

## SECURITIES NOTE AND SUMMARY



### Deutsche Bank AG, London Branch

**Up to 20,000 Hedge Fund Certificates (ISIN: DE000DB9CZM2) relating to a Leveraged Index which notionally invests in USD denominated Class B shares in the Maxam Absolute Return Fund**

**Issued under its *x-markets*<sup>TM</sup> Programme**

**Issue Price EUR 1,000 per Hedge Fund Certificate**

**ISIN: DE000DB9CZM2**

The issuer (the "Issuer") of the securities described in this Prospectus (consisting of a Securities Note, Summary and Registration Document) is Deutsche Bank AG, Frankfurt am Main, incorporated under the laws of Germany, acting through its London branch.

The Issuer is authorised to and may issue securities relating to securities relating to shares and/or indices and/or other securities and/or fund shares and/or commodities and/or foreign exchange rates and/or other assets as part of its general banking business (set out in article 2(1) of the Articles of Association of Deutsche Bank AG).

The Issuer has determined to issue up to 20,000 Hedge Fund Certificates (the "Securities") relating to the notional leveraged index which invests in the Fund Shares specified above upon the product conditions in Section VII A of this document (the "Product Conditions") and the general terms and conditions set out in Section VII B of this document (the "General Conditions", which together with the Product Conditions shall be referred to as the "Conditions"). References to the term "Underlying" shall be construed as references to the Leveraged Index which references the Fund Shares of the Fund specified above. A description of the "Leveraged Index" is set out in detail in the section entitled "Information relating to the Underlying" below.

The Issuer has a right of substitution and a right to change the office through which it is acting, subject as provided in General Condition 8.

The Securities will not be listed on the regulated or unregulated market of any exchange.

**Prospective purchasers of the Securities should ensure that they understand fully the nature of the Securities, as well as the extent of their exposure to risks associated with an investment in the Securities and should consider the suitability of an investment in the Securities in the light of their own particular financial, fiscal and other circumstances. Prospective purchasers of the Securities should refer to the "Risk Factors" section of this document. The Securities will represent unsubordinated, unsecured contractual obligations of the Issuer which will rank *pari passu* in all respects with each other.**

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended. Any offer or sale of the Securities must be made in a transaction exempt from the registration requirements of such Act pursuant to Regulation S thereunder. The Securities may not be offered, sold or otherwise transferred in the United States or to persons who are either U.S. persons defined as such in Regulation S of such Act or persons who do not come within the definition of a non-United States person under Rule 4.7 of the United States Commodity Exchange Act, as amended. For a description of certain restrictions on the sale and transfer of the Securities, please refer to the General Selling and Transfer Restrictions section of this document.

This Securities Note and Summary has been approved by the Commission de Surveillance du Secteur Financier (the "CSSF"), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in Luxembourg, as a Prospectus issued in compliance with the Prospectus Directive and the Prospectus Regulation and relevant implementing measures in Luxembourg for the purpose of giving information with regard to the issue of Certificates during the period of twelve months after the date hereof.

The CSSF has been requested to provide the Netherlands Authority for the Financial Markets ("AFM") with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive and the Prospectus Regulation and the relevant implementing measures in Luxembourg.

The CSSF may be further requested to provide other competent authorities in the European Economic Area with a certificate of approval so that application may be made for Certificates to be offered in other jurisdictions which have implemented the Prospectus Directive.

**This Securities Note and Summary is dated 27 June 2007.**

Deutsche Bank

## IMPORTANT

***Subject as provided in section VII.C "Information relating to the Underlying – 3. Prospectus of the Fund", the Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.***

***No dealer, salesman or other person is authorised to give any information or to make any representation other than those contained in this document in connection with the offering or sale of the Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Agent. None of this document and any further information supplied in connection with the Securities is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of this document or any further information supplied in connection with the Securities should purchase any of the Securities. Each investor contemplating purchasing Securities should make its own independent investigation of the risks involved in an investment in the Securities. Neither this document nor any other information supplied in connection with the Securities constitutes an offer by or on behalf of the Issuer or any other person to subscribe for or purchase any Securities, i.e. no subscription agreement or purchase agreement may be effectively concluded in connection with Securities by way of unilateral statement by or on behalf of the subscribing or purchasing party.***

***The distribution of this document and the offering of the Securities in certain jurisdictions may be restricted by law. The Issuer does not represent that this document may be lawfully distributed, or that the Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any distribution or offering. Accordingly, the Securities may not be offered or sold, directly or indirectly, and none of this document, any advertisement relating to the Securities and any other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes must inform themselves about, and observe, any such restrictions. Please refer to General Selling and Transfer Restrictions contained in the section entitled General Information contained in this document.***

***This document may contain forward-looking statements. Forward-looking statements are statements that are not historical facts, including statements about beliefs and expectations. Any statement in this document that states intentions, beliefs, expectations or predictions (and the assumptions underlying them) is a forward-looking statement. These statements are based on plans, estimates, and projections as they are currently available to the management of the Issuer. Forward-looking statements therefore speak only as of the date they are made, and the Issuer undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could therefore cause actual results of the Issuer or of the Securities to differ materially from those contained in any forward-looking statement.***

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## I. SUMMARY

*The information set out below is a summary only and should be read in conjunction with the rest of this document. This summary is intended to convey certain of the essential characteristics and risks associated with the Securities and the Issuer in relation to the Securities and does not purport to be complete. It is taken from, and is qualified in its entirety by, the remainder of this document, including the Conditions, which constitute the legally binding conditions of the Securities as attached to the global security. Accordingly, this summary should be read as an introduction to the document, and any decision to invest in the Securities should be based on consideration of the document as a whole.*

*Prospective investors should be aware that where a claim relating to the information contained in this document is brought before a court, the investor making the claim might, under the national legislation of the respective EU member state, have to bear the costs of translating the prospectus before the legal proceedings are initiated.*

*Civil liability attaches to the Issuer who has tabled the summary including the translation thereof and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the document.*

*Defined terms used in this Summary have the meaning given to them in the Product Conditions of this document.*

## A. SUMMARY OF RISK FACTORS

### **Risks relating to the Securities. The Securities may decline in value and investors should be prepared to sustain a total loss of their investment in the Securities.**

An investment in the Securities involves risks. These risks may include, among others, equity market, bond market, foreign exchange, interest rate, market volatility and economic, political, regulatory and other risks.

An investment in the Securities is intended to provide a return linked to the Underlying which is a notional an index which references a notional leveraged investment in a hedge fund. Investing directly or indirectly in hedge funds is generally considered to be particularly risky and involves special considerations not typically associated with investing in other securities. These include the fact that hedge fund investments tend to be particularly volatile and that hedge funds tend to invest in complicated markets using highly sophisticated financial instruments and high levels of leverage.

Prospective purchasers should therefore be experienced with respect to transactions in instruments such as the Securities and in investments in hedge funds or investment products linked to hedge funds.

Prospective purchasers should only reach an investment decision after careful consideration, with their legal, tax, accounting and other advisers, of (i) the suitability of an investment in the Securities in the light of their own particular financial, tax and other circumstances, (ii) the information set out in this document and (iii) the Underlying. They should understand the risks associated with an investment in the Securities and in particular should familiarise themselves carefully with the Risk Factors set out in Section II below. In addition they should consider all information provided in the Registration Document with respect to the Issuer and consult with their own professional advisers if they consider it necessary.

Prospective purchasers should note that they are exposed to the creditworthiness of the Issuer, Deutsche Bank AG. Ratings assigned to the Issuer by certain independent rating agencies are an indicator of the Issuer's ability to meet its obligations in a timely manner. The lower the assigned rating is on the respective scale the higher the respective rating agency assesses the risk that obligations will not be met at all or not be met in a timely manner. As of the publication date of this summary, the following ratings were assigned to Deutsche Bank:

Rating Agency	Long-term	Short-term
Standard & Poors (S&P)	AA-	A-1+
Moodys	Aa1	P-1
Fitch	AA-	F1+

Rating agencies may change their ratings at short notice. A change of rating may affect the value of outstanding Securities in the secondary market. A rating is not a recommendation to buy, sell, or hold Securities, and may be subject to suspension, downgrading, or withdrawal by the rating agency. Any such suspension, downgrading, or withdrawal may have a negative effect on the market price of the Securities.

## B SUMMARY OF THE OFFER

### 1. Principal Terms

<b>Issuer:</b>	Deutsche Bank AG, London Branch
<b>Number of Securities:</b>	Up to 20,000 Securities
<b>Issue Price:</b>	EUR 1,000, per Security
<b>Underlying:</b>	The leveraged index (the " <b>Leveraged Index</b> ") described more fully in the section "Information Relating to The Underlying" set out below (as the same may be amended in accordance with its terms from time to time) and which references a notional investment in USD denominated Class B shares (the " <b>Fund Shares</b> ") of Maxam Absolute Return Fund Limited (the " <b>Fund</b> "), subject to adjustment and/or substitution in accordance with Product Condition 4 The Index will also reference investment in rolling fx hedges which are used to hedge the foreign exchange risk arising from the fact that the Securities are denominated in Euro whereas the Fund Shares are denominated in U.S. dollars.
<b>Issue Date:</b>	4 July 2007
<b>Reference Level:</b>	<p>In respect of:</p> <ol style="list-style-type: none"><li>1. the Initial Valuation Date, EUR1,000; and</li><li>2. all subsequent Valuation Dates, an amount (which may not be less than zero) equal to the product of:<ol style="list-style-type: none"><li>(i) the Reference Level on the preceding Valuation Date; and</li><li>(ii) the quotient of: (i) the Index Level in respect of the relevant Valuation Date (as numerator) and (ii) the Index Level in respect of the preceding Valuation Date (as denominator),</li></ol></li></ol> <p>all subject to adjustment in accordance with Product Conditions 4.2 or 4.3, and determined by the Calculation Agent on the Determination Date in respect of the relevant Valuation Date.</p>
<b>Initial Valuation Date:</b>	The last Business Day of June 2007 or such other day falling on or about the last Business Day of June 2007 as of which the Calculation Agent determines the Index Level is determined.
<b>Index Level:</b>	In respect of a Valuation Date and subject to adjustment in accordance with Product Conditions 4.2 or 4.3, the level of the Leveraged Index as of any date calculated as described in Schedule 1(B) of "Information relating to the Underlying" on such Valuation Date as determined by the Calculation Agent.
<b>Determination Date(s):</b>	In respect of a Relevant Valuation Date, (a) the 8 <sup>th</sup> calendar day immediately following the Relevant Valuation Date, provided that if such day is not a Business Day, the Determination Date shall be the immediately preceding Business Day; or (b) if applicable, such later date on which the Calculation Agent is able to determine the relevant Reference Level, subject to adjustment in accordance with Product Condition 4.2 or 4.3.
<b>Settlement Date(s):</b>	Means in respect of each Exercise Date and a Relevant Valuation Date, (1) the thirty-third (33 <sup>rd</sup> ) calendar day immediately following the Relevant Valuation Date; or (2) if later, the fifth calendar day following the Determination Date, or, if any such day is not a Payment Day the immediately following Payment Day, subject to adjustment in accordance with Product Condition 4.
<b>Settlement:</b>	Cash Settlement
<b>Valuation Date:</b>	The last Business Day of each month or such other day falling on or about the

last Business Day of such month as of which the Calculation Agent determines the Index Level is determined from and including the Initial Valuation Date to and including June 2012 (the “**Final Valuation Date**”).

<b>Relevant Valuation Date:</b>	In respect of an Exercise Date, the Valuation Date by reference to which such Exercise Date is fixed
<b>Exercise Date:</b>	The Final Valuation Date or, if a valid Exercise Date Acceleration Notice is given by the Issuer, the date specified in such notice.
<b>Automatic Exercise:</b>	Applicable
<b>Settlement Currency:</b>	Euro
<b>Cash Settlement Amount:</b>	Subject to adjustment in accordance with Product Conditions 4.2 or 4.3, an amount (if any) in respect of each Security equal to the Reference Level in respect of the Relevant Valuation Date less (i) any Securityholder Expenses, all as determined by the Calculation Agent for value on the relevant Settlement Date.. The Cash Settlement Amount (after deduction of any Securityholder Expenses) will be rounded to the nearest two decimal places in the Settlement Currency, 0.005 being rounded downwards. The Cash Settlement Amount, after deduction of any Securityholder Expenses, cannot be less than zero.
<b>Redemption Fee:</b>	Means an amount determined by the Calculation Agent as the product of the Cash Settlement Amount and a percentage determined as follows: <ul style="list-style-type: none"><li>a) in respect of any exercise in respect of any Valuation Date up to (and including) the Valuation Date falling in June 2008, 3 per cent;</li><li>b) in respect of any exercise in respect of any Valuation Date from (and excluding) the Valuation Date falling in June 2008 up to (and including) the Valuation Date falling in June 2009, 2 per cent.;</li><li>c) in respect of any exercise in respect of any Valuation Date from (and excluding) the Valuation Date falling in June 2009 up to (and including) the Valuation Date falling in June 2010, 1 per cent.; and</li><li>d) in respect of any exercise date falling after June 2010, zero.</li></ul>
<b>Listing and Trading:</b>	The Securities will not be listed on the regulated or unregulated market of any exchange.
<b>Minimum Subscription:</b>	50 Securities
<b>Primary Market End Date:</b>	Means 28 June 2007
<b>Calculation Agent:</b>	Deutsche Bank AG, London Branch
<b>Principal Agent:</b>	Deutsche Bank AG, London Branch
<b>ISIN:</b>	<b>DE000DB9CZM2</b>

## **2. Further information on the Terms of the Securities**

**The Securities do not provide any assured minimum payout (and do not pay any coupons or dividends).**

The return on the Securities is based on the level of the “**Leveraged Index**” (as described in more detail below in the section “Description of the Underlying”) which reflects a notional leveraged investment in Fund Shares issued by the Fund. The Fund is a hedge fund, managed by MAXAM Capital Management LLC and administered by MAXAM Capital Management Limited and is incorporated as an exempted company under the laws of the

Cayman Islands. The Fund qualifies as a “Mutual Fund” under section 4(3) of the Mutual Funds Law (2003 Revision) of the Cayman Islands and is or will be so registered in the Cayman Islands. The Fund invests all of its assets in a centralized management company, commonly known as a “master” fund (the Fund being a “feeder” fund). The Master Fund is MAXAM Absolute Return Fund, L.P., a Delaware limited partnership (the “**Master Fund**”) which is a single manager fund. The Master Fund will utilize the services of the Investment Manager to allocate its assets of to certain broker dealers.

Because the Securities are linked to the performance of the Leveraged Index (which references a notional leveraged investment in the Fund Shares), the Leveraged Index (and hence the Securities) will perform in a broadly similar fashion to a direct investment in the Fund, with the exception of:

(i) The Securities are linked to the Fund Shares through the Leveraged Index, which offers a leveraged participation in the Fund Shares, and so in contrast to a direct investment, if the value of the Fund Shares on the specified day(s) is greater than the specified initial level, investors will receive an amount which represents a leveraged participation in the extent to which the value of the Fund Shares on the specified day(s) exceeds such specified initial level. As a corollary, however, the requirement to pay interest upon the sums borrowed to obtain the required leverage for the Leveraged Index means that if the value of the Fund Shares on the specified day(s) is less than the specified initial level, investors will receive an amount reflecting a greater loss than if they had made a direct investment in the Fund Shares. There is no maximum or minimum cash amount payable at settlement;

(ii) the fact that the Issuer applies a currency hedging strategy to account for the fact that the Fund Shares are denominated in a currency other than the settlement amount of the Securities (which hedging strategy will not perfectly eliminate all resulting exchange rate risks); and

(iii) the deduction of a fee of 0.75% per annum in respect of the Leveraged Index (representing a distribution fee of 0.50% and an index calculation fee of 0.25%) and interest in respect of borrowings under the Leverage Facility (please see the section headed “Product, Fund Share and Underlying Fees” in the Risk Factors section of this document for more information on such fees).

