, which may be given only on such conditions as appear appropriate to the Depositary to ensure that the borrowing does not cease to be on a temporary basis. The borrowing restrictions in this paragraph 12 do not apply to certain "back to back" borrowing for currency hedging purposes.

## **13 Borrowing limits**

- 13.1 The Manager must ensure that Sub-Fund's borrowing does not, on any day, exceed 10% of the value of the Scheme Property of a Sub-Fund.
- 13.2 The borrowing restrictions in this paragraph 13 do not apply to certain "back to back" borrowing for currency hedging purposes.
- 13.3 In this paragraph 13 borrowing includes, as well as borrowing in a conventional manner, any other arrangement (including a combination of derivatives) designed to achieve a temporary injection of money into the scheme property in the expectation that the sum will be repaid.
- 13.4 It is the Company's policy that any borrowing may not exceed 91 consecutive days.

## **14 Restrictions on lending of money**

- 14.1 None of the money in the Scheme Property of a Sub-Fund may be lent and, for the purposes of this prohibition, money is lent by a Sub-Fund if it is paid to a person (“the payee”) on the basis that it should be repaid, whether or not by the payee.
- 14.2 Acquiring a debenture is not lending for the purposes of paragraph 14.1; nor is the placing of money on deposit or in a current account.
- 14.3 Paragraph 14.1 does not prevent a Sub-Fund from providing an officer of the Company with funds to meet expenditure to be incurred by him for the purposes of a Sub-Fund (or for the purposes of enabling him properly to perform his duties as an officer of the Company) or from doing anything to enable an officer to avoid incurring such expenditure.

## **15 Restrictions on lending of property other than money**

- 15.1 The Scheme Property of a Sub-Fund other than money must not be lent by way of deposit or otherwise.
- 15.2 The Scheme Property of a Sub-Fund must not be mortgaged.
- 15.3 However, Sub-Fund or the Depositary at the request of the Sub-Fund, may lend, deposit, pledge or charge the Scheme Property of the Sub-Fund for margin requirements where transactions in derivatives or forward transactions are used for the account of the Sub-Fund in accordance with any other provisions of Chapter 5 of the FSA Regulations.

## **16 General power to accept or underwrite placings**

- 16.1 Any power in Chapter 5 of the FSA Regulations to invest in transferable securities may be used for the purpose of entering into transactions to which this section applies, subject to compliance with any restriction in the Instrument of Incorporation.
- 16.2 This paragraph applies, subject to paragraph 16.3, to any agreement or understanding:
  - (a) which is an underwriting or sub-underwriting agreement; or
  - (b) which contemplates that securities will or may be issued or subscribed for or acquired for the account of a Sub-Fund.
- 16.3 Paragraph 16.2 does not apply to:
  - (a) an option; or
  - (b) a purchase of a transferable security which confers a right:
    - (i) to subscribe for or acquire a transferable security; or
    - (ii) to convert one transferable security into another.
- 16.4 The exposure of a Sub-Fund to agreements and understanding within paragraph 16.2 must, on any day:
  - (a) be covered in accordance with the requirements of COLL 5.3.3R of the FSA Regulations; and
  - (b) be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in Chapter 5 of the FSA Regulations.

## **17 Guarantees and indemnities**

- 17.1 A Sub-Fund or the Depositary for the account of the Sub-Fund must not provide any guarantee or indemnity in respect of the obligation of any person.
- 17.2 None of the Scheme Property of a Sub-Fund may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.
- 17.3 Paragraphs 17.1 and 17.2 do not apply in respect of the Sub-Fund in case of COLL 5.5.9R (3) of the FSA Regulations.

## 18 Efficient portfolio management techniques

- 18.1 The Sub-Funds may use property to enter into transactions for the purposes of hedging within efficient portfolio management techniques (as set out below).
- 18.2 Any forward currency transactions must be with an approved counterparty (eligible institutions, money market institutions etc).
- 18.3 There is no limit on the amount of the Scheme Property which may be used for hedging and efficient portfolio management but the transactions must satisfy three broadly-based requirements.
- (a) A transaction must be reasonably believed by the Manager to be economically appropriate to the efficient portfolio management of the Sub-Fund. This means that, for transactions undertaken to reduce risk or cost (or both), the transaction alone or in combination will diminish a risk or cost of a kind or level which it is sensible to reduce.

For the purposes of this paragraph 18 efficient portfolio management techniques must not include speculative transactions.

