

28<sup>th</sup> March 2013

**Item 1 - Cover Page**

## **A - Brochure of Enhanced Investment Products Limited**

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**B - This brochure provides information about the qualifications and business practices of Enhanced Investment Products Limited. If you have any questions about the contents of this brochure, please contact us at +852 2110 8600 or email: [info@eip.com.hk](mailto:info@eip.com.hk) The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Enhanced Investment Products Limited also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**C – Not applicable.**

**Item 2 - Material Changes**

None

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#### Item 4 - Advisory Business

- A. Enhanced Investment Products Limited (“EIP”) is a Hong Kong limited company incorporated in 2002 and is licensed by the Hong Kong Securities & Futures Commission to carry out the following regulated activity:

*Type 4 (Advising on Securities)*

*Type 5 (Advising on Futures Contracts)*

*Type 6 (Advising on Corporate Finance)\**

*Type 9 (Asset Management)*

*\*limited to being listing agent to XIE Shares Trust I and its sub-funds only*

The main principal owner and Chief Executive Officer is Tobias Bland who holds 98.36% of EIP.

- B. EIP is the investment advisor to Enhanced Index Funds PCC (the “Company”) and also the investment manager to XIE Shares Trust I and its sub-funds. At the time of writing, EIP has the following funds under management (collectively the “Funds”):
- a. E.I.P. Overlay Fund – multi-strategy Asian excluding Japan hedge fund
  - b. E.I.P. Aleph Fund– multi-strategy Asian including Japan hedge fund
  - c. VAM Asia Fixed Income Fund – UCITS III compliant Asian fixed income fund
  - d. Enhanced China Index Fund – country index tracker fund
  - e. Enhanced Taiwan Index Fund– country index tracker fund
  - f. Enhanced India Index Fund– country index tracker fund
  - g. Enhanced Korea Index Fund– country index tracker fund
  - h. Enhanced Malaysia Index Fund– country index tracker fund
  - i. Enhanced Indonesia Index Fund– country index tracker fund
  - j. Enhanced Thailand Index Fund– country index tracker fund
  - k. Enhanced Philippines Index Fund– country index tracker fund
  - l. XIE Shares India (S&P CNX Nifty) ETF\* (\*This is a synthetic ETF) - exchange traded fund
  - m. XIE Shares Indonesia (LQ45) ETF\*(\*This is a synthetic ETF) - exchange traded fund
  - n. XIE Shares Korea (KOSPI 200) ETF\*(\*This is a synthetic ETF) - exchange traded fund
  - o. XIE Shares Malaysia (FTSE Bursa Malaysia KLCI) ETF\*(\*This is a synthetic ETF) - exchange traded fund
  - p. XIE Shares Philippines (PSEi) ETF\*(\*This is a synthetic ETF) - exchange traded fund
  - q. XIE Shares Taiwan (TAIEX) ETF\*(\*This is a synthetic ETF) - exchange traded fund
  - r. XIE Shares Thailand (SET50) ETF\*(\*This is a synthetic ETF) - exchange traded fund

EIP has been delegated investment making discretion over the investments held by E.I.P. Overlay Fund, E.I.P. Aleph Fund and VAM Asia Fixed Income Fund, (the “Hedge Funds”) subject to the restrictions as set out in the funds’ private placing memorandum or prospectus. The country index tracker funds (the “Index Funds”) are passively managed in that investment objective is to replicate the performance of the underlying index that they are attempting to track. XIE Shares are a suite of exchange traded funds listed on The Hong

Kong Stock Exchange, which adopt synthetic replication strategy to provide investment returns, before fees and expenses, that seeks to track the performance of the relevant underlying indices. As XIE Shares are only offered to investors in Hong Kong, they will not be covered in detail in this brochure. If investors have any queries in relation to XIE Shares, please contact us or visit XIE Shares' website at [www.xieshares.com](http://www.xieshares.com), which you may obtain information about the features and risks relating to XIE Shares and download their prospectus and product key facts statements.

- C. Before undertaking any new advisory mandates, EIP will ensure that investment objectives and restrictions are fully understood and agreed to. All permissible investments as well as restrictions and limitation of the Funds are clearly set out in the private placing memorandum and prospectus.
- D. Not applicable.
- E. As at 28th February 2013:  
Client assets that are managed on a discretionary basis: US\$334.7m  
Client assets that are managed on a non-discretionary basis: US\$61.2m

#### **Item 5 - Fees & Compensation**

- A. Fees for E.I.P. Overlay Fund and E.I.P. Aleph Fund:  
Management Fee 2% per annum of the net asset value of each fund accrued daily and calculated as at each valuation point and payable monthly in arrears  
Performance Fee 20% of the entire increase in the net asset value per share of the relevant series, provided that the net asset value per share of the relevant series as at the last valuation point of the relevant performance period is more than a performance benchmark plus 5% per annum. Please see 3 below for further details.  
  
Fees for Index Funds:  
Management Fee 0.75% per annum of the net asset value of each fund, accrued daily and calculated as at each valuation point and payable monthly in arrears.  
  
Fees for Exchange Traded Funds:  
Estimated Total Expense Ratio 0.39% per year of the relevant exchange traded fund's net asset value.<sup>1</sup>
- B. Fees related to the ongoing management and operation of the Funds are deducted from the Funds' asset. Such costs are calculated on a daily accrual basis and/or paid when invoices are presented or costs billed by a vendor.

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<sup>1</sup> The estimated Total Expense Ratio does not represent the estimated tracking error of the exchange traded funds and does not include any indirect costs borne by each exchange traded fund and reflected in the value of any unfunded swaps entered by the exchange traded fund.

C. In addition to the fees as described in Item 2A, the Funds will bear the cost of the following:

Administration Fee

Custody Fee

Audit Fee

Fund directors' Fees

Brokerage Fees for research and execution (please see Item 9)

Please refer to the relevant private placing memorandum or prospectus for further details on these fees and expenses.

Clients are not charged fees in advanced and do not prepay fees, but rather fees are accrued from the date of investment and paid in arrears.

D. EIP only receives compensation from management fees and performance fees related to the investment management of the Funds and does not receive compensation for the sale of other of securities or other investment products.

E. Not applicable.

#### **Item 6 - Performance-Based Fees and Side-By-Side Management**

EIP charges each of E.I.P. Overlay Fund and E.I.P. Aleph Fund a performance fee which is payable annually in arrears or upon redemption of shares of the relevant series part way through a performance period out of the assets of each fund.

In order to ensure that shareholders bear the performance fee according to the actual performance of their investment, a separate series of shares will be issued on each subscription day and the performance fee payable will be calculated by reference to the increase in the net asset value per share of the relevant series. The performance fee for each series will be calculated as at the last valuation point in each performance period and paid as soon as practicable thereafter. Where shares are redeemed part way through a year, the performance fee payable in respect of the shares redeemed will be calculated as at the valuation point relating to the date of redemption.