Accordingly, prospective investors should note that the return (if any) on their investment in the Securities will depend upon the performance of the Underlying as reflected in the Reference Level. Investors who buy a Security on the Issue Date and hold it until exercise achieve a positive return on their initial investment when the value of the Underlying as reflected in the Reference Level in respect of the applicable Relevant Valuation Date exceeds the value of the Underlying as reflected in the Reference Level on the Initial Valuation Date. If the value of the Underlying as reflected in the Reference Level in respect of the applicable Relevant Valuation Date is less than the value of the Underlying as reflected in the Reference Level on the Initial Valuation Date, investors who buy a Security on the Issue Date and hold it until exercise will suffer a loss. Accordingly, an investment in the Securities involves a similar market risk to a direct investment in the Underlying and investors should take advice accordingly.

The market value of the Securities up to exercise depends primarily on the value and volatility of the Underlying during the life of the Securities (although other factors may also influence their market value). In general, if the value of the Underlying falls and/or there is a market perception that the value of the Underlying is likely to fall during the remaining life of the Securities, all other factors being equal, the market value of the Securities will be expected to fall. On the same basis, if the value of the Underlying rises and/or there is a market perception that the value of the Underlying is likely to rise during the remaining life of



the Securities, all other factors being equal, the market value of the Securities will be expected to rise.

The value of the Underlying on any day will reflect the value of its constituents on such day. Changes in the composition of the Underlying and factors (including those described above) which either affect or may affect the value of the constituents, will affect the value of the Underlying and therefore may affect the return on an investment in the Securities.

The Securities will be exercised automatically on the Exercise Date, and each Security entitles its Securityholder to receive a Cash Settlement Amount, if any, (after deduction of any relevant Securityholder Expenses) on the Settlement Date (which will normally be within thirty calendar days of the Relevant Valuation Date). In addition the Securities contain terms, as described in Product Condition 4, allowing the Issuer to defer or adjust settlement upon the occurrence of certain specified disruption events. In addition, the Issuer has the right to exercise all the Securities as set out in Product Condition 3.

The Cash Settlement Amount (if any) in respect of each Security will be the Reference Level in respect of the Relevant Valuation Date less any Securityholder Expenses. The Reference Level on any Relevant Valuation Date is the product of (a) and (b) where (a) is the Reference Level on the preceding Valuation Date (or on the Initial Valuation Date); and (b) the Index Level on the Relevant Valuation Date divided by the Index Level on the immediately preceding Valuation Date.

The currency in which shares in the Fund are denominated for the determination of the Cash Settlement Amount is not the same as the Settlement Currency. While the Leveraged Index applies rolling fx hedges to minimise such risk, an investment in the Securities will involve exchange rate risks.

A further difference to a direct investment in the assets held by the Underlying is that investors will forego the right to receive any dividends, interest or similar amounts paid in respect of the assets held by the Underlying.

Any exercise of Securites prior to the Valuation Date falling in September 2008 will incur a redemption fee as set out in the definition thereof.

### C. SUMMARY OF ISSUER DESCRIPTION

Deutsche Bank Aktiengesellschaft ("**Deutsche Bank**") originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. Deutsche Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the "**Deutsche Bank Group**").

As of 31 March 2007, Deutsche Bank's issued share capital amounted to Euro 1,345,160,819.20 consisting of 525,453,445 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all German Stock Exchanges. They are also listed on the New York Stock Exchange.

Deutsche Bank's long-term senior debt has been assigned a rating of AA- (outlook stable) by Standard & Poor's, Aa1 (outlook stable) by Moody's Investors Services and AA- (outlook stable) by Fitch Ratings.

## II. RISK FACTORS

### A. INTRODUCTION

Each prospective investor should review carefully the entirety of this document including the Conditions. This document is not, and does not purport to be, investment advice. **The Securities may decline in value and investors should be prepared to sustain a total loss of their investment in the Securities.**

The discussion below is intended to describe various risk factors associated with an investment in the Securities. No investment should be made in the Securities until after careful consideration of all those factors which are relevant in relation to the Securities. Prospective investors should note that while the statements below describe certain of the principal risks inherent in investing in the Securities, they are not an exhaustive list. Prospective investors should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision. Prospective investors should consider carefully the description of the Underlying (as defined below) in the sections "Product Conditions" and "Information relating to the Underlying" and should familiarise themselves with the further information in respect of the Underlying which is set out therein (and in particular the prospectus of the Fund in which the Underlying invests and any additional risk factors relating to it set out therein).

An investment in the Securities involves risks. These risks may include, among others, equity market, bond market, foreign exchange, interest rate, market volatility and economic, political and regulatory risks and any combination of these and other risks. An investment in the Securities is intended to provide a return linked to the Underlying which is a leveraged index which references shares of a Hedge Fund which, as a "fund-of-funds", itself invests in other single manager Hedge Funds. Investing directly or indirectly in Hedge Funds is generally considered to be particularly risky and involves special considerations not typically associated with investing in other securities. These include the fact that Hedge Fund investments may be particularly volatile and that Hedge Funds may invest in complicated markets using highly sophisticated financial instruments and high levels of leverage.

Prospective purchasers should therefore be experienced with respect to transactions in instruments such as the Securities and in investments in Hedge Funds or investment products linked to Hedge Funds.

This document does not take into account the investment objectives, financial situation and particular needs of each prospective investor. In addition, it does not consider the income and other tax consequences that may apply to a prospective investor if it buys, holds or sells Securities, and nor does it consider any legal or other restrictions applicable to a particular prospective investor. Prospective purchasers should only reach an investment decision after careful consideration, with their own legal, tax, accounting and other advisers, of (i) the suitability of an investment in the Securities in the light of their own particular financial, tax and other circumstances, (ii) the information set out in this document and (iii) the Fund in which the Underlying invests. They should understand the risks associated with an investment in the Securities and in particular should familiarise themselves carefully with the Risk Factors set out in Section II below. In addition they should consider all information provided in the Registration Document with respect to the Issuer and consult with their own professional advisers in respect of it if they consider it necessary.

In addition to the Risk Factors which follow, prospective investors should also review section "C. Conflicts of Interest".

Terms and expressions defined in the Conditions (including in “Information relating to the Underlying”) shall have the same meaning when used in this discussion.

## B. RISK FACTORS

### 1. General

#### a. Nature of the investment and overview of hedge funds

By investing in the Securities investors will gain a leveraged exposure to a type of fund referred to as a "**Hedge Fund**". This leveraged exposure is provided through the Leveraged Index comprising the Underlying which will notionally hold Fund Shares in the Fund, which is a Hedge Fund. An investment in the Securities is intended to provide a return linked to the Underlying and the relevant Fund Shares

Investments offering exposure to the performance of Hedge Funds are generally considered to be risky (see "Risk factors relating to investing in Hedge Funds" below) and those offering a leveraged exposure to the performance of hedge funds may be even more risky.

A Hedge Fund is an investment vehicle which pools the investments of investors and uses the proceeds to invest in one or more particular investment strategies in order to try to achieve a positive return for investors. Hedge Funds typically engage in unconventional and alternative investment strategies. Hedge Funds are normally subject to little or no regulation and are often based in "offshore" jurisdictions such as the Cayman Islands, the British Virgin Islands, Jersey or Guernsey, partly in order to avoid tax.

A direct investor in a Hedge Fund receives shares or units in that Hedge Fund. The shares or units may relate to the Hedge Fund generally or to a particular class or series of the Hedge Fund, each relating to one or more investment portfolios. The value of the investor's shares or units will be determined by reference to the value of the Hedge Fund's underlying investments.

The administration and operation of a Hedge Fund will be undertaken by a number of persons in relation to its management and operation (any such person a "**Service Provider**", which term also includes investment managers, trading advisers or other entities (referred to as "**Investment Managers**") appointed by Hedge Funds to pursue investment strategies. The most significant of its Service Providers will be the Investment Manager who will discharge the strategy and investment techniques of that Hedge Fund. The Hedge Fund, on the advice and recommendations of its Investment Manager, will apply the investment monies of its investors to particular investments which will make up its investment portfolio (which may include securities and derivative contracts). Since the Investment Manager will largely direct the investments of the Hedge Fund and to a greater or lesser extent may follow a particular strategy or investment technique in order to make these investments, the success or otherwise of the Hedge Fund may depend largely on the skill of its Investment Manager and the success or otherwise of the types of strategy or investment technique followed.

The Service Providers to a Hedge Fund other than the Investment Manager typically include its administrator (which may carry out record keeping, investor registration or similar formalities), its custodian (which may be appointed to hold the assets of the Hedge Fund), its corporate services provider (which may provide directors for the Hedge Fund, a registered office and arrange for meetings of the directors) and its brokers (including a "prime broker" which may execute transactions for the Hedge Fund, and may lend the Hedge Fund any of the money it decides is needed in excess of investor funds to enter into transactions).

#### b. Issuer's freedom to hedge / No rights relating to the Underlying

Investors should understand that although the Underlying is an account comprising assets and liabilities which will be referenced by the Securities for the purposes of determining various amounts in connection with the Securities, the Issuer is under no obligation to hedge

the exposures created for it by making investments in the Underlying, or to hedge such exposures in any particular way or at all. Securityholders will have no legal or beneficial ownership interest in the Underlying or the Fund Shares invested in by the Underlying. Securityholders will have no contractual relationship in any respect with the manager, administrator or any Service Provider of the Fund or the custodian of the Underlying from time to time. The securities represent unsecured obligations of Deutsche Bank AG, London Branch only, and are not insured or guaranteed by any governmental fund or other person.

**c. Creditworthiness of the Issuer**

The value of the Securities is expected to be affected, in part, by investors' general appraisal of the Issuer's creditworthiness. Any reduction in the creditworthiness of the Issuer could result in a reduction in the value of the Securities. If bankruptcy proceedings are commenced in respect of the Issuer, the return to a Securityholder, if any, is likely to be limited and any recovery will likely be substantially delayed.

**d. The Securities may be illiquid**

It is not possible to predict if and to what extent a secondary market may develop in the Securities or at what price the Securities will trade in the secondary market or whether such market will be liquid or illiquid. As at the date of this document, the Issuer does not intend to apply for the Securities to be listed, quoted or admitted to trading on any stock exchange or quotation system, and the Securities may be less liquid investments than if they were listed, quoted or admitted to trading.

**e. Incentivisation**

The Issuer may enter into distribution agreements with various financial institutions and other intermediaries as determined by the Issuer (collectively the "**Selling Agents**"). A fee may be payable to the Selling Agent(s) by the Issuer.

**f. No payments until settlement**

Prospective investors should note that no periodic interest payments or other distributions will be made in respect of the Securities.

**g. Product, Fund Share and Underlying fees**

Hedge Funds typically receive services from Service Providers including the Investment Manager in relation to their management and operation and therefore tend to suffer a high level of fees which are deducted from the returns available to investors.

Investors should therefore be aware that the performance of the Securities will be affected by a number of fees which are charged in respect of the Fund Shares.

In addition, investors should be aware that the performance of the Securities will be affected by a number of fees which are charged in respect of the Securities themselves and the Leveraged Index comprising the Underlying and which may be charged in respect of hedging arrangements utilised by the Issuer in respect of the Securities (in each case, if applicable to the relevant Securities).

These are all described, without limitation, in brief below:

*Fees at the level of the Leveraged Index which comprises the Underlying:*

A fee of 0.75 per cent per annum is paid in respect of the Leveraged Index (comprising a distribution fee of 0.50 per cent and an index calculation fee of 0.25 per cent), with such fees accruing daily and being calculated and paid monthly, in each case based on the relevant

month end Index Level). In addition, interest will accrue daily in respect of any borrowings made by the Index at a rate of three-month Euribor plus 1.00 per cent per annum.

*Fees at the level of the Fund Shares in which the Underlying invests:*

The Fund in which the Underlying invests deducts an administration fee of 0.20 per cent per annum based upon the NAV of the Fund.

The Fund Shares are also subject to a distribution fee of 0.5 per cent per annum of the NAV of the Fund which is charged by the Fund.

Investors should read carefully those sections of the prospectus of the Fund as set out below in the section "Information relating to the Underlying" which detail the various fees imposed by the Fund.

*Fees at the level of the Master Fund in which the Fund invests:*

The Master Fund charges an annual investment management fee of 1.00 per cent. per annum, and may charge additional fees relating to, without limitation, administration, audit and tax or other fees, and certain of these fees may be substantial or higher than the market average.

In addition, investors should note that because the Master Fund allocates its funds to various broker dealers, such broker dealers may deduct certain financing charges and transaction and management fees, certain of which fees may be substantial or higher than the market average.

**h. Leveraged nature of the Leveraged Index**

Extra exposure to the performance of the Fund Shares referenced by the Leveraged Index may be achieved (within defined limits as described more fully in the "Information relating to the Underlying") by the use of the notional Leverage Facility employed within the Leveraged Index. However, although leveraging the exposure of the Leveraged Index to Fund Shares in such a way may potentially increase the overall return on the Securities, it may also lead potentially to greater losses, up to the excess of any return over the principal amount originally invested in the Securities.

**i. Control of Leverage amounts**

Although the Leveraged Index contains provisions to adjust the percentage of leverage carried by the Leveraged Index, investors should note that the Index Calculation Agent will be making such adjustments based upon the information available to it at such relevant time, which may be estimates only, and there is no assurance that the actual leverage of the Index will equal the target leverage of 75% of the Index Level at any point, and if the Fund Shares suffer a sharp fall or experience a rapid raise, the leverage may materially differ from the target leverage and this may have a material effect upon the performance of the Index and hence the Securities. Furthermore, the Leveraged Index contains an fx hedge, and the gains or losses of such fx hedge may increase or decrease the effective leverage of the Leveraged Index.

In addition, it should be noted that the Index Calculation Agent will be making notional adjustments to the Index Constituents on the basis of the most recent information available to it. As there is typically a considerable delay before a hedge fund is able to publish its net asset value, and then a further delay before the next available date upon which subscription or redemption orders in respect of such fund may take effect, it is possible that the target leverage process may result in an increase in leverage at a point when the performance of the Fund is declining, or conversely a decrease in the exposure to the Fund when its performance is improving.

Moreover, it should be noted that the ability of the Index Calculation Agent to seek to leverage and deleverage the investment in the Fund in accordance with the target leverage

will depend upon the ability of the Fund to accept subscription and redemption orders in a timely manner. Such orders may be prevented or limited as a result of the Fund closing for new subscriptions or imposing gating, or the existence of other factors in respect of the Fund with the effect that an intended increase or decrease in investments in the Fund to achieve the target leverage may not be possible, or may be restricted, with respect to any particular date. As the Master Fund (in which the Fund invests) is a single manager fund, the prevention or limitation of such orders by the Fund may be more likely to arise than if the Master Fund were a fund of funds. Any such restriction or limitation will have a material impact upon the ability of the Index to increase or reduce its investment in the Fund, which may adversely affect the performance of the Fund and hence the Index. Furthermore, if the Fund closes for new subscriptions and subsequently reopens, the Index will notionally reinvest in the Fund in order to achieve the target leverage, and this volatility of inflows into the Fund may impact the performance of the Fund.