- (b) The purpose of any transaction within this paragraph 18 for the Sub-Fund must be to achieve one of the following in respect of the Sub-Fund:
- (i) Reduction of risk. This allows for the use of the technique of cross-currency hedging in order to switch all or part of the Scheme Property away from a currency the Manager considers unduly prone to risk, to another currency. This aim also permits the use of tactical asset allocation.
- (ii) Reduction of cost. The aims of reduction of risk or cost, together or separately, allow the Manager on a temporary basis to use the technique of tactical asset allocation. Tactical asset allocation permits the Manager to undertake a switch in exposure by use of derivatives, rather than through the sale and purchase of scheme property. If a transaction for the Sub-Fund relates to the acquisition or potential acquisition of transferable securities, the Manager must intend that the Sub-Fund should invest in transferable securities within a reasonable time and the Manager must thereafter ensure that, unless the position has itself been closed out, that intention is realised within that reasonable time.
- (iii) generation of additional capital or income for the <http://fsahandbook.info/FSA/glossary-html/handbook/Glossary/S?definition=G1043> Sub-Fund with a risk level which is consistent with the risk profile of the Sub-Fund and the risk diversification rules laid down in the COLL Sourcebook.
- (c) Each efficient Sub-Fund management technique transaction must be fully covered "globally" (i.e. after providing cover for existing efficient portfolio management technique transactions there is adequate cover for another transaction within the scheme property, so there can be no gearing). Scheme property and cash can be used only once for cover.

## 19 Stock lending

- 19.1 As an extension of efficient portfolio management techniques explained above, a Sub-Fund or the Depositary for the account of a Sub-Fund, may enter into certain stock lending arrangements. Under such arrangements the Sub-Fund or the Depositary

transfers securities to a third party otherwise than by way of sale and it is agreed that those securities or securities of the same type and amount should be redelivered to the Sub-Fund or the Depositary at a later date. The Sub-Fund or the Depositary at the time of delivery receives collateral to cover against the risk of the future redelivery not being completed.

- 19.2 There is no limit on the value of the property of the Sub-Fund which may be the subject of stock lending arrangements.
- 19.3 Such arrangement must always comply with the requirements of the Taxation of Chargeable Gains Act 1992 and the requirements of the FSA Regulations, as amended from time to time.

## **20 Underwriting**

- 20.1 Underwriting and sub-underwriting contracts and placing may also, subject to certain conditions set out in the FSA Regulations, be entered into for the account of a Sub-Fund.

**Eligible Markets**

The following is a list of the markets which the Manager and/or Investment Adviser, in consultation with the Depositary, has deemed to be eligible securities and eligible derivatives markets, as defined in the FSA Regulations, for the Company (in addition to those eligible markets referred to in COLL 5.2.10R(1)(a) and (b) of the FSA Regulations). From time to time, an eligible market may be deemed temporarily ineligible by the Manager with the agreement of the Depositary, for example because the economic or political situation in the market has become unstable. This status will continue until the position regarding the market becomes clear, and the Manager and Depositary agree either that it should resume being an eligible market or that it should be removed from the list below.

**Member States of the EEA –**

All regulated markets and all other market established in any EEA member state which is regulated, operates regularly and is open to the public are eligible securities markets and/or eligible derivatives markets. The following markets are considered eligible and are the member states of the EEA: -

Austria  
Belgium  
Bulgaria  
Denmark  
Finland  
France  
Germany  
Greece  
Ireland  
Italy  
Liechtenstein  
Luxembourg  
The Netherlands  
Norway  
Portugal  
Spain  
Sweden  
United Kingdom  
Poland  
Romania  
The Czech Republic  
Estonia  
Latvia  
Lithuania  
The Slovak Republic  
Slovenia  
Hungary

**Other Eligible Securities Markets****United Kingdom**

Alternative Investment Market (AIM)

**United States**

New York Stock Exchange (NYSE)