A performance fee will only be payable in respect of shares of a particular series if the net asset value per share of the relevant series as at the last valuation point in the relevant performance period is greater than the performance benchmark for the relevant series, increased at the rate of 5 per cent per annum where for the avoidance of doubt if the relevant performance period is less than a year, such 5 per cent shall be pro-rata in accordance with the number of days comprising the relevant performance period against the total number of days in the calendar year in which the relevant performance period commences. The performance fee will be calculated as a percentage of the entire increase in the net asset value per share above the performance benchmark. The performance fee is equal to 20% of the increase in the net asset value per share of the relevant series.

The Index Funds are not charged any performance related fees as the investment objective is to track their relevant country indexes as closely as possible i.e. minimise tracking error as opposed to achieving absolute returns. They are instead charged a fixed percentage management fee based on the size of net assets. The management fee is equal to 0.75 per cent per annum of the net asset value of each Index Fund, accrued daily and calculated as at each valuation point and payable monthly in arrears.

Both the Hedge Funds and Index Funds have different fee structures which potentially could lead to a conflict of interest. In order to align and reconcile the interests of two different sets of investment objectives, EIP has created a unique structure in Asia in that E.I.P. Overlay Fund has a captive stock borrow arrangement with the Index Funds in return for a 25% paydown of positive performance returned on E.I.P. Overlay Fund.

It is in the interest of EIP to manage both mandates on a balanced basis and attempt to grow assets on both the Hedge Fund and Index Funds at the same pace and to maintain a steady ratio in terms on net asset value. This in turn creates an environment where the incentive to focus on performance fee related products to the detriment of fixed paying funds is mitigated or at least reduced. On the one hand, EIP will attempt to achieve maximum absolute returns on the Hedge Fund side but at the same time focus will also be placed on the Index Funds to ensure that tracking error is reduced to a minimum in order to meet the investment mandate of the long only tracker funds.

EIP believe in alpha and beta separation and in order to further reduce the possible conflict of interest resulting from two different set of fee structures, both the Hedge Funds and Index Funds are managed by separate groups of portfolio managers and are remunerated on different basis accordingly. This segregation of portfolio management responsibilities ensures that adequate focus is allocated to clients' investments in both sets of funds.

## **Item 7 - Types of clients**

Hedge Fund Clients – High Net Worth/ Professional Investors, Institutions, Pension Funds, Fund of Funds, Trust companies

Minimum Investment Size: US\$150,000

Minimum Subsequent Investment Size: US\$50,000 (E.I.P. Overlay Fund) / US\$100,000 (E.I.P. Aleph Fund)

AML/KYC: Performed by fund administrator and EIP

Index Funds - High Net Worth/ Professional Investors, Institutional, Pension Funds, Fund of Funds, Trust companies

Minimum Investment Size: US\$1,000,000

AML/KYC: Performed by fund administrator and EIP

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss:**

### **A Method of Analysis and Investment Strategies of Funds**

*Investment strategy for Index Funds*

An Index Fund will invest directly or indirectly in the constituent securities comprised in the relevant index. Investment may be directly in the constituent securities or through derivatives such as futures or swaps that provide exposure to the constituent securities, provided that the counterparty has a credit rating of A- or better from Standard & Poor's or an equivalent credit rating from another rating agency.

An Index Fund will, so far as practicable, invest all of its assets directly or indirectly in the relevant index. Not less than 90 per cent of the latest available net asset value of the relevant Index Fund will at all times be invested in constituent securities of the relevant index and/or derivatives and/or instruments and/or swaps which provide exposure to the relevant index and/or one or more of the constituent securities of such index. An Index Fund may incur charges if any such instruments are broken before expiry of their term. As at the date of the latest private placing memorandum, break fees commonly charged in the Asian markets may be up to 1 per cent of the value of such instruments. All relevant cash proceeds will be reinvested on a timely basis. It is intended that the weightings of individual constituent securities will not vary by more than 30 per cent from the index weighting wherever practicable, for example, an Index Fund's holding of a security with a 10 per cent weighting in the relevant index may only increase/decrease by 3.0 per cent from the index weighting. Dividends received by an Index Fund will be reinvested.

**No assurance can be given that the performance of an Index Fund will at any time be identical to the performance of the relevant index.** A disparity between the respective performance of an Index Fund and of the relevant index will result from the fees and expenses which will be borne by the Index Fund both initially and on a continuing basis. A disparity may also arise as a result of the foreign exchange rates used to convert the value of an Index Fund's holdings into US dollars being different from the foreign exchange rates used for the relevant index. Although the relevant index will be updated on a regular basis during trading hours on the relevant market, the net asset value of the Index Fund will be calculated weekly. Thus, the only time at which it will be appropriate and practicable to measure the comparative performances of an Index Fund and its related index will be after the net asset value per share of the relevant class has been determined. At that time, the performance of an Index Fund as measured by the change in the net asset value per share of the relevant class during the relevant period can be compared with the performance of the relevant index for that period as measured by the closing level of the index.

Nevertheless, although that comparison can be made, a difficulty may arise for EIP in achieving for an Index Fund a performance comparable to that of the relevant index. On the one hand the composition (and, therefore, the level) of the index at the end of any period is dependent on the market values of the constituent securities at that time (which are in turn dependent on the last traded prices for those securities, including any dealings for the account of the relevant Index Fund). However, on the other hand, in order for EIP to seek to simulate the composition of the index within the Index Fund's portfolio, EIP will need to purchase or sell constituent securities during the relevant period and, therefore, trading in the constituent securities and trading conditions generally on the relevant market during that period will affect the ability of EIP to achieve that objective. That difficulty will be exacerbated during periods in which trading in the constituent securities on the relevant market is volatile or in which there are significant net subscriptions for, or significant net redemptions of, shares in the relevant Index Fund. Nevertheless, EIP will endeavour to detect deviations from the constituent securities' respective weightings in the relevant index and to minimise the extent or effect of such deviations. No assurance can be given that the performance of an Index Fund will at any time be identical to the performance of the related index.



In order to enhance returns, E.I.P. Overlay Fund may utilise the securities of the Index Funds in return for granting to the Index Funds the right to participate in the positive performance of E.I.P. Overlay Fund during each calculation period. Such participation will be paid to the Index Funds semi-annually, as soon as practicable after the end of each calculation period.

E.I.P. Overlay Fund will make a pay-down to the Index Funds of 25 per cent of the increase (before deduction of the performance fee payable to EIP) in the net asset value per share of each series relating to E.I.P. Overlay Fund in each calculation period multiplied by the average number of shares of the relevant series in issue as at each valuation point during such calculation period.

The percentage rate of participation for each Index Fund in the pay-down amount will reflect both the cost of securities borrowing in the relevant market and the extent securities of the relevant Index Fund are available for E.I.P. Overlay Fund to borrow. Investing in the Index Funds involves risk of loss that *clients* should be prepared to bear.