**j. Subscriptions and redemptions of Securities affect the Leveraged Index**

Subscriptions of further Securities will result in the net proceeds of such subscriptions being notionally invested through the Leveraged Index. Exercise of Securities will result in the notional realisation of investments credited to the Leveraged Index. The costs of notional investment will be for the account of the Leveraged Index. The costs of notional redemption will be for the account of the exercising Securityholder. These actions may affect the performance of the Leveraged Index and consequently the level of the Leveraged Index and the value of the Securities.

**k. Deleveraging of the Index; Leverage Restrictions**

If the amount of borrowings under the Leverage Facility of the Index drops to below EUR 125, the borrowings under the Leverage Facility will be repaid in full and no more borrowings shall be made under the Leverage Facility. Any such deleveraging will reduce the exposure of investors to potential future increases in performance of the Fund. Furthermore, the Index may fully delever following the occurrence of certain events relating to, among other things, the Fund or the Fund Shares.

Investors should further note that the maximum leverage of the Leverage Facility is EUR1,500. Therefore, if the Index increases in value by more than 100%, there will be no corresponding increase in the Leverage Facility, and the leverage would therefore fall as a proportion of the Index Level, therefore reducing the exposure of the Index to potential increases in the level of the Fund.

**l. Taxation**

Potential purchasers should consult their own independent tax advisers. Securityholders are subject to the provisions of General Condition 6 and payment of any amount due in respect of the Securities will be conditional upon the payment of certain taxes, duties and/or expenses as provided in the Product Conditions (referred to as Securityholder Expenses).

**m. Exercise**

The failure to deliver any notices or certifications strictly in accordance with the relevant time period specified in the Conditions could result in the loss of (or inability to receive) amounts which might otherwise become due under the Securities. Upon exercise of the Securities, there will be a time lag between the time exercise occurs, the time the applicable Cash



Settlement Amount (if any) relating to such exercise is determined, and the time such payment is made. In addition, investors should note that after any exercise of their Securities, they will not be able to participate in any positive performance of the Underlying or the Fund Shares during the period from (and including) the relevant Valuation Date.

The Issuer will have the option to limit the number of Securities exercisable on any date to the maximum amount determined in accordance with the Conditions. A holder of Securities may not be able to exercise on such date all the Securities that it desires to exercise and the Cash Settlement Amount (if any) which will be received upon ultimate exercise may be substantially different from the Cash Settlement Amount (if any) relating to the originally envisaged Exercise Date.

**n,. Expiry**

Investors should note that where the Calculation Agent determines that the Reference Level as of any Valuation Date would be equal to or less than zero the Securities will expire worthless, as more fully set out in Product Condition 5.

**o. Early termination for extraordinary reasons, illegality and force majeure**

Pursuant to Product Condition 4 and General Condition 2, the Issuer may in certain circumstances cancel the Securities and Securityholders will receive an amount determined by the Calculation Agent to be the fair market value of the Securities notwithstanding the illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements. In the event of a cancellation of a Security, the Securityholder of such Security will not participate in any future positive performance (if any) of the Underlying and may suffer a loss if the fair market value of the Security at such point is less than the price that the investor originally paid for such Security.

**p. Index Level Adjustment Event/Extraordinary Fund Events**

Following the occurrence of an Index Level Adjustment Event, the Calculation Agent may take certain steps set out in Product Condition 4, to require the Calculation Agent to adjust the terms of the Conditions or relevant values or dates in respect of the Securities or, to treat the Index Level Adjustment Event as an Extraordinary Fund Event. Index Level Adjustment Events include circumstances in which the determination of the net asset value or redemption proceeds for the Fund Shares is disrupted or not reflective of the relevant hedge fund assets.

Following the occurrence of an Extraordinary Fund Event, the Calculation Agent may take certain steps set out in Product Condition 4 including requiring the Calculation Agent to adjust the terms of the Conditions or cancelling the Securities or substituting the Fund Shares with other fund shares or other specified assets. Extraordinary Fund Events include a wide range of events relating to tax and fees, the relevant Hedge Fund or its service providers, hedging arrangements for the Securities and connected fund entities. Investors should review Product Condition 4 carefully to determine how these may affect their investment.

**q. Foreign exchange hedging**

Because the Settlement Currency is different to the currency of the Fund Shares the investor is exposed to fluctuations in the exchange rate between such currencies. Any Cash Settlement Amount payable to investors may be less than would otherwise be the case as a result.

Although the fx hedging arrangements are applied in relation to the Leveraged Index to eliminate the effect of such exchange rate fluctuations, no assurance is given that this will be the case. In particular movements in the exchange rate and forward exchange rate used in respect of the fx hedging may mean the Reference Level (and consequently a Cash Settlement Amount) is less than would otherwise be the case.

In addition, it should be noted that the exchange rates used in respect of the fx hedging and hence the Cash Settlement Amount will be those obtained by the Issuer (either internally or from an affiliate, or from a third party at arm's length), and these exchange rates may be less favourable than exchange rates which may be obtained from another foreign exchange provider. Moreover, the exchange rates obtained will contain an element of commission for such foreign exchange provider effecting the transaction, which may be greater than the commission which might be paid to another foreign exchange provider. While the Issuer does not believe that such differences will have a material impact upon the Securities, the exchange rates used and the commission rates obtained therein will affect the Reference Level and may adversely affect the Cash Settlement Amount payable to investors.

**r. Rebates from the Fund**

The Fund or its manager may pay a rebate or fee to the Issuer or an other party in respect of investments made by the Issuer or an affiliate into the Fund Shares. Such rebates or fees may not be payable by the Fund to other investors, or may be greater than similar fees or rebates paid to such other investors into the Fund.

**2. Risk Factors relating to Hedge Funds**

This section sets out particular risks which investors in Securities linked directly or indirectly to Hedge Funds should consider with regard to Hedge Funds and their respective Service Providers (as defined above).

**a. General Risks**

**i. Very broad investment mandate**

Hedge Funds may be largely unregulated and have relatively few restrictions in their investment powers.

**ii. Economic conditions**

The success of any investment activity is affected by general economic conditions, which may include changes in (amongst other things) the timing and direction of interest rates, credit spreads, foreign exchange rates, commodities prices and other macro-economic factors.

**iii. Political and regulatory risks**

The value of a Hedge Fund'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 in which the Hedge Fund's assets are invested or where the Hedge Fund is domiciled. More specifically the regulation of Hedge Funds and of

many of the investments an Investment Manager is permitted to make on behalf of a Hedge Fund is not subject to the same degree of regulation as many other types of investment vehicle and investments, and the extent and manner of such regulation is still evolving and therefore subject to change.

**iv. Currency risks**

Investments of the relevant Hedge Fund may be subject to exchange-rate fluctuations, exchange controls and foreign exchange transactions charges may apply.

**v. Past performance information**

Hedge Funds may only be recently formed or have no operating or performance record and certain information may be private or only available on a confidential basis. Moreover, past results are not necessarily indicative of future performance. No assurance can be made that a Hedge Fund will achieve its objectives, that profits will be achieved or that substantial losses or total loss will not be incurred.

**vi. Litigation and enforcement risk**

Hedge Funds may accumulate substantial investment positions in the securities of a specific company or engage in a dispute, become involved in litigation, or attempt to gain control of a company. Under such circumstances, a Hedge Fund could be named as a defendant in a lawsuit or regulatory action. Further, there have been a number of widely reported instances of Hedge Fund violations of securities laws, including the misuse of confidential information. Such violations may result in substantial Hedge Fund liabilities for damages caused to others, for the repayment of profits realised, and for penalties. If that were the case, a Hedge Fund's value might be substantially diminished and the past performance of such Hedge Fund may be misleading.

**b. Investment Managers, Service Providers and Counterparties**

**i. Dependence on Investment Managers and Service Providers**

The performance of a Hedge Fund will depend on the performance of the investments selected by one or more Investment Managers it appoints to pursue its investment strategies. In practice a Hedge Fund depends heavily on key individuals associated with the day-to-day operations of the Investment Manager and upon the expertise of such key individuals. Any withdrawal or other cessation of investment activities on behalf of the Investment Manager by any of these individuals could result in losses and/or the termination or the dissolution of the relevant Hedge Fund. Terms of appointment of an Investment Manager and/or advisers, such as an investment management agreement (and other arrangements) may not have been negotiated at arm's length and it may be unlikely that an Investment Manager will be replaced.

**ii. Width of discretions; strategies may not be profitable**

The investment strategies, investment restrictions and investment objectives of a Hedge Fund give its Investment Manager(s) considerable discretion to invest the assets thereof and there can be no guarantee that an Investment Manager's investment decisions will be profitable or will effectively hedge against the risk of market or other conditions. Hedge Funds may allow Investment Managers to determine strategies in their sole discretion and there can be no assurance that any investment strategy will be followed. Therefore the Fund Shares in which the Underlying invests (and hence the Securities) may not perform well even when Hedge Funds in general or Hedge Funds following similar investment strategies are

performing well.

### **iii. Conflicts of interests**

Conflicts of interests may arise between a Hedge Fund and its Investment Manager and/or its other Service Providers. Investment management companies normally manage assets of other clients that make investments similar to those made on behalf of a Hedge Fund and/or any funds in which it may invest. Such clients could thus compete for the same trades or investments and allocation procedures may adversely affect the price paid or received for investments or the size of positions obtained or disposed.

### **iv. Fraud, wilful default, operational and human error**

The success of a Hedge Fund depends in part upon the relevant Investment Manager's accurate calculation of price relationships, the communication of precise trading instructions and ongoing position evaluations. In addition, an Investment Manager's strategies may require active and ongoing management and dynamic adjustments to a Hedge Fund's positions. There is the possibility that, through human error, oversight or operational weaknesses, mistakes could occur in this process and lead to significant trading losses and have an adverse effect on the Hedge Fund's value. The reliance on the Investment Manager and other Service Providers, and in particular certain individuals employed by the Investment Manager (or relevant Service Providers), may increase the risk that internal fraud or wilful default will be perpetrated and not detected.

### **v. Holding of a Hedge Fund's assets**

A Hedge Fund may appoint a bank, broker, prime broker or derivative counterparty to be responsible for clearing, financing and reporting services with respect to the securities transactions entered into by the relevant Investment Manager. In certain cases brokers, banks or derivative counterparties may not have the same credit rating as a large western European bank (or any credit rating) and may have limited or no statutory supervisory obligations. As a broker, prime broker, bank or derivative counterparty may in some cases have limited or no regulatory obligations, internal fraud may be much more difficult to detect. In the event of a broker's, prime broker's, bank's or derivative counterparty's insolvency the relevant Hedge Fund may lose some or all of the investments held or entered into with the broker, bank or derivative counterparty.

### **c. Fees, expenses, operational and structural risks**

#### **i. Fee arrangements**

As referred to in Risk Factor 1.g. above, a Hedge Fund typically provides for a performance fee or allocation, over and above a basic advisory fee to be paid to its Investment Manager(s) and advisers and that this performance fee may be substantial. The manner of calculating such fees may create an incentive for the Investment Manager(s) to make investments that are riskier or more speculative than would be the case if such fees were not paid to the Investment Manager.

A Hedge Fund will usually be obliged to pay legal, accounting, auditing, administrative charges, and any extraordinary expenses regardless of whether it realises profits.

#### **ii. Indemnification**

Hedge Funds are generally required to indemnify their Investment Manager(s) or other

Service Providers. Any indemnification paid by a Hedge Fund would reduce its value.

**iii. "Soft Dollar" payments**

In selecting brokers, prime brokers, banks and dealers to effect transactions on behalf of a Hedge Fund, an Investment Manager may consider such factors such as the products and services provided to it or expenses paid on its behalf. Such "soft dollar" benefits may cause an Investment Manager to execute a transaction with a specific broker, prime broker, bank, or dealer even though it may not offer the lowest transaction fees.

**iv. Cost associated with high turnover**

Hedge Funds may invest on the basis of certain short-term market considerations. As a result, the turnover rate within Hedge Funds is expected to be significant, potentially involving substantial brokerage commissions, fees and other transaction costs which may significantly exceed those of other investment schemes of comparable size.

**v. Potential cross class liability**

A Hedge Fund may offer various share classes. Usually each share class will be maintained by the Hedge Fund separately with separate accounting records and with the capital contributions (and investments made therewith) kept in segregated accounts. It should be noted, however, that the share classes are not separate legal entities but rather share classes in the Hedge Fund and the Hedge Fund as a whole, including all of such separate share classes, is normally one legal entity. Thus, all of the assets of the Hedge Fund are available to meet all of the liabilities of the Hedge Fund, regardless of the share class to which such assets or liabilities are attributable.

**vi. Reliability of valuations**

The constitutional documents of Hedge Funds usually provide that any securities or investments which are illiquid, not traded on an exchange or in an established market or for which no value can be readily determined, will be assigned such fair value as an Investment Manager, administrator (or other applicable third party valuation agent) may determine in its judgement based on various factors. Such valuations may not be indicative of what actual fair market value would be in an active, liquid or established market.

**d. Nature of Hedge Fund investments and Hedge Fund investment techniques.**

**Illiquid investments**

Hedge Funds may make investments which are subject to legal or other restrictions on transfer or for which no liquid market exists i.e. making the assets concerned difficult to realise. The market prices, if any, of such investments tend to be more volatile and it may be impossible to sell such investments when desired or to realise their fair value in the event of a sale. Furthermore, companies whose securities are not registered or publicly traded are not subject to the disclosure and other investor protection requirements which would be applicable if their securities were registered or publicly traded. As a result it may take some time for a Hedge Fund to realise all or part of these assets when an investor wishes to redeem its investment in the Hedge Fund. The Hedge Fund may delay redemptions or take other action to address this issue. In a situation where a large number of investors may wish to withdraw their investment in the Hedge Fund (e.g. in a market downturn) this may mean the Hedge Fund realises its investments on unfavourable terms, which will in turn have an adverse effect on the returns to Hedge Fund investors.

**ii. Concentration of investments**

An Investment Manager may invest a Hedge Fund's assets in a limited number of investments that may be concentrated in a few countries, industries, commodities, sectors of an economy or issuers. As a result, the negative impact on the value of the relevant Hedge Fund from adverse movements in a particular country, economy or industry or in the value of the securities of a particular issuer could be severe.

### **iii. Leverage**

Hedge Funds may be able to borrow (or employ leverage) without limitation and may utilise various lines of credit and other forms of leverage, including swaps (including futures and options) and repurchase agreements. Accordingly, the losses (as well as gains) of a Hedge Fund may be exacerbated more greatly than would be the case if no leverage mechanisms were employed. If income and appreciation on investments made with borrowed funds are less than the required interest payments on the borrowings, the value of the Hedge Fund will decrease.

### **iv. Risks associated with the use of margin borrowings**

An Investment Manager may enter into certain positions or obtain further investment capacity by the use of short-term margin borrowings by pledging certain of its assets to brokers (or its prime broker) to secure its liabilities. In the event of a sudden drop in the value of the Hedge Fund's assets, the Investment Manager might not be able to liquidate assets quickly enough to pay off the margin debt and so the relevant broker (or prime broker) may liquidate additional assets of the Hedge Fund in order to satisfy such margin debt.

### **v. Short-selling**

A short sale involves the sale of a security that a Hedge Fund does not own in the hope of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss. Such risk is increased if leverage is utilised. There can be no assurance that the security necessary to cover a short position will be available for purchase.