Nasdaq

American Stock Exchange

Midwest Stock Exchange

Philadelphia Stock Exchange

Pacific Stock Exchange

Boston Stock Exchange

Cincinnati Stock Exchange

**Argentina**

Bolsa de Comercio de Buenos Aires

**Australia**

Australian Stock Exchange

The NASDAQ Stock Exchange

**Brazil**

Bolsa de Valores de Sao Paulo

Bolsa de Valores do Rio de Janeiro

**Canada**

The Alberta Stock Exchange

The Toronto Stock Exchange

The Montreal Stock Exchange

The Vancouver Stock Exchange

The Winnipeg Stock Exchange

The Calgary Stock Exchange

**Chile**

Bolsa de Comercio de Santiago

**China**

The Shanghai Securities Exchange

The Shenzhen Stock Exchange

**Colombia**

Bolsa de Valores De Columbia

**Dubai**

Dubai Financial Market

**Hong Kong**

The Hong Kong Stock Exchange

**India**

Bombay Stock Exchange

National Stock Exchange

**Indonesia**

Jakarta Stock Exchange

Surabaya Stock Exchange

OTC Market Parallel Exchange

**Japan**

The Tokyo Stock Exchange

The Osaka Securities Exchange

The Nagoya Stock Exchange

The Fukuoka Stock Exchange

The Sapporo Stock Exchange

JASDAQ

**Korea**

The Korea Stock Exchange

**Malaysia**

The Kuala Lumpur Stock Exchange

**Mexico**

Bolsa Mexicana de Valores

**New Zealand**

The New Zealand Exchange Limited

**Peru**

Bolsa de Valores de Lima

Arequipa Stock Exchange

**Philippines**

The Philippine Stock Exchange

**Singapore**

The Stock Exchange of Singapore

**South Africa**

The Johannesburg Stock Exchange

**Switzerland**

Swiss Exchange via EBS – Electronic Bourse

**Taiwan**

Taiwan Stock Exchange

**Thailand**

The Securities Exchange of Thailand

**Turkey**

The Istanbul Stock Exchange

**Other Eligible Derivatives Markets**

**Australia**

Sydney Futures Exchange

**New Zealand**

New Zealand Futures Exchange

**Belgium**

BELFOX

**Singapore**

Singapore International Monetary Exchange

**Canada**

Toronto Futures Exchange

The Montreal Exchange

**South Africa**

The South African Futures Exchange

**Switzerland**

Swiss Options and Financial Futures Exchange

**United States**

American Stock Exchange

Philadelphia Stock Exchange

Chicago Board of Trade

New York Stock Exchange

New York Futures Exchange

New York Mercantile Exchange

**Hong Kong**

Hong Kong Futures Exchange

Chicago Mercantile Exchange

Chicago Board Options Exchange

Kansas City Board of Trade

**Japan**

Osaka Securities Exchange

Tokyo Stock Exchange

Tokyo International Financial Futures Exchange

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**Websites** [www.ProdigyCapital.com](http://www.ProdigyCapital.com) / [www.phoenixfundservices.com](http://www.phoenixfundservices.com)

**to the Prospectus dated 5 August 2009 for  
PFS PRODIGY ASIA EMERGING MARKETS FUND**

This Appendix contains specific information in relation to the PFS **Prodigy ASIA EMERGING MARKETS FUND** (also referred to herein as the "Sub-Fund" or "Fund"), a Sub-Fund of the PFS Prodigy Partners Capital Fund which is an umbrella open-ended investment company with variable capital classified as a UCITS Scheme.

### **1. Investment Objective and Policy**

The Investment Objective, Strategy and Policy of the PFS Prodigy Asia Emerging Markets Fund is as follows:

#### **Investment Objective**

The investment objective of the Fund is to achieve absolute returns annually in all market conditions with risk managed in such a way that portfolio losses should be contained.

The Fund seeks to achieve its investment objective by following the investment strategy. There can be no assurance that the investment objective of the Fund will be achieved.

#### **Investment Policy**

The Fund's investment strategy is to invest in transferable securities mainly in Asian emerging markets. The Fund may also invest in transferable securities that are listed in developed markets, such as for example the UK or USA or Australia, where the operations of the company are within Asian Emerging markets, derivatives and forward transactions.. All the eligible markets are included in Appendix 2.

NB. for the purposes of the above Investment Policy, "mainly" means that the Fund will normally seek to be invested as to at least 70% in Asian emerging market transferable securities.

The Fund seeks to reduce risk and volatility in the portfolio by:

- Spreading the investments across uncorrelated sector-related investment themes;
- Analysis of currency exposure and, where appropriate, use of currency hedges to reduce the potential for significant volatility in the Fund's Net Asset Value attributable to currency movements; and
- Applying a disciplined investment process including risk management policies and procedures, incorporating the use of hedging instruments, identification of low risk trade entry points and the application of stop losses.

#### **Investment Strategy**

Emerging markets have always been associated with enhanced levels of risk. Profitable investment in these markets requires consistent application of rigorous stock selection and risk management procedures.