#### *Investment strategy for the Hedge Funds – E.I.P. Overlay Fund*

E.I.P. Overlay Fund is an equity market neutral Asia ex Japan fund and will seek to implement market neutral strategies in Asia ex Japan. E.I.P. Overlay Fund may also trade in other markets.

EIP intends to construct a diversified long and short portfolio and to implement a variety of hedging strategies to protect investors' capital and to reduce risk whilst enhancing returns for E.I.P. Overlay Fund. EIP may engage in fully hedged arbitrage (i.e. with a delta of one) for the account of E.I.P. Overlay Fund. EIP may also enter into low risk non-directional relative value trades for the account of E.I.P. Overlay Fund, utilizing American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs"), country funds, equities, options, futures, warrants, convertible bonds, currencies, Non-Deliverable Forwards, swaps, and other derivatives. E.I.P. Overlay Fund will have a directional limit (net long/short beta) of up to 20 per cent for each country in which it invests and, for E.I.P. Overlay Fund as a whole, of up to 20 per cent of its latest available Net Asset Value. E.I.P. Overlay Fund may utilise securities from the Index Funds to trade. E.I.P. Overlay Fund may utilise securities of the Index Funds to hedge its positions.

The Company may, in markets where such activity is permitted, engage in "short sales" for the account of E.I.P. Overlay Fund, that is, the practice of selling securities which are borrowed from a third party and are utilised by E.I.P. Overlay Fund. The Company will be required to return, at the lender's demand, securities equivalent to any securities borrowed for the short sale. Pending the return of such securities, the Company will be required to deposit with any third party lender as collateral the proceeds of the short sale plus additional cash or securities; the amount of the required deposit will be adjusted periodically to reflect any change in the market price of the security which the Company is required to return to such third party lender.

In addition, E.I.P. Overlay Fund may enter into swaps with counterparties rated A- or better by Standard & Poor's in order to create a synthetic short position. Under this strategy, an Index Fund will sell the relevant stocks and enter into a swap representing a synthetic holding of the same stock, under which the relevant Index Fund will receive a return based on the performance of the relevant stock and will pay interest to the counterparty. Such interest will be equal to the interest earned by the Index Funds from the proceeds of the sale of the relevant stocks. E.I.P. Overlay Fund will immediately enter into a back to back swap with the same counterparty in respect of the same stock, under which E.I.P. Overlay Fund receive interest from the counterparty and will pay the counterparty a return based on the performance of the relevant stock.

### *Investment strategy for the Hedge Funds – E.I.P. Aleph Fund*

EIP will seek to achieve E.I.P. Aleph Fund's objective by utilising market neutral strategies, investing primarily in Asia, including Japan. The Fund will focus on quantitative trading as opposed to fundamental trading.

E.I.P. Aleph Fund will have the ability to invest in a wide range of instruments including, but not limited to, listed equities, debt securities, structured equity products, options, futures, warrants, swaps and other derivative instruments. Derivative instruments may be exchange-traded or over-the-counter.

E.I.P. Aleph Fund may also retain amounts in cash or cash equivalents pending reinvestment, for use as collateral or if this is otherwise considered appropriate to the investment objective. There will be no geographical restriction on E.I.P. Aleph Fund's investments although it is anticipated that a substantial portion of the assets of E.I.P. Aleph Fund will be invested in Asia, including Japan.

EIP intends to use a multi-strategy approach, employing strategies which are market neutral with little correlation to each other. Such strategies may include, without limitation, arbitrage strategies, relative value strategies, long-short trading, volatility trading and investing in initial public offerings. EIP may implement a variety of hedging strategies to protect capital and to reduce risk whilst enhancing returns for E.I.P. Aleph Fund.

Arbitrage strategies may include share class arbitrage, convertible bonds arbitrage, volatility arbitrage and merger arbitrage. EIP may engage in fully hedged arbitrage (i.e. with a delta of one) for the account of E.I.P. Aleph Fund.

EIP may also construct a diversified long and short portfolio and may, in markets where such activity is permitted, engage in "short sales" for the account of E.I.P. Aleph Fund (i.e. the practice of selling securities which are borrowed from a third party and are utilised by the Fund). In addition, the Company may, in respect of E.I.P. Aleph Fund, enter into swaps in order to create a synthetic short position.

EIP may also enter into low risk non-directional relative value trades for the account of the Fund, utilising ADRs, GDRs, country funds, equities, options, futures, warrants, convertible bonds, currencies, non-deliverable forwards, swaps, and other derivatives.

### **B and C      Material risk of the Funds**

There is no guarantee that in any time period, particularly in the short term, any Fund's portfolio will achieve any particular level of return. Investors should be aware that investment in any securities involves a degree of risk and that the value of shares in the Hedge Funds may fall as well as rise.

Investment in the Funds involves significant risks. Whilst it is the intention of EIP to implement strategies which are designed to minimise potential losses, there can be no assurance that these strategies will be successful. It is possible that an investor may lose a substantial proportion or all of its investment in the Funds. As a result, each investor should carefully consider whether it can afford to bear the risks of investing in the Funds.

The following discussion of risk factors does not purport to be a complete explanation of the risks involved in investing in the Funds.

### **Leverage**

The Hedge Funds may be leveraged by borrowing and may also engage in investment strategies that constitute leverage should EIP consider this necessary or desirable. Such strategies may include the borrowing and short selling of securities and the acquisition and disposal of certain types of derivative securities and instruments, such as swaps, futures and options.

**Whilst leveraging creates an opportunity for greater total returns it also exposes the Fund to a greater risk of loss arising from adverse price changes. For a further explanation of the risks involved in entering into certain leveraged transactions see the paragraph below headed "Derivatives".**

### **Emerging Market Risk**

Some overseas markets in which each Fund may invest are considered emerging market countries. The economies of many emerging markets are still in the early stages of modern development and subject to abrupt and unexpected change. In many cases, governments retain a high degree of direct control over the economy and may take actions that have a sudden and widespread effect. Also, many less developed markets and emerging market economies have a high degree of dependence on a small group of markets or even a single market that can render such economies more susceptible to the adverse impact of internal and external shocks.

Emerging market regions are also subject to special risks including, but not limited to: generally less liquid and less efficient securities markets; generally greater price volatility; exchange rate fluctuations and exchange control; higher volatility of the value of debt (particularly as impacted by interest rates); imposition of restrictions on the expatriation of funds or other assets; less publicly available information about issuers; the imposition of taxes; higher transaction and custody costs; settlement delays and risk of loss; difficulties in enforcing contracts; less liquidity and smaller market capitalisations; less well regulated markets resulting in more volatile stock prices; different accounting and disclosure standards; governmental interference; higher inflation; social, economic and political uncertainties; custodial and/or settlement systems may not be fully developed; the risk of expropriation of assets and the risk of war.

### **Economic Risk**

Economic instability in an emerging market may arise when such country is heavily dependent upon commodity prices and international trade. Economies in emerging market countries have been and may continue to be adversely affected by the economic strength of their trading partners, exchange controls, managed adjustments in relative currency values, trade barriers and other protectionist measures imposed or negotiated by the countries with which they trade. Some emerging market countries have experienced currency devaluations and some have

experienced economic recessions causing a negative effect on their economies and securities markets.