### **vi. Hedging risks**

An Investment Manager may utilise various financial instruments for the purposes of establishing arbitrage positions as part of its trading strategies and to hedge against movements in the capital markets. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Even where hedging is attempted a substantial risk of loss may still remain. Even where hedging is possible the Investment Manager may elect not to, leaving the Hedge Fund with substantial unhedged positions.

## C. CONFLICTS OF INTEREST

The following activities could present conflicts of interest and may affect the value of the Securities:

### 1. Transactions involving the Fund Shares

The Issuer and its affiliates may from time to time engage in transactions involving the Fund Shares and / or the constituent investments of the Fund and/or the Underlying for their proprietary accounts and for accounts under their management and, at any given time, the Issuer or its affiliates may be the principal or sole investor in the hedge funds which are the constituents of the Fund Shares. In such circumstances the Issuer or its affiliates may exercise their voting rights to approve changes or amendments to the relevant funds and will do so without reference to Securityholders or their interests. Such changes, amendments or transactions may have a positive or negative effect on the value of the Fund Shares and consequently upon the value of the Securities.

### 2. Acting in other capacities

The Issuer and its affiliates may from time to time act in other capacities with regard to the Securities, such as calculation agent, agent and/or index sponsor. Such functions can allow the Issuer to determine the composition of the Underlying or to calculate its value, which could raise conflicts of interest including where securities or other assets issued by the Issuer itself or a group company can be chosen to be part of the Underlying, or where the Issuer maintains a business relationship with the issuer or investment manager of such securities or assets.

### 3. Conducting of hedging transactions

The Issuer may use all or some of the proceeds received from the sale of the Securities to enter into hedging transactions, which may include investments in the Fund Shares invested in by the Underlying or investments in securities or other assets in which such funds also invest. It cannot be assured that the Issuer's hedging activities in respect of the Securities (or in respect of other investment products of the Issuer in respect of which the Issuer enters into hedging transactions) will not affect the value of the Securities.

### 4. Market-Making for the Securities

The Issuer, or an agent on its behalf, may act as market-maker for the Securities. In such market-making, the Issuer or its agent will, to a large extent, determine the price of the Securities. The prices quoted by such market-maker will usually not correspond to the prices which would have formed without such market-making and in a liquid market.

Furthermore, the prices quoted in the secondary market may be influenced by any premium or discount on the Securities' original value contained in their issue price.

The bid-offer spread for the Securities will be set by the market-maker based on supply and demand for the Securities and certain revenue considerations.

The prices quoted by the market-maker can substantially differ from the fair value of the Securities, or the value to be expected economically on the basis of the factors mentioned above, at the relevant time. In addition, the market-maker can at any time alter the methodology used to set the quoted prices, e. g. increase or decrease the bid-offer spread.

### 5. Obtaining of non-public information

The Issuer and/or its affiliates may acquire non-public information with respect to the Fund Shares invested in by the Underlying and/or the constituents of such Fund Shares, and neither the Issuer nor any of its affiliates undertakes to disclose any such information to any Securityholder. In addition, one or more of the Issuer's affiliates may publish research reports with respect to the Fund Shares invested in by the Underlying. Such activities could present conflicts of interest and may affect the value of the Securities.

**6. Material relationships**

The Issuer (in its capacity as such or as Calculation Agent) or any of its Affiliates may have an interest, relationship or arrangement that is material to, or may conflict with, the obligations it is to perform in relation to the Securities or the Underlying. Unless otherwise required by any applicable regulatory or legal obligation, the Issuer (in any of its capacities hereunder) shall not be required to disclose such interests, relationships or arrangements to any Securityholder, or to account for or disclose any profit, charge, commission or other remuneration arising in respect of such interests, relationships or arrangements and may continue to pursue its business interests and activities without disclosure to any Securityholder. The nature of the Issuer's activities are such that different areas of the Issuer may have relationships with the funds that constitute the Fund Shares invested in by the Underlying from time to time. In addition, different areas of the Issuer, with different business objectives, may benefit from fees or rebates paid by the funds that constitute the Fund Shares invested in by the Underlying or the Fund itself from time to time.

**7. Rebates from the Fund**

The Issuer may invest in units of the Fund, whether to hedge its obligations under the Securities or in relation to other transactions involving the Fund. In some cases the Fund or its investment manager may agree to pay a fee or rebate to the Issuer or a third party in respect of such subscriptions and purchases of units in the Fund, which may be greater than similar fees or rebates paid to other investors in the Fund, if such fees or rebates are payable to other investors at all.



### III. GENERAL INFORMATION ON THE PROSPECTUS

#### A. FORM OF DOCUMENT – PUBLICATION

This Securities Note and Summary, together with the Registration Document of the Issuer dated 3 May 2007, constitutes a Prospectus (the “**Prospectus**”) according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission.

The Prospectus, together with any translations thereof, or of the Summary section of the Prospectus, has been published on the Issuer’s website ([www.investmentproducts.db.com](http://www.investmentproducts.db.com).) In addition, the Securities Note and Summary, the Registration Document and any documents incorporated therein by reference shall be available at the registered office of the Issuer and in Luxembourg at the Issuer’s agent in Luxembourg, Banque de Luxembourg, at 55, rue des Scillas, L-2529, Luxembourg.

In addition, the Securities Note and Summary, the Registration Document and any documents incorporated by reference therein shall be published on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).

The annual reports and accompanying auditors’ reports for 2004, 2005 and 2006 are also available on the Issuer’s website ([www.db.com](http://www.db.com)). The annual reports and accompanying auditors’ reports for 2004, 2005 and 2006 are also included in the Registration Document of Deutsche Bank AG which is (i) incorporated by reference into this document and (ii) published on the Issuer's website ([www.db.com](http://www.db.com)).

The Issuer does not intend to provide any post-issuance information in relation to the Underlying or any constituents thereof.

## B. INFORMATION FOR INVESTORS

### Information on the Conditions of the Securities

The relevant rights under the Securities which are being issued under this Prospectus document are laid down in the **Conditions** of the Securities. These consist of the **Product Conditions** and the **General Conditions**.

Within the **Product Conditions**, **Product Condition 1 – Definitions** - contains the definitions applicable for the entire Product Conditions. This section, being a definitions section, should be read only in connection with the other Product Conditions, i.e. wherever defined terms are used in such parts, the applicable definitions would be looked up in Product Condition 1.

**Product Condition 2 – Form** – contains the relevant rules with regard to the form and transferability of the Securities.

**Product Condition 3 – Exercise Rights, Procedure and Settlement** - determines the right of the holder of a Security under the Security to receive payment of a cash amount (if any). Furthermore, Product Condition 3 contains rules on the exercise of the Securities and the exercise procedure as well as further rules in connection with this or the right to receive payment (if any) in respect of the Securities.

**Product Condition 4 – Adjustment, Cancellation and Substitution of Fund Provisions** – contains rules relating to the occurrence of an extraordinary fund event and relating to adjustments to or cancellation of the Securities in case of the occurrence of certain events. In addition, the Fund or the assets comprising the Underlying may be substituted.

**Product Condition 5 – Expiry** – contains rules relating to the expiry of the Securities worthless upon the occurrence of certain events.

**Product Conditions 6 – Governing Law and Place of Jurisdiction** – determines the governing law, which is English law, as well as the jurisdiction for any proceedings in respect of the Securities.

### C. DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be incorporated in, and form part of, this document:

	<b><u>Document</u></b>	<b>Approved by:</b>
1	<u>Interim Report as of 31 March, 2007</u>	

The document specified above and the Registration Document dated 3 May 2007 shall be available at the registered office of the Issuer and in Luxembourg at the Issuer's branch office, Deutsche Bank Luxembourg Branch, 2, Boulevard Konrad Adenauer, L-1115 Luxembourg or at the Issuer's agent in Luxembourg, Banque de Luxembourg, at 55, rue des Scillas, L-2529, Luxembourg, and shall also be available for viewing on the website of the Luxembourg Stock Exchange: [www.bourse.lu](http://www.bourse.lu).

#### **Material Adverse Change in Deutsche Bank's Financial Position and Significant Change in Deutsche Bank's Financial or Trading Position**

Save as disclosed herein (including the documents incorporated by reference) there has been no material adverse change in the prospects of Deutsche Bank since 31st December, 2006, nor significant change in the financial or trading position of Deutsche Bank since 31st December, 2006.

#### **Post Issuance Information**

The Issuer does not intend to provide any post-issuance information in relation to the Underlying or any constituents thereof.

#### **Use of Proceeds**

The net proceeds from the issue of any Securities under this document will be applied by the Issuer for its general corporate purposes. A substantial portion of the proceeds from the issue of certain Securities may be used to hedge market risk with respect to such Securities.

## **IV. TERMS OF THE OFFER**

### **Number of Securities**

Up to 20,000 Securities will be issued.

### **Delivery of the Securities**

The Securities will be delivered against payment of the Issue Price, in accordance with applicable law and any rules and procedures for the time being of any clearing agent through whose books any of the Securities are transferred. Investors purchasing Securities will receive delivery of them on the value date through an account with a financial institution that is a member of one of the respective clearing agents.

## V. GENERAL TAXATION INFORMATION

### 1. Introduction

Purchasers and/or sellers of Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of transfer in addition to the issue price or purchase price of the Securities.

Transactions involving the Securities (including purchases, transfers, exercise or non-exercise or redemption), the accrual or receipt of any interest payable on the Securities and the death of a holder of any Securities may have tax consequences for holders and potential purchasers which may depend, amongst other things, upon the tax status of the holder or potential purchaser and may relate to – amongst other taxes and duties – stamp duty, stamp duty reserve tax, income tax, corporation tax, trade tax, capital gains tax, withholding tax, solidarity surcharge and inheritance tax.

General Condition 6 (Taxation) in the General Conditions should also be considered carefully by all potential purchasers of any Securities.

***Potential purchasers of Securities are advised to consult their own tax advisors as to the tax consequences of transactions involving the Securities.***

### 2. Taxation in Luxembourg

The following summary is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Securities should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

#### 2.1 *Non-resident Holders of Securities*

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-residents holders of Securities, nor on accrued but unpaid interest in respect of the Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Securities held by non-resident holders of Securities.

However, under the Luxembourg laws of 21st June, 2005 (the "**Laws**"), implementing the Council Directive 2003/48/EC of 3rd June, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15% during the first three-year period starting 1st July, 2005, at a rate of 20% for the subsequent three-year period and at a rate of 35% thereafter. Responsibility for the withholding of the tax will be assumed by the

Luxembourg paying agent. Payments of interest under the Securities coming within the scope of the Laws would at present be subject to withholding tax of 15%.

## 2.2 *Resident Holders of Securities*

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Securities, nor on accrued but unpaid interest in respect of Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Securities held by Luxembourg resident holders of Securities.

However, under the Luxembourg law of 23rd December, 2005 (the "**Law**") payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Securities coming within the scope of the Law would be subject to withholding tax of 10%.

## 3. **Stamp Duty and Withholding Tax in Germany**

The following paragraphs, which are intended as a general guide on stamp duty and withholding tax only, are based on current legislation and German tax authority practice. They summarise certain aspects of German taxation only which may be applicable to the Securities but do not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase, hold, transfer or redeem the Securities. In particular, this general summary does not consider any specific facts or circumstances that may apply to a particular purchaser. Potential purchasers of the Securities who are in any doubt about their tax position on purchase, ownership, transfer or exercise or non-exercise or redemption, as the case may be, of any Security should consult their own tax advisers.

The purchase or sale of a Security is not subject to stamp, value added or similar taxes or charges in Germany, regardless of the place of issuance, execution and delivery of the Security.

Payments in respect of interest (if any) made in respect of a Security to its holder if made by an Agent having its specified office in Germany or any other financial institution in Germany or if made by the Issuer from Germany may be subject to withholding tax.

## 4. **Stamp Duty and Withholding Tax in the United Kingdom**

The following paragraphs, which are intended as a general guide only, are based on current legislation and United Kingdom HM Revenue & Customs practice. They summarise certain aspects of United Kingdom taxation only and customs which may be applicable to the Securities but do not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase the Securities. In particular, this general summary does not consider any specific facts or circumstances that may apply to a particular purchaser. Potential purchasers of the Securities who are in any doubt about their tax position on purchase, ownership, transfer or exercise or non-exercise or redemption, as the case may be, of any Security should consult their own tax advisers.

A purchaser or a Security may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the purchase price of such Security.

Potential purchasers of the Securities should note that the Global Security may constitute an instrument which is subject to United Kingdom stamp duty on issue by reference to the amount of the consideration paid or the value of the Security. However, the Global Security will be executed and delivered outside the United Kingdom and should not be brought into the United Kingdom save for the purposes of enforcement. So long as the Global Security is held outside the United Kingdom, it will not be necessary to pay United Kingdom stamp duty or interest or penalties in connection therewith. However, if the Global Security were brought into the United Kingdom (for example, for enforcement purposes), United Kingdom stamp duty may be required to be paid on the Global Security (subject to the availability of exemptions and reliefs). In addition, where the Global Security is executed outside the United Kingdom is subsequently brought into the United Kingdom and stamped, interest on the amount of the unpaid stamp duty will be payable in addition to the stamp duty in respect of the period from the expiry of 30 days from the date of execution of the Global Security to the date of stamping, unless the Global Security is stamped within 30 days of execution, in which case no interest is payable. No penalties are payable where the Global Security is executed outside the United Kingdom and subsequently brought into the United Kingdom and stamped, provided the Global Security is stamped within 30 days of being brought into the United Kingdom. If the Global Security is subject to United Kingdom stamp duty, it would be inadmissible in evidence in civil (as opposed to criminal) proceedings in an English court unless duly stamped. It should be noted however, that the United Kingdom HM Revenue & Customs have recently indicated that cash-settled warrants are not subject to stamp duty on issue. The Securities have some of the features of warrants (such as the requirement for there to be an exercise before any amounts become payable to holders). However, other features of the Securities are less warrant-like (such as the Issuer's right to redeem). It is possible that HM Revenue & Customs would be prepared to treat the Securities as warrants for stamp duty purposes, in which case they would not be stampable on issue.

The comments above relate to United Kingdom stamp duty on issue only.

Any interest payable on the Securities, any original issue discount in respect of the Securities and/or any proceeds on redemption or exercise of the Securities will not be subject to United Kingdom withholding tax.

## VI. GENERAL SELLING AND TRANSFER RESTRICTIONS

### 1. Introduction

The distribution of this document and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer to inform themselves about and to observe any such restrictions.

### 2. United States of America

The Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and trading in the Securities has not been approved by the United States Commodity Futures Trading Commission (the "**CFTC**") under the United States Commodity Exchange Act (the "**Commodity Exchange Act**"). Any offer or sale of the Securities must be made in a transaction exempt from the registration requirements of the Securities Act pursuant to Regulation S thereunder. No Securities, or interests therein, may at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person. No Securities may be exercised or redeemed by or on behalf of a U.S. person or a person within the United States. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means either a U.S. person as defined in Regulation S under the Securities Act or a person who does not come within the definition of a non-United States person under Rule 4.7 of the Commodity Exchange Act.

### 3. European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") the Securities have not been offered and will not be offered to the public in that Relevant Member State except, with effect from and including the Relevant Implementation Date, the Securities may be offered to the public in that Relevant Member State:

(a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or



(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "offer of Securities to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

#### **4. United Kingdom**

(a) An invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")), may only be communicated or caused to be communicated in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA would, if the Issuer was not an authorised person, apply to the Issuer; and

(b) all applicable provisions of the FSMA must be complied with in respect to anything carried out in relation to any Securities in, from or otherwise involving the United Kingdom.