The Investment Adviser aims to produce superior long-term absolute returns within the defined risk parameters through a structured investment process, the key elements of which are:

- Identifying sector investment themes using proprietary valuation methods and assessment of key catalysts for structural industry change;
- Stock selection based on both long term fundamental analysis and quantitative evaluation of the market impact of near term catalysts for establishing target entry and exit prices; and

Rigorous risk management using a range of controls, including identification of low risk entry points and placing price limits on individual securities designed to limit a loss to a certain level.

The Investment Adviser has overall responsibility for investment policy and authority to select service providers, pursuant to which the Fund have entered into the Investment Management Agreement.

### **Use of Derivatives**

**The Investment Adviser may use equity or equity index derivatives from time to time as follows:**

- 1. To manage risk (see below Risk Management);**
- 2. To access markets where direct access is difficult and where participation is effected through zero priced equity warrants or through Participation Notes ("P Notes"). A current example of this type of market is India; or**
- 3. Where the Investment Adviser wishes to either increase or decrease exposure to a stock, sector or market, for which purpose warrants, options, futures or contracts for differences may be employed. It is not anticipated that such derivative exposure will constitute a major part of the portfolio on a Delta adjusted basis.**

**The PFS PRODIGY ASIA EMERGING MARKETS FUND is permitted to use derivatives for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives or both. Using derivatives for investment purposes may alter the risk profile of this Sub-Fund. PFS PRODIGY ASIA EMERGING MARKETS FUND may use derivatives for investment purposes, which means that the net asset value may have higher volatility owing to their portfolio composition. In pursuing the Sub-Fund's objective the Manager may make use of a variety of derivative instruments in accordance with the COLL sourcebook. If derivatives are being used for efficient portfolio management or hedging, then this should not compromise the risk profile of this Sub- Fund. The use of derivatives will not be permitted to contravene any relevant investment objectives or limits.**

### **Risk Management**

The Investment Adviser believes risk management is a critical and integral component of the investment process, of equal importance to the stock selection methodology. The objective of the Fund's risk management procedures is to contain losses on the portfolio.

There can be no assurance that this objective will be achieved.

Without limiting the discretion of the Manager or Investment Adviser to the Fund, it is anticipated that the Fund's main exposure will be to ordinary shares and cash. The Fund may use derivatives for efficient portfolio management purposes. Derivatives may also be used for investment purposes.

Further details of the risk management process are available to shareholders on request.

## **2. Benchmark**

The benchmark of the PFS Prodigy Asia Emerging Markets Fund is the MSCI Emerging Markets Index.

## **3. Initial Offer Price and Period/Minimum Investment**

Class A shares (“**Class A Shares**”) are being offered at an initial offer price of GBP 10.00. The minimum initial lump sum investment for A Shares is £20,000; the minimum additional lump sum investment is £2500. A minimum investment of £20,000 must be maintained.

There is no maximum investment level.

Class I shares (“**Class I shares**”) are being offered at an initial offer price of GBP 100.00. The minimum initial lump sum investment for I Shares is £2,000,000 per investor; the minimum additional lump sum investment is £250,000 per investor. A minimum investment of £2,000,000 must be maintained.

There is no maximum investment level.

There will be no initial offer period.

## **4. Classes**

Both Share Classes will be Accumulation Shares. Shares issued by the Company are Accumulation Shares. Holders of net accumulation shares do not receive payment of income. Any income arising in respect of an accumulation share is automatically accumulated and added to the assets of the Fund and is reflected in the price of each accumulation share.

## **5. Subscription and Redemption Day**

A Dealing Day, or such other business day, as the Manager may from time to time determine and notify to shareholders.

## **6. Base Currency**

The base currency is British Pounds Sterling.

## **7. Issue of Shares**

Class A Shares and Class I Shares are available for issue at the price calculated by reference to the next Valuation Point (12 Noon) after the order is received by the Manager. (See Section 12 of the Prospectus.)

## **8. Fees and Charges**

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

### *(a) The Depositary*

The periodic charges and custody fees described in Section 33 of the Prospectus.

### *(b) Preliminary Charge*

A preliminary charge for buying Shares is payable to the Manager at a rate of up to 4% of the amount invested for A Shares and I Shares but in practice less may be charged. This figure therefore represents a maximum.

### *(c) Annual Management Charge and other Fund expenses*

The annual management charge payable to the ACD and other Fund expenses described in Sections 30,31 and 33 of the Prospectus

*(d) Investment Management Fee*

The investment management fee is payable to the Investment Adviser at a rate of 1.5% of the NAV for A Shares and 1.0% of the NAV for I Shares.

The Investment Advisor is also entitled to a Performance Fee as described in Section 32 of the Prospectus