### **Risk of Market Intervention by Governments and Regulators**

The performance of global markets is subject to the policies and controls of the relevant governments and regulators. Governments and regulators may from time to time choose to intervene in free market systems, particularly during periods of volatility or instability of the relevant market or in attempts to improve the performance of the national economy, by implementing economic, trading, foreign exchange, fiscal or other policies. Such market intervention may also include the imposition of trading restrictions (for example, bans on “naked” short selling or the suspension of short selling for certain stocks). Emerging markets in particular are generally characterised with a higher level or possibility of intervention. Due to the interconnectedness of the global markets, intervention in any one market may also impact on the performance of other markets. Any such market intervention may in turn affect the performance of the Funds.

### **Political and Social Risk**

Some governments in emerging market countries are authoritarian or have been installed or removed as a result of military coup and some have periodically used force to suppress civil dissent. Disparities of wealth, the pace and success of democratisation and capital market development and ethnic, religious and racial disaffection, among other factors, have also led to social unrest, violence and/or labour unrest in some emerging market countries. Unanticipated political or social developments may result in sudden and significant investment losses. All of these factors can have a material impact on the Funds and particularly in respect of the Index Funds, impacting the indices to which the Index Funds seek to simulate and create a risk of higher price volatility which, in turn, can increase the difficulty for EIP in achieving for the Index Funds a performance comparable to the relevant indices.

### **Market Risk**

Past performance is not indicative of future performance. The net asset value of a Fund will change with changes in the market value of the securities it holds. The subscription and redemption prices of shares in a Fund and the income from them may go down as well as up. There can be no assurance that a Fund will achieve its investment objective or that an investor will achieve profits or avoid losses, significant or otherwise. The capital return and income of each Fund is based on the capital appreciation and income on the securities it holds, less expenses incurred. Each Fund’s return may fluctuate in response to changes in such capital appreciation or income. Each Fund may experience volatility and decline. In the circumstance of an Index Fund, its volatility and decline will broadly correspond with the index in which it relates. Investors in a Fund are exposed to the same risks that investors who invest directly in the underlying securities would face. These risks include, for example, interest rate risks (risks of falling portfolio values in a rising interest rate market), income risks (risks of falling incomes from

a portfolio in a falling interest rate market), and credit risk (risk of a default by the underlying issuer of a security that forms part of the underlying index).

### **Asset Class Risk**

Although the manager of the Funds (the “Manager”) and EIP as the will supervise the investment portfolio of each Fund, the returns from the types of securities in which a Fund invests may underperform or outperform returns from other securities markets or from investment in other asset classes. Different types of securities tend to go through cycles of out-performance and underperformance when compared with other general securities markets.

### **Foreign Security Risk**

Any Fund may invest in the equity markets of a single country or multiple countries within a geographical region. These markets are subject to special risks associated with foreign investment including market fluctuations caused by factors affected by political and economic developments, differences in accounting, auditing and financial reporting standards, the possibility of nationalisation of assets, expropriation or confiscatory taxation, or regulation, the imposition of withholding taxes on payments or distributions referable to underlying securities, adverse changes in investment, tax or exchange control regulations, economic growth and indicators (such as gross domestic product, inflation rate, self-sufficiency and balance of payments position of the relevant economy), government regulation, political instability that could affect local investments in foreign countries, and potential restrictions on the flow of international capital. Each of these factors may have a large impact on the performance of the relevant Index Fund.

### **Foreign Exchange Risk**

A Fund will have exposure to fluctuations in currency exchange rates where it invests directly or indirectly in securities denominated in currencies other than US dollars. In particular, although the Index Funds are denominated in US dollars, the underlying investments of the Index Funds may be denominated in New Taiwan dollars (for the Enhanced Taiwan Index Fund), Hong Kong dollars (for the Enhanced China Index Fund) Indian rupees (for the Enhanced India Index Fund), Malaysian ringgit (for the Enhanced Malaysia Index Fund), South Korean won (for the South Korea Index Fund), Thailand baht (for the Enhanced Thailand Index Fund), Indonesian rupiahs (for the Enhanced Indonesia Index Fund) and Philippines peso (for the Enhanced Philippines Index Fund). A Fund may experience losses if the values of its currency forwards and futures positions were poorly correlated with its other investments or if it could not close out its positions because of an illiquid market.

The markets in which foreign exchange transactions are effected are highly volatile, highly specialised and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. In certain circumstances, these significant changes may adversely and severely impact the ability of a Fund to sell its investments or convert or remit such sale proceeds to the Fund, the value of securities

as well as the net asset value of that Fund. This may result in the suspension of the determination of the Net Asset Value of that Fund and, if such significant adverse changes continue for a reasonable period of time, the Fund's rights in these investments may lapse completely. Some of the risks associated with foreign exchange transactions include but are not limited to, exchange rate risk, maturity gaps, interest rate risk, counterparty risk, potential interference from government intervention through regulation of local exchange markets, foreign investment or particular transactions in foreign currency, and devaluation of foreign currency.

### **Tracking Error Risk**

The Net Asset Value of an Index Fund may not correlate exactly with the relevant index. Factors such as the fees and expenses of an Index Fund, imperfect correlation between an Index Fund's assets and the securities constituting the relevant index, inability to rebalance an Index Fund's holdings of securities in response to changes in the constituents of the relevant index, rounding of security prices, changes to the relevant index, regulatory policies and other factors as mentioned under that part of the "Investment Strategy" section "For the Index Funds" may affect an Index Fund's ability to achieve close correlation with the relevant index. This may cause each Index Fund's returns to deviate from the relevant index.

### **Concentration Risk**

There is no assurance as to any degree of diversification in the assets held by each Fund other than in accordance with diversification requirements (if any) under the Private Placing Memorandum. It is possible that a Fund may be subject to risks arising from concentration of assets in respect of, for instance, a certain type of asset class, region, country, sector or industry.

Each of the Index Funds, in particular, is subject to concentration risks as a result of investing in constituent securities comprised in an index from a single country. Each Index Fund is therefore likely to be more volatile than a broadly-based fund such as a global or regional fund, as it is more susceptible to fluctuation in value resulting from adverse conditions in that single country.

### **Repurchase Agreements**

The Company may enter into repurchase agreements with respect to securities for the account of a Fund. Repurchase agreements involve credit risk to the extent that the Company's counterparties may avoid such obligations in bankruptcy or insolvency proceedings, thereby exposing the relevant Fund to unanticipated losses. The amount of credit risk incurred with respect to a particular repurchase agreement will depend in part on the extent to which the obligation of the Company's counter-party is secured by sufficient collateral.

### **Futures Trading**

The trading activities of a Fund may be transacted on any futures, forward or cash market or directly with institutions (e.g. banks or other dealers with which forward contracts may be

entered into or traded). While it is not practicable to set forth in detail all possible forms of transactions in which a Fund may engage and the potential benefits and risks of each, certain salient features of their anticipated principal trading activities and markets are described below.