## VII. INFORMATION RELATING TO THE SECURITIES

### A. PRODUCT CONDITIONS

*These Product Conditions relate to the Securities and must be read in conjunction with, and are subject to, the General Conditions set out in this document. The Product Conditions and the General Conditions together constitute the Conditions of the Securities and will be attached to the Global Security representing the Securities.*

The Securities entitle each holder of a Security to receive from the Issuer a Cash Settlement Amount (if any) less Securityholder Expenses and the Redemption Fee (if applicable) subject to and in accordance with the Conditions of the Securities. In particular, if the Calculation Agent determines that the Reference Level is equal to or less than zero (regardless of whether any Securities have been exercised), the Securities will expire worthless, all as more fully set out in Product Condition 5.

#### **Product Condition 1. Definitions**

Unless otherwise defined herein, the following expressions shall have the following meanings:

**"Affiliate"** means any entity controlled, directly or indirectly, by the Issuer, any entity that controls, directly or indirectly, the Issuer, or any entity under common control with the Issuer. As used herein **"control"** means ownership of a majority of the voting power of the entity or, as the case may be, the Issuer and **"controlled by"** and **"controls"** shall be construed accordingly;

**"Agent"** means, subject as provided in General Condition 5, Deutsche Bank AG, acting through its through its branch office in London as principal agent (the **"Principal Agent"**) and any other branches of Deutsche Bank appointed as agents from time to time each an **"Agent"** and together, the **"Agents"**;

**"Business Day"** means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt am Main, New York City, the Cayman Islands and London;

**"Calculation Agent"** means the Issuer acting in accordance with General Condition 5;

**"Cash Settlement Amount"** has the meaning given to it in Product Condition 3.4.1 below;

**"Clearing Agent"** means Euroclear Bank S.A. / N.V. and such further or alternative clearing agent(s) or clearance system(s) as may be approved by the Issuer from time to time and notified to the Securityholders in accordance with General Condition 4 (each a **"Clearing Agent"** and together the **"Clearing Agents"**, which term will include any depositary holding the Global Security on behalf of the Clearing Agent(s));

**"Determination Date"** means, in respect of a Valuation Date, (a) the eighth (8<sup>th</sup>) calendar day immediately following the Valuation Date, provided that if such date is not a Business Day, the Determination Date shall be the immediately preceding Business Day; or (b) if applicable, such later date on which the Calculation Agent is able to determine the relevant Reference Level, subject to adjustment in accordance with Product Condition 4.2 or 4.3;

**"Exercise Date"** means, subject to adjustment in accordance with Product Conditions 4.2 or 4.3, the Final Valuation Date or, if a valid Exercise Date Acceleration Notice is given by the Issuer, the date specified in such notice;

**"Exercise Date Acceleration Notice"** means an irrevocable notice given by the Issuer to the

Securityholders that the Issuer is exercising its right in accordance with Product Condition 3.2 to adjust the Exercise Date;

**"Final Valuation Date"** means the Valuation Date falling in June 2012;

**"Global Security"** has the meaning ascribed thereto in Product Condition 2;

**"Index Level"** means in respect of a Valuation Date and subject to adjustment in accordance with Product Conditions 4.2 or 4.3, the level of the Leveraged Index as of any date calculated as described in Schedule 1(B) of "Information relating to the Underlying" on such Valuation Date as determined by the Calculation Agent;

**"Initial Valuation Date"** means the last Business Day of June 2007 or such other day falling on or about the last Business Day of June 2007 as of which the Calculation Agent determines the Index Level is determined;

**"Issue Date"** means 4 July 2007;

**"Issuer"** means Deutsche Bank AG, acting through its London Branch;

**"Leveraged Index"** means the index comprising the Underlying which references a notional leveraged investment in the Fund Shares as further described in the section "Information Relating to The Underlying" set out below, as the same may be amended from time to time in accordance with its terms;

**"Payment Day"** means any day which is (i) a day on which each Clearing Agent is open for business and (ii) either (1) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of such currency or (2) in relation to any sum payable in euro, a day that the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

**"Redemption Fee"** means an amount determined by the Calculation Agent as the product of the Cash Settlement Amount and a percentage determined as follows:

- e) in respect of any exercise in respect of any Valuation Date up to (and including) the Valuation Date falling in June 2008, 3 per cent;
- f) in respect of any exercise in respect of any Valuation Date from (and excluding) the Valuation Date falling in June 2008 up to (and including) the Valuation Date falling in June 2009, 2 per cent.;
- g) in respect of any exercise in respect of any Valuation Date from (and excluding) the Valuation Date falling in June 2009 up to (and including) the Valuation Date falling in June 2010, 1 per cent.; and
- h) in respect of any exercise date falling after June 2010, zero.

**"Reference Level"** means in respect of:

1. the Initial Valuation Date, EUR 1,000; and
2. all subsequent Valuation Dates, an amount (which may not be less than zero) equal to the product of:
  - (i) the Reference Level on the preceding Valuation Date; and
  - (ii) the quotient of: (i) the Index Level in respect of the relevant Valuation Date (as numerator) and (ii) the Index Level in respect of the preceding Valuation Date (as denominator),

all subject to adjustment in accordance with Product Conditions 4.2 or 4.3, and determined by the Calculation Agent on the Determination Date in respect of the relevant Valuation Date;

"**Relevant Valuation Date**" means, in respect of an Exercise Date, the Valuation Date by reference to which such Exercise Date is fixed;

"**Securities**" means up to 20,000 cash settled Certificates (ISIN DE000DB9CZM2) relating to the Underlying represented by the Global Security and each a "**Security**";

"**Securityholder**" has the meaning given to it in Product Condition 2 below;

"**Securityholder Expenses**" has the meaning given to it in Product Condition 3.4.1 below;

"**Settlement Currency**" means euro ("**EUR**");

"**Settlement Date**" means, in respect of the Exercise Date, (1) the thirty-third (33<sup>rd</sup>) calendar day following the Relevant Valuation Date; or (2) if later, the fifth calendar day following the relevant Determination Date, or if any such day is not a Payment Day the immediately following Payment Day, subject to adjustment in accordance with Product Condition 4;

"**Underlying**" means the Leveraged Index described more fully in the section "Information Relating to The Underlying" set out below (as the same may be amended in accordance with its terms from time to time) and which invests in the USD-denominated Class B shares (the "**Fund Shares**") of Maxam Absolute Return Fund Limited (the "**Fund**"), provided that in circumstances where the Leveraged Index ceases to exist for any reason, then subject to any exercise of the Calculation Agent's discretion to use its powers under Product Conditions 4.3 or 4.4, the Underlying shall instead comprise such benchmark series or other series of the Fund Shares as are in existence and available for investment at the relevant time as the Calculation Agent shall determine and the Calculation Agent shall make any amendments or adjustments to the Conditions including the method of calculation or determination regarding any Cash Settlement Amount (or any other amounts under the Securities which are determinable by reference to the Underlying) as the Calculation Agent may determine in its reasonable discretion to reflect such change; and

"**Valuation Date**" means, subject to adjustment in accordance with Product Conditions 4.2 or 4.3; (i) the Initial Valuation Date and (ii) the last Business Day of each month or such other day falling on or about the last Business Day of each month as of which the Calculation Agent determines the Index Level is determined, from the Initial Valuation Date to the Final Valuation Date.

Terms in capitals which are not defined in these Product Conditions shall have the meanings ascribed to them in the General Conditions.

## **Product Condition 2. Form**

The Securities are represented by a global security (the "**Global Security**") which will, if deposited with a Clearing Agent in Germany, be in bearer form for the purposes of German law. The Global Security has been deposited with the Clearing Agent(s) as defined in Product Condition 1 above. No definitive Securities will be issued.

The Securities are transferable in accordance with applicable law and rules and procedures for the time being of any Clearing Agent through whose books any of the Securities are transferred. The terms "**Securityholders**" and "**holders of Securities**" in the Conditions will be construed to mean those persons recognised as the legal owners of the Securities pursuant to English law.

## **Product Condition 3. Exercise Rights, Procedure and Settlement**

### *3.1. Exercise*

If the Securities have not been previously exercised as set out below they will be automatically exercised on the Exercise Date ("**Automatic Exercise**"). The procedures and relevant restrictions are set out in Product Condition 3.3. Following

the due exercise of a Security, settlement shall take place in accordance with Product Condition 3.4.

As used herein "**exercise**" shall be construed to apply to any Securities which are exercised automatically on the Exercise Date in accordance with Product Condition 3.3 and such Securities shall be cancelled on payment of the Cash Settlement Amount (if any) on the relevant Settlement Date, and "**exercised**", "**due exercise**" and related expressions shall be construed accordingly;

### 3.2 *Adjustment of the Exercise Date*

The Issuer may, upon delivery of an Exercise Date Acceleration Notice (as defined in Product Condition 1) designate an Exercise Date falling earlier than the originally scheduled Exercise Date. Any Exercise Date Acceleration Notice must be given to Securityholders in accordance with General Condition 4.1 not later than the day falling on the same calendar day as the Exercise Date designated in the Exercise Date Acceleration Notice (without regard to any adjustment) in the year immediately preceding the calendar year in which such designated Exercise Date falls.

### 3.3 Automatic Exercise on the Exercise Date

Any Security which has not been previously exercised will be automatically exercised on the Exercise Date. No Securityholder will be required to complete an Exercise Notice.

### 3.4. *Settlement*

*The provisions of this Product Condition 3.4, as with other parts of the Conditions, are subject to any adjustment made in accordance with Product Condition 4.*

#### 3.4.1 *Cash Settlement Amount and Securityholder Expenses*

In respect of the Exercise Date, each Security upon due exercise entitles its holder to receive from the Issuer, subject to adjustment in accordance with Product Conditions 4.2 or 4.3, an amount (if any) in respect of each Security equal to the Reference Level in respect of the Relevant Valuation Date (the "**Cash Settlement Amount**") less all taxes, duties and/or expenses, including any applicable depository charges, transaction or exercise charges, stamp duty, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties arising in connection with (i) the exercise of such Security and/or (ii) any payment due following exercise or otherwise in respect of such Security, (the "**Securityholder Expenses**") and a Redemption Fee (if applicable), all as determined by the Calculation Agent for value on the relevant Settlement Date. The Cash Settlement Amount (after deduction of any Securityholder Expenses) will be rounded to the nearest two decimal places in the Settlement Currency, 0.005 being rounded downwards. The Cash Settlement Amount, after deduction of any Securityholder Expenses, cannot be less than zero.

In respect of each Security, all Securityholder Expenses in respect thereof shall be for the account of the relevant Securityholder and no payment of any Cash Settlement Amount in respect of a Security shall be made until all Securityholder Expenses in respect thereof have been paid or deducted to the satisfaction of the Issuer.

#### 3.4.2 *Payment Provisions*

Payment of the Cash Settlement Amount will be made by an Agent on behalf of the Issuer by credit or transfer to the relevant Clearing Agent for the account of the relevant Securityholder, such payment to be made in accordance with the rules of such Clearing Agent.

The Issuer will be discharged of its payment obligations by payment to, or to the order of, the relevant Clearing Agent in respect of the amount so paid. Each of the persons shown in the records of a Clearing Agent as the holder of a particular amount of the Securities must look solely to the relevant Clearing Agent for his share of each such payment so made by the relevant Agent to, or to the order of, the relevant Clearing Agent.

All payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment and subject to the provisions of General Condition 6.

If a payment of any amount to be paid to a Securityholder, according to the rules of the relevant Clearing Agent, cannot be made in the Settlement Currency, such payment shall be made in the currency principally used by the relevant Clearing Agent for payments to securityholders holding accounts with such Clearing Agent, following a conversion of the relevant amount from the Settlement Currency, using the rate of exchange determined by the Calculation Agent by reference to such source(s) as the Calculation Agent may determine to be appropriate.

#### 3.4.3 *Exercise and Settlement Risk*

Exercise and settlement of the Securities is subject to all applicable laws, regulations and practices in force on the Exercise Date and neither the Issuer nor any Agent shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Agents shall under any circumstances be liable for any acts or defaults of any Clearing Agent in respect of the performance of its duties in connection with the Securities.

#### 3.4.4 *General*

In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Calculation Agent, the Index Calculation Agent (as defined in the Leveraged Index) or any Agent shall have any responsibility for any errors or omissions in the calculation of any Cash Settlement Amount. The purchase and/or holding of Securities does not confer on any holder of any Securities any rights (whether in respect of voting, distributions or otherwise) in respect of the Underlying or the Fund Shares or any asset of any kind whatsoever by reference to which the Cash Settlement Amount is calculated.

### **Product Condition 4. Adjustment, Cancellation and Substitution of Fund Provisions**

Upon the occurrence of an Index Level Adjustment Event an Extraordinary Fund Event, the Issuer may instruct the Calculation Agent to make the relevant adjustments or may cancel the Securities or may substitute the Fund, in each case as provided in the relevant part of this Product Condition 4.