Substantially all trading in futures has as its basis a contract to purchase or sell a specified quantity of a particular asset for delivery at a specified time, although certain financial instruments, such as market index futures contracts, may be settled only in cash based on the value of the underlying composite index. If immediate delivery of the physical asset is contemplated, the trading is "cash" or "spot"; if delivery in the future is agreed upon, the contract to sell or buy is a "futures" contract and trading in such contracts is known as "futures trading". Futures trading involves trading in contracts for future delivery of standardised, rather than specific, lots of particular assets.

Futures are typically traded on "margin". The "margin" is the amount of escrow or performance bond deposit that a Fund will have to make and maintain with its brokers to secure its future obligation to close out open positions (either by delivery or acceptance of the contracted-for asset, or by an offsetting sale or purchase of a futures contract on such assets). The initial margin requirements may be satisfied by the deposit of cash (or, in some U.S. markets, certain U.S. Government obligations). The open positions must be "marked to market" daily, requiring additional margin deposits if the position reflects a loss that reduces a Fund's equity below the level required to be maintained and permitting release of a portion of the deposit if the position reflects a gain that results in excess margin equity. The level of margin that must be maintained for a given position is sometimes subject to increase, requiring additional cash outlays.

Because margin requirements normally range upward from as little as 2 per cent or less of the total value of the contract, a comparatively small commitment of cash or its equivalent may permit trading in futures contracts of substantially greater value. As a result, price fluctuations may result in a contract profit or loss that is disproportionate to the amount of funds deposited as margin. Such a profit or loss may materialise suddenly, since the prices of futures frequently fluctuate rapidly and over wide ranges, reflecting both supply and demand changes and changes in market sentiment.

Futures trading by persons other than "hedgers", that is, other than persons such as producers and consumers selling their anticipated production or buying their anticipated requirements, is recognised as a high-risk activity. Ordinarily, trading in futures subjects the trader to unlimited personal liability, which is a risk factor for individuals trading directly. By investing through a Fund, investors' liability is limited to the amount paid up on their Shares.

### **Forward Currency Contracts and Currency Futures Risks**

The Funds may engage in forward currency transactions in the interbank currency market and E.I.P. Overlay Fund and E.I.P. Aleph Fund may engage in forward transactions in commodities on markets worldwide. Forward contracts differ from future contracts in that they are usually for a period of three months or less, generally involve actual delivery (although actual delivery can and often is avoided by entering into an offsetting contract) and include a negotiated spot price,

financing charge and delivery date. Like futures contracts, these particular forward contracts are standardised with respect to quantity of the asset involved. Unlike futures exchanges generally, certain forward markets do not currently have a clearing corporation or division that is directly obliged on such transactions.

The Company may maintain margin accounts with one or more international reputable and creditworthy money center banks or other financial institutions in respect of currency-trading programs. Such accounts would be maintained by the financial institution(s) in the name of the Company as segregated accounts, and are not commingled with other assets. The risk to an investor is that, in the event of the failure of such financial institution, the margin account assets (which are typically 15 per cent of the value of any currency futures contracts outstanding) may be made unavailable to the Company and therefore may require it to liquidate either net investment assets (to satisfy current margin requirements) or the relevant contract positions; which liquidation in either case may result in a loss.

### **Options Trading**

Additional trading techniques available to a Fund involve buying, selling or writing put and call options relating to the markets in which the relevant Fund is active. The purchaser of an option pays a premium that entitles him during the exercise period to buy (in the case of a call) or sell (in the case of a put), to or from the grantor, a specified quantity of its underlying asset at a specified or "striking" price. Options are speculative in that the whole cost of the option is lost unless the price of the underlying items has moved in the anticipated direction and the option is exercised or otherwise turned to account (by, for example, sale, exchange or, in the case of privately negotiated options, renegotiation) prior to its expiration; however, liability is limited to the premium paid for the option. An option writer becomes obligated to purchase or sell a futures contract or other asset at a specified price during a specified period. In exchange for the premium received upon writing an option, a Fund bears the risk of loss from adverse price movements in the underlying asset so long as the position remains open.

### **Stock Borrowing**

E.I.P. Overlay Fund and E.I.P. Aleph Fund may borrow securities on terms that such securities may be recalled by the lender at short notice. If the securities are recalled, these Funds may be required to unwind a strategy early, which may result in losses. The Manager will endeavour to borrow non-recallable stock where possible.

### **Liquidity of Investment Portfolio**

The market for some securities in which a Fund may invest may be relatively illiquid. Liquidity relates to the ability of a Fund to sell an investment in a timely manner. The market for relatively illiquid securities tends to be more volatile than the market for more liquid securities. Investment of a Fund's assets in relatively illiquid securities and loans may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes to do so. This may



adversely affect the price of the shares of the Funds and the ability of an investor to dispose of its shares in the Funds at the desired price. If an investor needs to sell its shares in the Funds at a time when no active market for them exists, the price it receives for its shares in the Funds, assuming it is able to sell them, is likely to be lower than the price received if an active market did exist. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market in such contracts, and the bid and offer prices will be established solely by dealers in these contracts.

### **Liquidity of Shares**

Shares of the Funds have limited liquidity. There can be no assurance that an active trading market for shares of the Funds will develop or be maintained. Transfers of shares of the Funds are subject to legal and contractual restrictions as more fully described in the Funds' private placing memorandum.

### **Shares May Trade at Prices Other Than Net Asset Value Risk**

To the extent that any shares of the Fund are traded on a stock exchange, such shares may trade at prices above or below the most recent the relevant Fund's net asset value per share and fluctuates with changes in the market value of such Fund's holdings and changes in the exchange rate between the US dollar and the subject foreign currency(ies). The trading prices of a Fund's shares may fluctuate continuously based on market supply and demand rather than net asset value of the Fund. The price of a Fund's shares may deviate significantly from the Fund's net asset value particularly during periods of market volatility. Any of these factors may lead to the shares of a Fund being traded at a premium or discount to its net asset value. On the basis that shares of the Fund can be subscribed and redeemed at net asset value, large discounts or premiums to net asset value are not likely to be sustained over the long-term. While the subscription/redemption feature is designed to make it likely that a particular Fund's shares will normally trade at prices close to the Fund's next calculated net asset value, trading prices are not expected to correlate exactly with the relevant Fund's net asset value due to reasons relating to timing as well as market supply and demand factors. In addition, disruptions to subscription and redemptions or the existence of extreme market volatility may result in trading prices that differ significantly from the Fund's net asset value. Accordingly, in circumstances where an investor purchases shares in a Fund at a time when the market price is at a premium to the Fund's net asset value or sells when the market price is at a discount to the Fund's net asset value, or net asset value declines after an investor has bought the shares in the Fund, then the investor may sustain losses.

### **Derivatives**

Derivatives include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Each Index Fund may invest in stock index futures contracts and other derivatives. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price

movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives trading. However, there are a number of other risks associated with derivatives trading.

Derivatives have a high degree of price variability and are subject to occasional rapid and substantial changes. Compared to conventional securities, derivatives can be more sensitive to changes in interest rates or to sudden fluctuations in market prices due to both the low margin deposits required, and the extremely high degree of leverage involved in futures pricing. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose a Fund to the possibility of a loss exceeding the original amount invested. A Fund's losses may be greater if it invests in derivatives than if it invests only in conventional securities.

In addition, many derivatives are not traded on stock exchanges. As a result, a Fund that engages in transactions involving derivatives is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of any counterparties with which that Fund trades and as such may also expose the Fund to additional liquidity risks. This risk is also affected by the fact that over-the-counter derivatives markets are generally not regulated by government authorities and participants in these markets are not required to make continuous markets in the contracts they trade.

The use of derivatives may expose a Fund to several additional risks, including: (1) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset); (3) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (4) operations risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

### **Custody Risks**

In relation to a Fund's rights to the return of assets equivalent to those of a Fund's investments which have been transferred to the Prime Broker as collateral or margin, the Fund will rank as one of its prime broker's unsecured creditors and, in the event of the insolvency of its prime broker, the Fund might not be able to recover such equivalent assets in full.

### **Short Selling**

E.I.P. Overlay Fund and E.I.P. Aleph Fund may sell securities of an issuer short. A short sale is effected by selling a security which the selling party does not own, or selling a security which the selling party owns but which it does not deliver upon consummation of the short sale. In order to make delivery to the buyer of a security sold short, the selling party must borrow the security. In so doing, it incurs the obligation to replace that borrowed security, whatever its price may be, at the time the selling party is required to deliver it to the lender. The selling party must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless the selling party then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralised by a deposit of cash and/or marketable securities with the lender.

If the price of the issuer's securities declines, the short position may be covered with securities purchased in the market. The profit realised on a short sale will be the difference between the price received in the sale and the cost of the securities purchased to cover the sale.

The possible losses from selling short a security differ from losses that could be incurred from a cash investment in the security; the former may be unlimited, whereas the latter can only equal the total amount of the cash investment. Short selling activities are also subject to restrictions imposed by the various national and regional securities exchanges, which restrictions could limit the investment activities of the Funds.

### **Swap Agreements**

Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. The Company may enter into interest rate, index, single stock and currency exchange rate swap arrangements for purposes of attempting to obtain a particular desired return at a lower cost to it than if it had invested directly in an instrument that yielded that desired return. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realised on particular predetermined investments or instruments. The Company's obligations under a swap agreement generally would be accrued daily (offset against any amounts owing to the Company) and any accrued but unpaid net amounts owed to a swap counterparty generally would be covered by the maintenance of a segregated account consisting of cash, securities issued or guaranteed by OECD governments or their agencies, or high grade corporate debt obligations.

Swap agreements may be subject to liquidity risk, which exists when a particular swap is difficult to purchase or sell. If a swap transaction is particularly large or if the relevant market is illiquid, it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price, which may result in significant losses to the relevant Fund. Swap agreements may be subject to pricing risk, which exists when a particular swap agreement becomes extraordinarily expensive (or inexpensive) relative to historical prices or the prices of corresponding cash market instruments. The swaps market is largely unregulated. It is possible that developments in the swaps market, including potential government regulation, could adversely affect the

relevant Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements.

### **Counterparty Risk**

The Company and each Fund may enter into transactions with institutions, such as brokerage firms, banks, and broker-dealers, in relation to transactions, such as the sale and purchase of assets or securities, which will subject the Company and each Fund to the risk of the failure or default of such counterparties to transactions. Bankruptcy, fraud, regulatory sanction or a refusal to complete a transaction at one of these counterparties could significantly impair the operational capabilities or the capital position of the Company and/or a particular Fund. The Company and/or the relevant Fund may have contractual remedies against any failure or default by a counterparty to a transaction under the agreements related to the transaction. There can be no guarantee that transactions between such counterparties will always be completed in the manner contemplated by, and favourable to, the Company.

In certain circumstances, an Index Fund may invest solely through one or more instruments issued by a single counterparty and so will be exposed to the credit and default risk of that single counterparty.

The Company's and/or a Fund's borrowings may be secured by the securities or other assets that are pledged to counterparties as collateral. If any exchange or a clearing house becomes bankrupt or insolvent, the Company and/or a Fund could experience a loss of funds deposited through its broker as margin with the exchange or clearing house, a loss of any profits on its open positions on the exchange, and the loss of unrealised profits on its closed positions on the exchange.

Counterparty risk may be minimised through the selection of financial institutions and types of transactions employed.

### **Arbitrage**

Arbitrage involves the buying of a single derivative or a basket of derivatives and the selling of the underlying security or basket of securities. The derivative may underperform the underlying security resulting in a loss. When buying convertible bonds, an adverse movement in interest rates can result in a loss despite an upward movement in the equity security to which the bond relates.

### **Economic and Political Risks**

Certain of the economies in which the Funds may invest are in the process of a significant restructuring, with ongoing changes to the political, economic and regulatory environment, some of which may be favourable to the Funds and some of which may adversely affect the Funds and/or their investments.

Accounting, auditing and financial reporting standards of countries in Asia, as a whole, may be less extensive and less reliable than those applicable to United Kingdom and United States companies.

### **Operational Risk**

Trading errors are an intrinsic factor in any complex investment process, and will occur, notwithstanding the execution of due care and special procedures designed to prevent such errors. Such trading errors may have adverse consequences (for example, due to an inability to effectively correct such an error when detected).

### **Reliance on Management**

Although the Directors have the ultimate authority and responsibility for the management of the Company, all decisions relating to the day to day investment of each Fund's assets have been delegated to, and will be made by, the Manager, which has in turn delegated it to EIP. Each Fund's performance is therefore largely dependent on the continuation of agreements with the Manager and EIP and the services and skills of their respective officers and employees. There can be no assurance that the Manager's or the Investment Advisers' services (or that of one of their respective key personnel) will be retained and the ability of the Directors' to fulfil its responsibilities for the management of the day to day investment of each Fund's assets is dependent on such services. The loss of the Manager's or the Investment Advisers' services (or that of one of their respective key personnel) could materially and negatively impact the value of the Funds.

### **Risk of Indemnity**

The Manager, EIP, the parties who benefit from indemnity from the Funds, the prime broker, the Deutsche Bank Companies, the Directors of the Company, the auditors, the company secretary and other officers and servants of the Company have the right to be indemnified for any liability or expense incurred by them in performing their respective duties except as a result of their own wilful act, gross negligence, fraud or wilful misconduct (as applicable). Any reliance by these parties on the right of indemnity would reduce the assets of the affected Fund and/or the Company and the value of the relevant Shares.

### **Valuation Risk**

The markets in which the securities invested by a Fund are traded (including such stock exchanges on which such securities are traded) may be open on days when such Fund does not price its shares, the value of the securities comprising the Fund's portfolios may affect the valuation of the net asset value of the Fund.