#### 4.1 *Definitions:*

*For the purposes of this Product Condition 4, any reference to the Fund shall be deemed to include a reference to Maxam Absolute Return Fund, L.P. (the "Master Fund").*

**"Extraordinary Fund Event"** means the occurrence of any of the following as determined by the Calculation Agent in its reasonable discretion:

(A) Tax and Fees:

1. the Fund, on or after the Issue Date, introduces or imposes any restriction, charge or fee (or increased restriction, charge or fee) in

respect of the purchase, subscription, sale, transfer or redemption of any Fund Share;

2. any action is taken as a result of which a Relevant Investor would, if holding, purchasing, transferring or selling any Fund Share, (i) be required to pay an amount in respect of tax (howsoever arising), or (ii) receive a payment in respect of which an amount in respect of tax (howsoever arising) would be deducted;

(B) Fund/Service Provider:

1. the cancellation of the registration or the approval of the Fund or any Service Provider by any relevant authority; or any suspension of the Fund or any Service Provider by any relevant authority; or the Fund or any Service Provider becomes subject to any investigation, action or sanction by any relevant governmental, legal or regulatory authority;
2. the insolvency, liquidation (whether voluntary or involuntary) or bankruptcy of, or any analogous proceedings affecting the Fund or any Service Provider;
3. a change of control, consolidation, subdivision, reclassification, amalgamation or merger of the Fund or any Service Provider;
4. the Fund redeems any Fund Share in the form of a distribution of non-cash assets;
5. the Fund ceases to trade and/or a Service Provider ceases its activity as a service provider of the Fund;
6. the Fund makes or declares any distribution or dividend;
7. any event that may have a dilutive, concentrative or other effect on the Fund Shares;
8. the Fund or any Service Provider violates any leverage or investment restriction that is applicable to it;
9. any material representation or statement is made by the Fund or any Service Provider is or becomes (or would with the lapse of time or the giving of any notice be likely to become) materially inaccurate (for which purposes a material representation or statement may cover the status, incorporation, authority or capacity of the Fund or any Service Provider, as applicable);
10. any change in Service Provider or change and/or modification of the currency, strategy, objectives, guidelines and/or investment policies of the Fund as in effect on the Issue Date;
11. the Fund mandatorily designates that a portion of each actual holder of Fund Shares' holding shall be converted into non-redeemable shares (or redeemable shares with significantly reduced liquidity rights) relating to an illiquid special investment of the Fund, howsoever described;

(C) Hedging

1. the inability of the Issuer to acquire, maintain or dispose of any Hedge Asset on any relevant day at such price as it determines is appropriate, and in the case of any Fund Share, at, or at a value that equates to, the net asset value of such Fund Share for such day;
2. any event that, for any reason, may make it unlawful or impractical for the Issuer to hold, acquire, maintain, transfer or dispose of any Hedge Asset;
3. the Issuer becomes unable, or it is not reasonably practical, in each case, for the Issuer, after using commercially reasonable efforts, without incurring a materially increased amount of tax, duty, expenses or fees, to: (i) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any Hedge Asset, or (ii) realise, recover or remit the proceeds of any Hedge Asset, including, without limitation, where such inability, or impracticability or mismatch in values has arisen by reason of any restrictions or charges imposed by the Fund or any mandatory redemption of the Fund;

(D) General

1. any Index Level Adjustment Event occurs which is to be treated as an Extraordinary Fund Event in accordance with the provisions of Product Condition 4.2 (i) or (ii); or
2. any event or circumstance which is likely to have a material adverse effect on the Fund, any Hedge Asset, any Service Provider, or the Issuer;

**"Fund Information Document"** means, in respect of the Fund and a Fund Share, any offering circular, prospectus, information memorandum or similar document or supplement thereto relating to the Fund and/or Fund Shares (including any document between the Fund and one or more investors supplementing, amending or restating the same), all as determined by the Calculation Agent;

**"Hedge Asset"** means any transaction(s), arrangement(s) or asset(s) (including for the avoidance of doubt any Fund Shares and the Leveraged Index) which the Issuer deems necessary to acquire or enter into (as applicable) in order to hedge the Issuer's risk of entering into and performing its obligations with respect to the Securities;

**"Index Level Adjustment Event"** means that the Calculation Agent reasonably determines that:

- (i) the Index Level (after giving effect to fees and expenses applicable to the Leveraged Index) in respect of a Valuation Date, does not accurately reflect the net redemption proceeds that would be received by any Relevant Investor; and/or
- (ii) any Relevant Investor would receive any such relevant net redemption proceeds in more than one payment or later than would normally be the case whether in accordance with the relevant Fund Information Document (whether or not by operation of the gating or other redemption restrictions or otherwise) and/or the practice or procedures of the Fund or otherwise; and/or
- (iii) it is impossible or impractical, for reasons beyond the reasonable control of the Calculation Agent, to determine the Index Level in respect of any Valuation Date in a timely manner as provided in Product Condition 1 by reason of a



delay or failure to publish the Index Level continuing for more than two Business Days after the date on which such publication would ordinarily occur; and/or

- (iv) the Index Level and/or the net asset value of the Fund Shares is unrepresentative of or is not an accurate reflection of the value of the relevant assets held by or on behalf of the Fund determined by reference to the available market information;

**"Relevant Investor"** means a hypothetical or actual investor (as determined by the Calculation Agent (acting reasonably) in the context of any relevant situation) in Fund Shares, which is deemed: (a) to have the benefits and obligations, as provided in any relevant Fund Information Document, of an investor holding Fund Shares at any relevant time; (b) in the case of any subscription for Fund Shares, to have submitted a valid and duly completed subscription notice and to have paid subscription monies to the Fund, on or before the last date on which it would be permitted, according to the Fund Information Document, to submit a subscription notice and subscription monies that would be timely for a subscription in respect of any relevant amount of Fund Shares in respect of any relevant Valuation Date; and (c) in the case of any redemption of Fund Shares, to have submitted a valid and duly completed redemption notice on or before the last date on which it would be permitted, according to the Fund Information Document, to submit a redemption notice that would be timely for a redemption in respect of any relevant amount of Fund Shares in respect of any relevant Valuation Date. The Relevant Investor may be deemed by the Calculation Agent to be resident or organised in any jurisdiction, and to be, without limitation, the Issuer (as determined by the Calculation Agent (acting reasonably) in the context of any relevant situation); and

**"Service Provider"** means, in respect of the Fund, any entity (or any person(s) acting on its behalf) or any person(s) who are appointed to provide services, directly or indirectly, for the Fund Shares, whether or not specified in any documentation relating to the Fund Shares, and including without limitation any director, official, adviser, administrator, manager, investment manager, trading advisor or any other entity providing similar services, operator, management company, depository, custodian, sub-custodian, prime broker, trustee, registrar and transfer agent or domiciliary agent.

#### 4.2 *Index Level Adjustment Event*

Upon the occurrence of an Index Level Adjustment Event in respect of a Valuation Date which the Calculation Agent determines is material, the Issuer may at its option:

- (i) instruct the Calculation Agent to make such adjustments as it determines appropriate with regard to or to account for any Index Level, Cash Settlement Amount, Settlement Date, Determination Date, Reference Level, as applicable, and/or any other provisions of the Conditions and determine the effective date(s) thereof, and the Calculation Agent shall thereupon make such adjustments; or
- (ii) elect to treat the Index Level Adjustment Event as an Extraordinary Fund Event to which Product Condition 4.3.2.1 or 4.3.2.2 applies (*mutatis mutandis*).

Any adjustment made in accordance with this Product Condition 4.2 or Product Condition 4.3.1, may without limitation, take into account, as the Calculation Agent deems appropriate, any hedging arrangements carried out by the Issuer and/or any tax, duty, withholding, deduction or other charge whatsoever (including but not limited

to a change in the tax consequences) for the Issuer. Such adjustment as described in (i) above may apply for the purposes of determining the Reference Level and related values for subsequent Valuation Dates.

#### 4.3 Extraordinary Fund Events

4.3.1 If an Extraordinary Fund Event which the Calculation Agent determines is material has occurred or is continuing in respect of the Fund or any Fund Shares, the Issuer may require the Calculation Agent to determine such adjustment, if any, to be made to any one or more of the Conditions as it determines appropriate with regard to or to account for the Extraordinary Fund Event and to determine the effective date(s) thereof, which adjustment may be to any variable, method of calculation, valuation or any other terms in respect of the Securities and which may, without limitation, include any or all of: (i) an adjustment to the Cash Settlement Amount(s) paid in respect of any Securities outstanding as of the occurrence of the Extraordinary Fund Event; (ii) an adjustment to the number of Securities exercised; (iii) an adjustment to the timing of any Settlement Date(s) or (iv) payment by instalments of any relevant amount in respect of the Securities.

4.3.2 If an Extraordinary Fund Event has occurred or is continuing and *either* (a) it is impractical or impossible (in the determination of the Calculation Agent) to take the action described in Product Condition 4.3.1, *or* (b) the Calculation Agent reasonably determines that the relevant Extraordinary Fund Event is significantly material and detrimental and cannot in the determination of the Calculation Agent be resolved in accordance with Product Condition 4.3.1, then the Issuer may take the action described in Product Condition 4.3.2.1 and/or 4.3.2.2 below:

4.3.2.1 cancel the Securities by giving notice to Securityholders in accordance with General Condition 4. If the Securities are so cancelled, the Issuer will pay an amount to each Securityholder in respect of each Security held by such Securityholder equal to the fair market value of a Security having considered the effect of the Extraordinary Fund Event less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Calculation Agent. Payment will be made in such manner as shall be notified to the Securityholders in accordance with General Condition 4; and/or

4.3.2.2 determine that the Fund Shares shall be substituted with New Fund Shares or the investments of the Leveraged Index replaced by a Replacement Leveraged Index Investment in accordance with Product Condition 4.4 or 4.5 respectively below and determine the date on which the substitution shall take effect by reference to such factor(s) as it may select including, without limitation, any hedging arrangements carried out by the Issuer in respect of the Securities.

The Calculation Agent may determine the appropriate adjustment for the purposes of Product Condition 4.3.1 above by reference to the redemption proceeds a Relevant Investor would have obtained had it redeemed all or part of its interest in the relevant Fund Shares on or about the date on which the Calculation Agent determines that the relevant Extraordinary Fund Event has occurred. Any adjustment or replacement made in connection with an Extraordinary Fund Event may also take into account, as the Calculation Agent deems appropriate, any tax, duty, withholding, deduction or other charge whatsoever (including but not limited to a change in the tax consequences) for any Relevant Investor as a result of the Extraordinary Fund Event. Such change in tax consequences may include any changes resulting from any hedging arrangements carried out by the Issuer in respect of the Securities.

If any adjustment or replacement is made in connection with any Extraordinary Fund Event, the Calculation Agent shall give notice as soon as practicable to the Securityholders in accordance with General Condition 4, stating the adjustment or replacement made and giving brief details of the Extraordinary Fund Event.

#### 4.4 Fund Substitution

If the Issuer determines that the Fund Shares should be substituted into other fund shares or units in accordance with Product Condition 4.3.2.2 above, the Calculation Agent shall substitute the Fund Shares with new fund shares or units (the "**New Fund Shares**" and the related fund, the "**New Fund**") provided the New Fund has the same or similar strategy and objectives as specified in the Fund Information Document (as determined by the Calculation Agent) and provided that the currency of the New Fund Shares is the same as that for the Fund Shares.

If Fund Shares are substituted in accordance with this provision, the Calculation Agent shall make such adjustments to the Conditions as it deems appropriate with respect to such substitution. Any such adjustments may take into account the realisation value to the Issuer of the Fund Shares and/or any related Hedge Asset in respect of the Fund Shares, in order to pass on to Securityholders the effect of any fall in the value of the Fund Shares.

#### 4.5 Replacement of the Underlying with a Replacement Leveraged Index Investment

If the Issuer determines that the Fund Shares should be substituted into Replacement Leveraged Index Investments in accordance with Product Condition 4.3.2.2 or the Securities would otherwise be redeemed, terminated or exercised in accordance with the provisions of General Condition 2, the Issuer may in its reasonable discretion determine to substitute a Replacement Leveraged Index Investment (as defined below) for the Fund Shares in which the Leveraged Index invests.

For the purposes of this Condition 4.5, "**Replacement Leveraged Index Investment**" means commercial paper which is rated, money market investments, bank deposits, cash or such other assets as the Issuer may determine in its reasonable discretion, in each case denominated or held (as the case may be) in the Settlement Currency and which may be held either directly, or indirectly through the Leveraged Index, in either case, in the reasonable discretion of the Issuer.

If the Fund Shares are replaced in accordance with this provision, the Calculation Agent shall make such adjustments to the Conditions as it deems appropriate to account for such replacement. Any such adjustments may take into account the realisation value of any hedging arrangements of the Issuer, in order to pass on to Securityholders the effect of any fall in the value of the Fund Shares.

The Issuer shall promptly notify Securityholders following any substitution of the Fund Shares into other investments made in accordance with this Product Condition 4.5.

Nothing in this Product Condition 4.5 shall be construed as requiring the Issuer to substitute the Fund Shares for a Replacement Leveraged Index Investment at all or in any particular circumstances. The Issuer's right to cancel the Securities in accordance with Condition 2 shall not be limited by, or subject to, this Condition.

#### **Product Condition 5. Expiry**

If the Calculation Agent determines that the Reference Level is equal to or less than zero the Calculation Agent shall give notice of such determination to Securityholders in accordance with General Condition 4.1. All Securities then outstanding will expire worthless as of the date on which such notice is deemed given and notwithstanding any other provision of the Conditions the Issuer shall have no further obligations in respect of the Securities.

**Product Condition 6.            Governing Law and Place of Jurisdiction**

The Securities are governed by and shall be construed in accordance with English law. The non-exclusive place of jurisdiction for all proceedings arising from matters provided for in these Conditions shall be the courts of England.

## **B. GENERAL CONDITIONS**

*These General Conditions relate to the Securities and must be read in conjunction with, and are subject to, the Product Conditions set out in this document. The Product Conditions and the General Conditions together constitute the Conditions of the Securities and will be attached to the Global Security representing the Securities.*

### **General Condition 1. Status of the Securities**

The Securities constitute unsubordinated, unsecured contractual obligations of the Issuer and rank *pari passu* in all respects with each other.

### **General Condition 2. Early Exercise, Redemption or Termination for Extraordinary Reasons, Illegality and Force Majeure**

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Securities has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Securities for any reason, the Issuer may at its discretion and without obligation deem exercised, redeem or terminate the Securities early by giving notice to the Securityholders in accordance with General Condition 4.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer exercises, redeems or terminates the Securities early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Securityholder in respect of each Security held by such holder equal to the fair market value of a Security notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Calculation Agent in its reasonable discretion. Payment will be made in such manner as shall be notified to the Securityholders in accordance with General Condition 4.

### **General Condition 3. Purchases**

The Issuer may, but is not obliged to, at any time purchase Securities at any price in the open market or by tender or private agreement. Any Securities so purchased may be held or resold or surrendered for cancellation.

### **General Condition 4. Notices**

#### *4.1. Validity*

Notices to the Securityholders will be valid if delivered to the Clearing Agent(s) for communication by the Clearing Agent(s) to the Securityholders provided that so long as the Securities are listed on any stock exchange or publicly offered in any jurisdiction, any notice to the Securityholders shall be published in accordance with the rules and regulations of each such stock exchange and each such jurisdiction. In the Federal Republic of Germany it is expected that any notices to the Securityholders will normally be published in the *Börsen-Zeitung*.

#### *4.2. Delivery*

Notices given pursuant to 4.1 above will become effective on, if delivered to the Clearing Agent(s), the third day after such delivery to the Clearing Agent or all the Clearing Agents (if more than one) or, if published (whether or not also so given), on the date of such publication, or, if published more than once, on the date of the first such publication or, if required to be published in more than one newspaper, on the date of the first such publication in all the required newspapers.

## **General Condition 5. Agents, Calculation Agent, Determinations and Modifications**

### *5.1. Agents*

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional Agents, provided that no termination of appointment of the Principal Agent shall become effective until a replacement Principal Agent shall have been appointed and provided that, if and to the extent that any of the Securities are listed on any stock exchange or publicly offered in any jurisdiction, there shall be an Agent having a specified office in each country if so required by the rules and regulations of each such stock exchange and the securities regulators in each such jurisdiction. Notice of any appointment, or termination of appointment, or any change in the specified office, of any Agent will be given to Securityholders in accordance with General Condition 4. Each Agent acts solely as agent of the Issuer and does not assume any obligation or duty to, or any relationship of agency or trust for or with, the Securityholders. Any calculations or determinations in respect of the Securities made by an Agent shall (save in the case of manifest error) be final, conclusive and binding on the Securityholders.

### *5.2. Calculation Agent*

The Issuer shall undertake the duties of calculation agent (the “**Calculation Agent**” which expression shall include any successor calculation agent) in respect of the Securities unless the Issuer decides to appoint a successor Calculation Agent in accordance with the provisions below.

The Issuer reserves the right at any time to appoint another institution as the Calculation Agent, provided that no termination of appointment of the existing Calculation Agent shall become effective until a replacement Calculation Agent shall have been appointed. Notice of any such termination or appointment will be given to the Securityholders in accordance with General Condition 4.

The Calculation Agent (except where it is the Issuer) acts solely as agent of the Issuer and does not assume any obligation or duty to, or any relationship of agency or trust for or with, the Securityholders. Any calculations or determinations in respect of the Securities made by the Calculation Agent shall (save in the case of manifest error) be final, conclusive and binding on the Securityholders.

The Calculation Agent may, with the consent of the Issuer, delegate any of its obligations and functions to a third party as it deems appropriate.