A Fund's assets may involve derivative techniques that may be complex and specialised in nature. Valuations for such assets will only usually be available from a limited number of market professionals which frequently act as counterparties to the transactions to be valued. Such

valuations are often subjective and there may be substantial differences between any available valuations.

### **Operating Cost Risk**

The level of fees and expenses payable by each Fund will fluctuate in relation to its net asset value. Although the amounts of certain ordinary expenses of a Fund can be estimated, the growth rate of the Fund, and hence its net asset value, cannot be anticipated. Accordingly, no assurance can be given as to the performance of any Fund or the actual level of its expenses.

### **Performance Fee**

The performance fee payable to the Manager for E.I.P. Overlay Fund and E.I.P. Aleph Fund may create an incentive for the Manager to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. Prospective investors should note that the management fees and performance fee payable to the Manager are based in part upon unrealised gains (as well as unrealised losses), and that such unrealised gains and losses may never be realised.

### **Dividends and Distributions**

The Company does not intend to pay dividends or other distributions, but intends instead to reinvest all of each Fund's income and gains. Accordingly, an investment in a Fund may not be suitable for investors seeking current returns for financial or tax planning purposes. The Directors reserve the right to declare and pay special dividends. The Directors do not anticipate such dividends being paid except in unusual circumstances.

### **Shares May be Delisted from the Stock Exchanges**

The stock exchanges in which the shares of the relevant Funds are listed imposes certain requirements for the continued listing of securities. Investors cannot be assured that any of the Funds which are currently listed will continue to meet the requirements necessary to maintain the listing of shares or that the relevant stock exchanges will not change their listing requirements. If the shares of a relevant Fund are delisted from the relevant stock exchange, shareholders will have the option to redeem their shares by reference to the net asset value of the relevant Fund.

### **Legal and Regulatory Risk**

Each Fund must comply with regulatory constraints or changes in the laws affecting it or its investment restrictions which might require a change in the investment policy and objectives followed by the Fund. Furthermore, such change in the laws may have an impact on the market sentiment which may in turn affect the performance of the performance of an Index Fund. It is impossible to predict whether such an impact caused by any change of law will be positive or

negative for any Fund. In the worst case scenario, a shareholder of a Fund may lose all its capital invested in the relevant Fund.

### **Taxation in Overseas Jurisdictions**

A Fund may make investments in a number of different jurisdictions. Interest, dividend and other income realised by such Fund from sources in these jurisdictions, and capital gains realised on the sale of assets may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced and/or in which the issuer is located and/or in which the permanent establishment is located. It is impossible to predict the rate of foreign tax that a Fund may be required to pay since the nature and amounts of assets to be invested in any particular jurisdiction, the tax treatment of the activities of such Fund in any particular jurisdiction, and the ability of such Fund to reduce such taxes in any particular jurisdiction are not known. It is not practical to provide more specific disclosure of the tax consequences that might result from an investment in a Fund.

### **Taxation**

Investing in a Fund may have tax implications for a shareholder of the Fund depending on the particular circumstances of each shareholder. Prospective investors are strongly urged to consult their own tax advisers and counsel with respect to the possible tax consequences to them of an investment in the Shares. Such tax consequences may differ in respect of different investors.

### **Conflicts of Interest**

There will be no limitation with respect to the Manager or EIP's other activities and investments or with respect to the activities of other investment portfolios managed by the Manager or EIP. Accordingly, conflicts of interest may occur.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL THE RISKS INVOLVED IN INVESTING IN THE FUND(S). POTENTIAL INVESTORS MUST READ THE ENTIRE PRIVATE PLACING MEMORANDUM AND/OR PROSPECTUS AND MUST CONSULT THEIR OWN PROFESSIONAL ADVISERS, BEFORE DECIDING TO INVEST IN ANY OF THE FUNDS.**

### **Item 9 - Disciplinary Information**

- A. There have been no legal or disciplinary events against EIP or the Company since their inception in 2002.
- B. There are currently no legal or disciplinary events against EIP or the Company.

### **Item 10 - Other Financial Industry Activities and Affiliations**

None

## **Item 11 - Participation in Client Transactions and Personal Trading**

The rules surrounding the operation of EIP are embodied in the company's internal policies & procedures, risk management and internal control policy, compliance manual and other company documentation. Separately, the company has a written code of conduct which can be made available on request (Item 11A).

As EIP is mandated to manage client assets by making investment decisions to buy and sell securities, it realises the potential conflict of buying or selling securities on behalf of clients where it or a related person, as principal has a material interest. In order to mitigate such conflict, there is a personal dealing policy that all employees must adhere to and re-acknowledge periodically. The extract of the personal dealing policy is reproduced in Annexure A. (Items 11B, 11C and 11D)

## **Item 12 - Brokerage Practices**

A1. EIP intends to comply with the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, which permits the use of soft dollars to obtain brokerage and research services that provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision-making responsibilities. Research services may include, among other things, information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibilities issues.

Brokers are selected based on their ability to provide quality and cost effective services to the Funds. As the Funds are focussed predominately on Asian markets, coverage from a best execution, research and other value added services perspective are considered when determining the commission levels and trade allocations. Prior to entering into a soft dollar arrangement with a broker or dealer, EIP senior management must have formally reviewed the broker or dealer's financial background and company standing and any related persons relationships disclosed to clients.

When EIP uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, EIP receives a benefit because EIP does not have to produce or pay for research, product or services (Item 12A(1)(a)). Please note that EIP make use of soft dollar brokers and receive soft dollar benefit to pay for research and other services that benefit the investment making process.

Soft dollar arrangements may create an incentive for an advisor to select or recommend a broker or dealer based on the potential of receiving research or other products or services rather than obtaining the most favourable execution (Item 12A(1)(b)). EIP use commercially reasonable efforts to obtain best execution under all circumstances and to allocate trades to those broker and dealers who are at the time, charging execution rates comparable to other



broker and dealers offering the same or similar quality services in the market given the same or a similar trading venue and medium.

Soft dollar practices are fully disclosed in the Hedge Fund and Index Funds' Private Placing Memorandums. EIP has adopted a brokerage allocation policy that permits it to cause a Fund to pay commission rates in excess of those another broker or dealer would have charged for effecting the same transaction if EIP determine in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided (Item 12A(1)(c)). The determination may be made in terms of either a particular transaction or the overall responsibilities of EIP with respect to the Funds over which they exercise investment discretion (Item 12A(1)(f)). Research so received will be shared in the management of the Funds but may not necessarily benefit all Funds paying commissions to such brokers or all such Funds equally at all times (Item 12A(1)(d)).

For the fiscal year 2012, these services include:

Bloomberg - Pricing data and terminals which allow portfolio managers to monitor positions and P&L, place orders and receive market news updates

MSCI - Index Data license for benchmark data

Tradar Insight Software - Portfolio management system for the calculation and reconciliation of net asset values of the Funds`

Proprietary research created by broker dealers

All the above mentioned goods and services are provided by vendors that are unrelated to EIP and the Company. For the avoidance of doubt, goods and services such as travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments are strictly prohibited from forming part of any soft dollar arrangements. (Item 12A(1)(e))

A2. Not applicable.

A3. Not applicable.

B. Transaction orders for the purchase or sale of securities on behalf of the funds managed by EIP may be grouped and aggregated together where the securities to be purchased or sold by these funds are the same and EIP believes that such grouping and aggregation will result in a reduced cost of execution. A single average price will be assigned to all allocated accounts and fees and expenses associated with the aggregated order shall be pro-rated and allocated to each fund's account based on the notional amount of each allocation compared to the notional amount of the total aggregated order.

### **Item 13 - Review of Accounts**

Client accounts are reviewed periodically and fund performance and net asset value data are independently calculated and verified by the Funds' administrator. Monthly statements of account are sent by the Funds' administrator to all clients showing holdings, value and performance. Fund newsletters which include performance and written commentary are also issued to all clients on a monthly basis by EIP. Copies of the audited financial statements are issued to all clients within 4 months of the last reporting period end (31 December).

#### **Item 14 - Client Referrals and Other Compensation**

None

#### **Item 15 - Custody**

Custody of the assets of the Funds resides with the prime broker, Deutsche Bank AG London. The assets of the Funds are held by the prime broker in the name of the Funds and not of any 3<sup>rd</sup> party. EIP as investment manager does not at any time have custody over client assets. Please see Item 13 regarding monthly statements of account that are sent by the Fund's administrator to the clients.

#### **Item 16 - Investment Discretion**

The Manager of the Funds, pursuant to its authority under the management agreement entered between the Manager and the Company, delegated to EIP as investment adviser the Manager's responsibilities in respect of its duties, obligations, functions, powers and discretions with regard to the management of the assets of the Company and its Funds. EIP entered into an investment management delegation agreement with the Manager to formalise such delegation arrangements. Accordingly, EIP manages the investment and reinvestment of the cash, securities and other property comprising the assets of Funds in the interests of the shareholders of the relevant class or classes with power on behalf of and in the name of the Company at its discretion to purchase, subscribe or otherwise acquire or enter into securities, investments futures contracts and swaps and to sell, redeem, exchange, vary or transpose the same, provided that (unless otherwise instructed):-

- any purchase or sale of any security, investment or futures contract for the account of the Company, where such security, investment or futures contract is listed or traded on any stock exchange, futures exchange or over-the-counter market or where a recognised market is made in such security, investment or futures contract by any bank, dealer or association of dealers, shall be made on the stock exchange, futures exchange or other market which is the principal market for such security, investment or futures contract, unless EIP is satisfied that it is possible to make such purchase or sale more advantageously in some other manner;

- EIP may cause such sums as it may think fit to be retained in cash on behalf of the Company or Fund or placed on deposit in such currency or currencies as it may think fit with or to the order of the custodian;

- EIP shall render to the Company's board of directors written reports of the composition of the portfolio of each Fund as often as the board of directors shall reasonably require; and

-EIP shall not enter into any underwriting or sub-underwriting contract on behalf of the Company or a Fund except with prior notification to the custodian, and so that all commissions and fees payable under such contracts and any investments acquired pursuant to such contracts will form part of the assets of the Company (for the account of the relevant Fund).

Any specific or general directions which the Company's board of directors may give to EIP with regard to the acquisition, holding or disposal of securities, investments or futures contracts shall, unless the contrary is expressly stated therein, override the general authorisation hereby given, to the intent that the board of directors may at any time and from time to time take over, either generally or to a limited extent and either in collaboration with or to the exclusion of EIP, the making, varying or disposal of any or all cash, securities, investments and futures contracts of the Company or a Fund.

#### **Item 17 - Voting Client Securities**

- A. All rights of voting conferred by investments of the Company shall be exercised in such manner as EIP may determine and EIP may in its discretion refrain from the exercise of such voting rights. The Company shall from time to time execute and deliver (or procure the custodian to execute and deliver) to EIP such powers of attorney or proxies as may reasonably be required by EIP for the purposes of authorising such attorneys or proxies as it may select to vote, consent or otherwise act in respect of all or any of the investments of the Company. Shareholders of the relevant Fund may contact EIP or the Funds' administrator to obtain information about how EIP voted on securities held by the relevant Fund and a copy of EIP's proxy voting policies and procedures can be obtained from EIP upon request.
- B. Not applicable.

#### **Item 18 - Financial Information**

- A. Latest available audited financial statements for Enhanced Index Funds PCC attached.
- B. At the time of preparation of this Brochure, no financial conditions exists that EIP management think that is reasonably likely to impair its ability to meet contractual commitments to its clients.
- C. Not applicable.

#### **Item 19 - Requirements for State-Registered Advisers**

No applicable.

## Annexure "A"

Subject	Policies	Procedures	Responsibility
Employee Dealing	All employees must disclose all personal securities accounts with external brokers	<p>Employees must notify the Compliance Manager of any personal securities dealing accounts with external brokers when they join EIP and every time a new personal account is open</p> <p>The Compliance Manager will issue a letter to each external broker, signed by employees to ensure copy trade confirmations and monthly statements for the accounts are sent directly to the Compliance Manager</p> <p>The Compliance Manager will review these statements periodically for potential conflicts of interest or other irregularities. In the event an irregularity is discovered, the Compliance Manager will recommend to Senior Management a course of action to be taken</p>	Compliance Manager
	All employee dealing must be notified to and approved by the compliance manager for review before trade execution to prevent potential conflicts of interest, 'front running' or other irregularities	Employees must seek approval from the Compliance Manager (or Responsible Officer if Compliance Manager is not available) before personal securities orders apart from exempt securities are placed with brokers. Employees must submit an Employee Dealing Application Form prior to trading	Compliance Manager
	All trading must be approved prior to the order being executed using the Employee Dealing Application Form	All approved Employee Dealing Application Forms are valid for 5 business day unless exceptional circumstances. Extensions are valid for a maximum of 5 days from the day of approval of the original Employee Dealing Application Form and must be signed off by the Compliance Manager or a Responsible Officer	Compliance Manager
	Holding period	All employee personal trading positions (apart from positions in exempt securities) must be held for a minimum of 30 calendar days. Employees who have exceptional circumstances can apply for a waiver of the minimum 30 calendar day holding provided they have a valid reason. Approval of such waiver is at the discretion of the Compliance Manager	Compliance Manager
	Restricted list	Employees are prohibited to trade in securities that are held by the Overlay, Aleph & Index Funds. Existing positions held by new employees are permitted but any further trading in that security must conform with the standard employee dealing policy	Compliance Manager
	Exempt securities	Mutual Funds, Mandatory Provident Funds, Electronic Traded Funds, Foreign Exchange and other securities which may be decided by senior management from time to time	Compliance Manager