### *5.3. Determinations by the Issuer*

Any determination made by the Issuer pursuant to the Conditions shall (save in the case of manifest error) be final, conclusive and binding on the Securityholders.

### *5.4. Modifications*

The Issuer may, to the extent permitted by applicable law, modify the Conditions without the consent of the Securityholders or any of them in any manner which the Issuer may deem reasonably necessary in order to maintain or preserve the intended commercial purpose of the Conditions if such modification does not materially adversely affect the interests of the Securityholders or is of a formal, minor or technical nature or intended to correct a manifest error or to cure, correct or supplement any defective provision contained therein. Notice of any such modification will be given to the Securityholders in accordance with General Condition 4 but failure to give, or non-receipt of, such notice will not affect the validity of any such modification.

## **General Condition 6. Taxation**

In relation to each Security the relevant Securityholder shall pay all Securityholder Expenses as provided in the Product Conditions. All payments or, as the case may be, deliveries in respect of the Securities will be subject in all cases to all applicable fiscal and other laws and regulations (including, where applicable, laws requiring the deduction or withholding for, or on account of, any tax, duty or other charge whatsoever). The Issuer shall not be liable for or otherwise obliged to pay, and the relevant Securityholder shall be liable for and/or pay, any tax, duty, charge, withholding or other payment whatsoever which may arise as a result of, or in connection with, the ownership, any transfer, any payment and/or any delivery in respect of the Securities held by such Securityholder. The Issuer shall have the right, but shall not be obliged, to withhold or deduct from any amount payable or, as the case may be, any delivery due to the Securityholder such amount or portion as shall be necessary to account for or to pay any such tax, duty, charge, withholding or other payment. Each Securityholder shall indemnify the Issuer against any loss, cost or other liability whatsoever sustained or incurred by the Issuer in respect of any such tax, duty, charge, withholding or other payment as referred to above in respect of the Securities of such holder.

## **General Condition 7. Further Issues**

The Issuer shall be at liberty from time to time without the consent of Securityholders or any of them to create and issue further securities so as to be consolidated and form a single series with the Securities.

## **General Condition 8. Substitution**

### *8.1. Substitution of Issuer*

The Issuer, or any previous substituted company, may at any time, without the consent of the Securityholders substitute for itself as principal obligor under the Securities any company (the "**Substitute**"), being any subsidiary or affiliate of the Issuer, subject to:

- 8.1.1. the obligations of the Substitute under the Securities being guaranteed by Deutsche Bank AG (unless it is the Substitute);
- 8.1.2. all actions, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Securities represent legal, valid and binding obligations of the Substitute having been taken, fulfilled and done and being in full force and effect;
- 8.1.3. the Issuer shall have given at least 30 days' prior notice of the date of such substitution to the Securityholders in accordance with General Condition 4.

In the event of any substitution of the Issuer, any reference in the Conditions to the Issuer shall henceforth be construed as a reference to the Substitute.

### *8.2. Substitution of Office*

The Issuer shall have the right upon notice to Securityholders in accordance with General Condition 4 to change the office through which it is acting for the purpose of the Securities, the date of such change to be specified in such notice provided that no change can take place prior to the giving of such notice.

## **General Condition 9. Replacement of Securities**

Should any Security be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Agent (or such other place of which notice shall have been given in accordance with General Condition 4) upon payment by the claimant of the expenses incurred in connection therewith and on such terms

as to evidence and as to indemnity as the Issuer may reasonably require. Mutilated or defaced Securities must be surrendered before replacements will be issued

## **General Condition 10. Adjustments for European Monetary Union**

### *10.1. Redenomination*

The Issuer may, without the consent of the Securityholders, on giving notice to the Securityholders in accordance with General Condition 4 elect that, with effect from the Adjustment Date specified in the notice, certain terms of the Securities shall be redenominated in euro;

The election will have effect as follows:

10.1.1. where the Settlement Currency is the National Currency Unit of a country which is participating in the third stage of European Economic and Monetary Union, whether as from 1999 or after such date, such Settlement Currency shall be deemed to be an amount of euro converted from the original Settlement Currency into euro at the Established Rate, subject to such provisions (if any) as to rounding as the Issuer may decide and as may be specified in the notice, and after the Adjustment Date, all payments in respect of the Securities will be made solely in euro as though references in the Securities to the Settlement Currency were to euro;

10.1.2. where the Conditions contain a rate of exchange or any of the Conditions are expressed in a currency (the "**Original Currency**") of a country which is participating in the third stage of European Economic and Monetary Union, whether as from 1999 or after such date, such rate of exchange and/or any other terms of the Conditions shall be deemed to be expressed in or, in the case of a rate of exchange, converted for or, as the case may be into, euro at the Established Rate; and

10.1.3. such other changes shall be made to the Conditions as the Issuer may decide to conform them to conventions then applicable to instruments expressed in euro.

### *10.2. Adjustment to Conditions*

The Issuer may, without the consent of the Securityholders, on giving notice to the Securityholders in accordance with General Condition 4 make such adjustments to the Conditions as the Issuer may determine to be appropriate to account for the effect of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Conditions.

### *10.3. Euro Conversion Costs, etc.*

Notwithstanding Condition 10.1 and/or Condition 10.2, none of the Issuer, the Calculation Agent and any Agent shall be liable to any Securityholder or other person for any commissions, costs, losses or expenses in relation to or resulting from the transfer of euro or any currency conversion or rounding effected in connection therewith.

### *10.4. Definitions*

In this General Condition, the following expressions have the following meanings:

**"Adjustment Date"** means a date specified by the Issuer in the notice given to the Securityholders pursuant to this Condition which falls, if the currency is that of a country not initially participating in the third stage of European Economic and Monetary Union pursuant to the Treaty, on or after such later date as such country does so participate;



**“Established Rate”** means the rate for the conversion of the Original Currency (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to the first sentence of Article 123(4), formerly 109 I (4) of the Treaty;

**“National Currency Unit”** means the unit of the currency of a country, as those units are defined on the day before the start of the third stage of European Economic and Monetary Union or, in connection with the expansion of such third stage, to any country which has not initially participated in such third stage;

**“Treaty”** means the treaty establishing the European Community.

#### **General Condition 11. Definitions**

Terms in capitals which are not defined in these General Conditions shall have the meanings ascribed to them in the Product Conditions.

## C. INFORMATION RELATING TO THE UNDERLYING

### SCHEDULE 1

The description of the Leveraged Index and its operation constitutes an integral part of the Conditions in respect of the Securities.

#### **(A) Establishment of the Leveraged Index**

The Issuer will establish a notional index (the "**Leveraged Index**") on the Issue Date for the sole purpose of determining amounts payable in respect of any Security and the Issuer will maintain the Leveraged Index as set out in these Schedules. The Leveraged Index notionally comprises the Underlying Assets allocated to it in accordance with the terms contained herein (and the Schedules hereto).

On the Issue Date, the Leveraged Index will initially be notionally credited with EUR 1,000. Thereafter, the value and composition of the Leveraged Index will change in accordance with:

- (i) changes in the value of the Underlying Assets in which it is notionally invested;
- (ii) notional accruals and deductions of interest under the Leverage Facility as provided in Part 3 of Schedule 2 below;
- (iii) notional accruals and deductions of interest under the Cash Reserve as provided in Part 2 of Schedule 2 below; and
- (iv) notional accruals and deductions of the Index Fee as provided in Schedule 4 paragraph (B) below.

The Issuer is under no obligation to make such investments for its own account and may or may not follow all or part of the investment procedures outlined herein for its own account.

The Leveraged Index is notional and has no separate legal personality.

"**Underlying Assets**" means, in varying proportions from time to time:

- (i) the Equity Portfolio and the FX Forwards, as described in Schedule 2, Part 1 below;
- (ii) the Cash Reserve, as described in Schedule 2, Part 2 below (with negative balances being treated as a liability); and
- (iii) the Leverage Facility (as a liability), as described in Schedule 2, Part 3 below.

#### **(B) Valuation of Leveraged Index**

##### **(i) Index Level**

Subject to the occurrence of a Suspension Event (as defined in paragraph (C) below), Deutsche Bank AG, London Branch (or any duly appointed successor) acting as calculation agent in respect of the Leveraged Index (in such capacity, the "**Index Calculation Agent**") shall, in respect of the last Index Business Day of each month following the Issue Date (or in respect of any other Index Business Day selected by it, making such adjustment to the valuation methodology as it sees necessary as a result of such valuation not being in respect of the last Index Business Day in a month) (each, an "**Index Valuation Date**"), determine the notional net asset value in Euro of the Underlying Assets of the Leveraged Index (including, for the avoidance of doubt, (A) the residual positive cash balances in the Cash Reserve (if

any) (B) plus or minus the mark to market value of FX Forwards from time to time and (C) the notional deduction of: (i) the outstanding balance of the Leverage Facility (if any) together with any accrued but unpaid interest thereon; (ii) any negative cash balances in the Cash Reserve (if any) together with any accrued but unpaid interest thereon; and (iii) any accrued but unpaid Index Fees (the "**Index Level**"). The Index Calculation Agent shall determine the Index Level for any month on or around the eighth (8<sup>th</sup>) calendar day of the month following the month in which the relevant Index Valuation Date falls (the "**Publication Date**").

For the purposes of determining the Index Level in respect of any Index Valuation Date other than the Final Valuation Date (or any Valuation Date immediately preceding the Settlement Date in respect of a Security), in which case the provisions set out in "Final Index Level" below shall instead apply, the Index Calculation Agent will take (i) the Net Asset Value of the Fund Shares as at the last Business Day of the month in which the relevant Index Valuation Date falls (the "**Fund Valuation Date**") based on the official Net Asset Value per Fund Share (the "**Fund NAV**") as published by the administrator of the Fund for such Fund Valuation Date.

However, if any such Fund NAV is not available on or around the relevant Publication Date, an estimate of the relevant Fund NAV (the "**Estimated Fund NAV**") may be made by the Index Calculation Agent on the Publication Date based, at the Index Calculation Agent's sole discretion, on either (i) any estimates of the net asset value per Fund Share as at the Fund Valuation Date published by the administrator of the relevant Fund on or prior to the Publication Date or (ii) any relevant market data available to the Index Calculation Agent.

The Fund NAV or Estimated Fund NAV shall prevail for all purposes in respect of this Leveraged Index description (and the Schedules hereto) notwithstanding that an official net asset value of any Fund Shares as at such date is subsequently published for that Fund Valuation Date which may have led to a different Index Level for the related Index Valuation Date.

Should it be the case that any taxes, charges, levies or other amounts (any such amount, a "**Tax**") are imposed in connection with a holding of or redemption of Fund Shares that would apply to an actual investor in Fund Shares domiciled in any jurisdiction deemed relevant by the Index Calculation Agent, the Index Level shall be calculated by the Index Calculation Agent net of all such Tax. In the case where a notional redemption request has been made for Fund Shares and the value date for such notional redemption request has passed but the Index Calculation Agent determines in its discretion that, had such a redemption request actually been made, settlement of the redemption proceeds would not yet have been received for the purposes of determining the Index Level, the expected proceeds (based on the most up to date information available to the Index Calculation Agent from the relevant Fund) may, in the absolute discretion of the Index Calculation Agent, be deemed to be cash and shall form part of the Cash Reserve.

#### **(ii) Index Level in respect of the Final Valuation Date**

Subject to the continuance of a declared Suspension Event in respect of which the Leveraged Index is notionally invested in commercial paper (in which case the Index Level in respect of the Final Valuation Date shall be the notional liquidation proceeds of such commercial paper on the Relevant Valuation Date, the Index Level in respect of the Final Valuation Date with respect to any Security shall be equal to the Index Level in respect of the Determination Date for that Security, which, in the case of the occurrence of exercise of the Security on the Exercise Date in respect of the Final Valuation Date shall be calculated by

the Index Calculation Agent based on the methodology described below in Schedule 3(C), and in the case of exercise of the Security on the Exercise Date in respect of a Valuation Date which is not the Final Valuation Date, shall be calculated by the Index Calculation Agent based on the methodology described below in Schedule 3(C) save that references therein to the Final Valuation Date shall instead be deemed to be references to the relevant Valuation Date.

**(C) Suspension of calculation of Index Level**

The following events constitute "**Suspension Events**" (unless otherwise specified):

1. the Index Calculation Agent determines that the Fund has materially breached the Risk Threshold Limits or the Fund fails to provide the Index Calculation Agent with sufficient information for it and its advisers to ascertain whether any such breach has occurred;
2. the currency of denomination of the Fund Shares is amended and/or the net asset value of the Fund Shares is no longer calculated in U.S. dollars;
3. the administrator of the Fund fails to calculate and publish a net asset value for two or more consecutive months for its Fund Shares;
4. the Fund introduces a redemption fee or a subscription fee or a bid/offer spread (or other charge however described) that a holder of a Fund Share has to bear;
5. there is a change in tax treatment which could have an adverse economic impact for a holder of a Fund Share;
6. the Issuer, or an affiliate of the Issuer, would (a) be unable to redeem Fund Shares at their net asset value on a quarterly basis or (b) be unable to subscribe for Fund Shares at their net asset value on a monthly basis;
7. the winding-up, dissolution, liquidation or cessation of trading of (a) the Fund or (b) unless replaced with a successor acceptable to the Index Calculation Agent, any of the administrator, investment manager, custodian or other service provider of the Fund (each such entity, a "**Specified Party**");
8. (a) any regulatory approval or registration of a Fund or any Specified Party is cancelled or under review (due to wrongdoing, breach of any rule or regulation or other reason), (b) any material litigation, arbitration or regulatory or governmental action exists, is commenced or is threatened in relation to a Fund or any Specified Party or (c) any allegation of criminal or fraudulent activity is made in respect of a Fund, any Specified Party or any employee of such entities;
9. any Specified Party ceases to act in its current capacity with respect to the Fund and is not immediately replaced by a successor acceptable to the Index Calculation Agent;
10. any event or change affecting the Fund which, in the reasonable opinion of the Index Calculation Agent, is likely to have a negative impact on the value of the relevant Fund Shares;
11. the occurrence of a material modification of the articles of association or other constitutive documents of the Fund or its Information Memorandum (as defined in Schedule 2, Part 1 below) as they relate to the Fund Shares;

12. any event or circumstance (whether or not in accordance with the constitutive documents and investment guidelines of the Fund) which obliges a holder of a Fund Share to sell or otherwise dispose of such Fund Share;
13. any representation or statement by the Fund or any Specified Party is or becomes materially inaccurate, whether such statement is made in the Information Memorandum or otherwise;
14. any redemption of Fund Shares occurs in whole or in part otherwise than by payment of a monetary amount; or
15. (a) the screen rate for EURIBOR is unavailable or the cost to the Issuer of obtaining deposits in the London interbank market would be in excess of EURIBOR, (b) one or more stock exchanges, other regulated markets or foreign exchange markets is or are closed otherwise than for ordinary holidays or if trading thereupon is restricted or suspended and such closure, restriction or suspension (or the cause of any such closure, restriction or suspension) would have a material effect on the Leveraged Index or (c) as a result of political, economic, military or monetary events, or any other circumstances outside the control of the Issuer, the disposal of a significant portion of the assets of the Leveraged Index (were they actually held) would not be reasonable or normally practicable without being seriously detrimental to the interests of the holder of such assets.

A Suspension Event may be waived by the Index Calculation Agent.

Following the Index Calculation Agent becoming aware of the occurrence of a Suspension Event if it does not waive such Suspension Event, the Index Calculation Agent shall (for a period of no longer than five Index Business Days following the determination of a Suspension Event by the Index Calculation Agent) attempt to find an alternative fund with the same or similar strategy and objectives (based upon the information specified in the information memorandum in respect of the Fund) (as determined by the Index Calculation Agent) denominated in U.S. dollars managed by MAXAM Capital Management LLC (“MAXAM”) or any affiliate or successor thereof to replace the affected Fund Shares as a notional investment for the Leveraged Index.

If such a replacement cannot be found and the Fund does not rectify such breach within a reasonable period, each in the sole and absolute discretion of the Index Calculation Agent, the Index Calculation Agent will notionally liquidate all the Fund Shares and FX Forwards comprised in the Underlying Assets. The resulting notional liquidation proceeds will then be notionally invested by the Index Calculation Agent in commercial paper rated at least A-1/P1 or above by Moody’s Investors Service, Inc. (any transaction costs in respect thereof shall be charged to the Leveraged Index) which for all purposes shall be considered part of the Equity Portfolio until such time as the Index Calculation Agent determines either (i) that the relevant Suspension Event has been cured and remains so for a period of two consecutive months and no further Suspension Event has occurred or (ii) that a replacement fund as described above can be identified, whereupon the Index Calculation Agent will notionally liquidate the commercial paper and reinvest in the Equity Portfolio and FX Forwards.

For the purposes of the above, “**Risk Threshold Limits**” means written risk thresholds for the Fund (that may be amended from time to time by the Index Calculation Agent if it determines in good faith that such amendment is appropriate) with respect to which the Fund’s adherence to its investment objectives and investment strategy (as stated as of the Issue Date) and its ability to achieve stable returns is determined, including, if determined in good faith to be appropriate by the Index Calculation Agent, risk thresholds regarding the scope of the underlying funds in which the Fund may invest, the diversification strategy of the

Fund, the concentration of each of the Fund's underlying investments in individual funds, and the leverage and liquidity of each of the Fund's underlying investments in individual funds.

Please note the risk factors relating to the Leveraged Index set out in Section II of this document.

**(D) Deduction of fees**

The Index Calculation Agent shall notionally deduct the Index Fees described (and as defined) in Schedule 4(b) below from the Cash Reserve of the Leveraged Index on each Index Fee Payment Date (as set out in Schedule 4(b) below).

To the extent that, in respect of any Index Fee Payment Date, there are no positive balances notionally standing to the credit of the Cash Reserve to notionally settle the relevant fees payable on such date, notional borrowings shall be made under the Cash Reserve to meet such payment.

**(E) Records**

The Index Calculation Agent shall maintain detailed records (the "**Records**") with respect to the Equity Portfolio, the Cash Reserve, the Index Fees and the Leverage Facility, which records shall contain the following information with respect to each such notional pool of assets:

- (i) the identity of assets notionally invested from time to time and at any time;
- (ii) the amount notionally invested in each asset; and
- (iii) the notional divestments and investments made in each such asset (and, for the purposes of the Leverage Facility and the Cash Reserve the notional outstanding balance (if negative in the case of the Cash Reserve) and any notional interest accrued thereon) since the Issue Date.

All information contained in the Records shall (in the absence of manifest error) be final and binding on the Issuer and the Securityholder.

**(F) Methodology and Determinations**

**(i) Methodology**

Whilst it is intended that the Index Calculation Agent will employ the methodology described in these Schedules to make determinations in respect of the Leveraged Index, no assurance can be given that market, regulatory, judicial or fiscal circumstances or, without limitation, any other circumstances in the determination of the Index Calculation Agent will not arise that would necessitate a modification or change in such methodology in order that the Leveraged Index replicates as closely as possible investments in the assets underlying the Leveraged Index and its components. The Index Calculation Agent may make any such modification or change.

**(ii) Timing of Calculations**

The Index Calculation Agent shall make all calculations required under these Schedules in its sole and absolute discretion. Calculations made by the Index Calculation Agent in respect of the Leveraged Index shall be made on the days specified herein: however, notwithstanding the foregoing or anything else contained in these Schedules, should the Index Calculation Agent determine, in good faith and in a commercially reasonable manner, that in order to

give effect to the methodology described in these Schedules it is necessary to make calculations on a day other than that specified, then the Index Calculation Agent is permitted to make such calculations on such calendar day as it shall see fit.

**SCHEDULE 2**  
**PART 1**  
**THE EQUITY PORTFOLIO AND FX FORWARDS**

**(A) The Equity Portfolio**

On or shortly after the Issue Date, an amount equal to the Initial Equity Allocation (as defined in Schedule 3(A)) will be notionally allocated to the Equity Portfolio of the Leveraged Index. Thereafter, on each Publication Date, the notional allocation of the assets of the Leveraged Index will be notionally adjusted: (i) to take account of the payment of notional interest on negative cash balances (if any) under the Cash Reserve and the Leverage Facility and the notional payment of Index Fees; (ii) to take account of the investment of the notional proceeds of a liquidation of all of the Fund Shares notionally comprised in the Leveraged Index following any unwaived Suspension Event; and (iii) in accordance with the Investment Allocation Mechanism set out in Schedule 3 below.

The Equity Portfolio (the “**Equity Portfolio**”) shall (subject to notional reinvestment in an alternative fund or commercial paper following the occurrence of an unwaived Suspension Event as described in Schedule 1(C) above) notionally consist of an investment in USD denominated class B shares (the “**Fund Shares**”) in the Maxam Absolute Return Fund Limited (the “**Fund**”) which is incorporated under the laws of the British Virgin Islands as an open-ended investment company with limited liability. The Fund invests all of its assets in a centralized management company, commonly known as a “master” fund (the Fund being a “feeder” fund). The Master Fund is MAXAM Absolute Return Fund, L.P., a Delaware limited partnership (the “**Master Fund**”) which is a single manager fund. The Master Fund will utilize the services of the Investment Manager to allocate its assets to certain broker dealers. In these schedules, references to “**Fund**” are to the Maxam Absolute Return Fund Limited as the issuer of the Fund Shares.

The Index Calculation Agent shall, in its absolute discretion, select such class of shares to comprise the Equity Portfolio and if at any time no such class is available, the Index Calculation Agent can for such period of time for which no such class is available, select a proxy class of shares issued by Maxam Absolute Return Fund Limited, or construct a notional proxy class of shares notionally issued by the Maxam Absolute Return Fund Limited, that as closely as reasonably possible mirrors the performance of a class of shares having the characteristics set out in the above paragraph. Where it constructs a notional class of shares to comprise the Equity Portfolio, the Index Calculation Agent shall, as far as reasonably possible, operate the notional proxy class of shares on a similar basis to similar classes of shares issued by the Maxam Absolute Return Fund Limited (for example, as to liquidity and valuation). In such instance, the Index Calculation Agent shall construe the provisions of the Leveraged Index description contained in these Schedules in such manner as it sees fit in order to give effect to such use of a notional proxy class of shares, provided that in doing so it shall act in good faith and in a commercially reasonable manner.

A redacted copy of the information memorandum dated July 2006 which sets out information in respect of the Fund and the supplement in respect of the Fund Shares dated February 2007 (such documents as amended or supplemented from time to time, the “Information Memorandum”) is attached below. The Information Memorandum in this form may not be copied or distributed.

The Equity Portfolio of the Leveraged Index is a notional portfolio of assets defined for the purposes of determining various amounts in connection with the Securities only. Securityholders shall have no legal or beneficial ownership interest in the Equity Portfolio.



Securityholders shall have no contractual relationship in any respect with either the Fund or with any manager or administrator of the Fund from time to time.

**(B) FX Forwards**

On each FX Hedge Date, the Leveraged Index will notionally hedge the currency exposure (created by the fact that the Fund is denominated in USD whereas the other assets and liabilities comprising the Leveraged Index are denominated in Eur) by executing (1) a notional FX Forward with a cash settlement date falling on the next FX Hedge Date and (2) a notional spot FX transaction with a cash settlement date falling on such FX Hedge Date, so far as necessary to crystallise the notional gain or loss on the FX Forward described in (1) above for the prior month. The approximate EUR notional amount of such FX Forwards shall be equal to the aggregate EUR value of the Equity Portfolio as at the Index Valuation Date immediately preceding the FX Hedge Date on which such FX Forwards are executed. Any notional gain arising from such FX Forwards may be used to notionally repay any principal and interest outstanding under the Leverage Facility, notionally held in the Cash Reserve or notionally invested in the Equity Portfolio, at the Index Calculation Agent's absolute discretion. Any notional loss arising from such FX Forwards shall be notionally paid for using amounts standing to the credit of the Cash Reserve or by drawing on the Leverage Facility, at the Index Calculation Agent's discretion. In order to ensure that sufficient cash amounts to anticipate such notional losses will be held, the allocation of the Leveraged Index to the Equity Portfolio may be notionally reduced in advance. If amounts standing to the credit of the Cash Reserve are ever insufficient to meet any notional loss, an amount equal to such loss shall be drawn down under the Leverage Facility, subject to the provisions of Schedule 3 Part B, or by redeeming Fund Shares. Save as provided above, each FX Forward will notionally be entered into without a premium at prevailing market rates.

**(C) General Currency Conversion**

For the purpose of determining a EUR value for the Leveraged Index, its value shall be converted into EUR by reference to the spot foreign exchange rate to buy EUR and sell USD, which appears on Reuters page ECB37 (or such other page as may replace that page on that service or such other service for the purposes of displaying such exchange rates) or if such page is not available for that purpose, the rate as determined by the Calculation Agent in its discretion by references to such source(s) as it deems appropriate) (the "Reuters FX Page") at 11a.m. (London time) on the day of calculation, as determined by the Calculation Agent.

Notional investment in the Leveraged Index shall be made by applying EUR amounts converted into US dollars (being the operational currency of the Index Units) by reference to the exchange rate on the Reuters FX Page at 11.00 am (London time) on the day of notional purchase. Notional redemption from the Leveraged Index shall be converted into EUR amounts on the day of notional receipt by reference to the exchange rate on the Reuters FX Page at 11.00 am (London time) on that day.

For the purposes hereof:

**"FX Forward"** means notional rolling monthly foreign exchange forward contracts to buy EUR and sell USD to hedge the Equity Portfolio's exposure to the movement in EUR/US dollar exchange rates; and

**"FX Hedge Date"** means the Issue Date and each Index Valuation Date.



**SCHEDULE 2**  
**PART 2**  
**THE CASH RESERVE**

To the extent not notionally allocated to the Equity Portfolio, the assets of the Leveraged Index will be notionally allocated to a notional EUR cash balance (the "**Cash Reserve**") at the determination of the Index Calculation Agent. The Cash Reserve is intended to enable the Leveraged Index to cover notional losses on FX Forwards (if any), make EUR cash payments of Index Fees notionally attributable to the Leveraged Index and interest payable under the Leverage Facility (such fees and interest together "**Leveraged Index Expenses**"). Accordingly, the Index Calculation Agent will determine on a quarterly (or more frequent, in its absolute discretion) basis the number of Fund Shares comprised in the Equity Portfolio that need to be notionally redeemed in order that the balance of the Cash Reserve will be kept at a sufficient level so as to meet such payments as and when they become due. For this purpose it may keep a small additional amount as Cash Reserve over the amounts it expects to need (because some liabilities are variable in nature), but in any event it will aim to keep the Cash Reserve at a minimum. On any occasion on which positive balances notionally standing to the credit of the Cash Reserve (if any) are insufficient to meet the payment of the notional liabilities of the Leveraged Index, a notional negative balance may be created under the Cash Reserve at the relevant time so as to allow such notional liabilities to be met. Interest on any positive or negative balances standing to the credit (or debit as applicable) shall Interest shall notionally accrue interest on the same basis as the Leverage Facility, except that the applicable rate shall be the Cash Reserve Interest Rate.

For the purposes hereof:

**"Cash Reserve Interest Rate"** means three month EURIBOR (as defined below).

**SCHEDULE 2**  
**PART 3**  
**THE LEVERAGE FACILITY**

The Leveraged Index will utilise a notional leverage facility (the "**Leverage Facility**") (up to a maximum size as set out in Schedule 3 below) for the purpose of notionally leveraging the investments of the Leveraged Index in Fund Shares.

Interest shall notionally accrue daily in Euro on the outstanding balance of the Leverage Facility at the Leverage Facility Interest Rate (calculated on a Day Count Fraction of Actual/360, such interest calculated from, but including, the Leveraged Index Valuation Date immediately preceding the relevant Index Valuation Date up to, but excluding, such relevant Index Valuation Date) and shall notionally be paid monthly in arrear on the last Index Business Day of each month and the Determination Date in respect of the Final Valuation Date (each such date, a "**Leverage Facility Interest Payment Date**").

Interest shall be paid notionally from the Cash Reserve (which shall be notionally increased to meet such notional interest payments from time to time by notionally liquidating Fund Shares of sufficient value in good time to notionally receive the necessary proceeds as set out in "Cash Reserve" in Schedule 2, Part 2). For the purposes of calculating the notional accrual of interest on the Leverage Facility, each interest period (each a "**Leverage Facility Interest Period**") shall be the period from and including one Leverage Facility Interest Payment Date to but excluding the next following Leverage Facility Interest Payment Date.

If the amount notionally invested by the Leveraged Index in the Fund Shares is notionally reduced on any Publication Date as a consequence of any unwaived Suspension Event, the cash amount(s) notionally realised from the reduction will be used first to notionally repay amounts notionally outstanding under the Cash Reserve and thereafter, to notionally repay amounts notionally outstanding under Leverage Facility (repayment upon notional receipt).

For the purposes hereof:

"**Leverage Facility Interest Rate**" means three month EURIBOR plus 1.00 per cent per annum.

For the purposes hereof:

"**EURIBOR**" means the rate for cash deposits for a period of three months in EUR which appears on Reuters page EURIBOR01 as of 11:00am London time as of any relevant calculation date or, if no such rate appears, a rate determined by the Index Calculation Agent to be the appropriate market rate for LIBOR.

The Leverage Facility (and any notional negative balances standing to the debit of the Cash Reserve) are notional liabilities defined for the purposes of determining various amounts in connection with the Securities only. No Securityholder shall have any liability for payment or repayment of either the Leverage Facility or any negative balances standing to the debit of the Cash Reserve or any notional interest thereon.

The provisions set out in Schedule 3 Part B govern drawings under the Leverage Facility.

### **SCHEDULE 3 INVESTMENT ALLOCATION**

The Underlying Assets of the Leveraged Index will be allocated as set out in this Schedule 3.

#### **(A) Initial Allocation**

The initial notional allocation of the Underlying Assets comprising the Leveraged Index (to be notionally invested on or shortly after the Issue Date is as follows:

- (i) EUR 1,000 to the Equity Portfolio (comprising (i) an amount of EUR 1,000 equal to the Nominal Amount of one);
- (iii) no initial investment in the Cash Reserve;
- (iv) zero borrowings under the Leverage Facility; and
- (v) no initial negative balances on the Cash Reserve.

#### **(B) Equity Allocation, Limits on drawings under the Leverage Facility**

On the Index Valuation Date falling in June 2007, the Underlying Assets will be re-allocated so that EUR 750 is drawn-down under the Leverage Facility and shall be notionally invested in the Equity Portfolio.

If the Index Calculation Agent determines that it is unable, or would or may, in its sole and absolute, incur an increased cost (compared with that on the Issue Date of the Securities), to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of, in such size and upon such timing as it determines appropriate, any transaction(s) or asset(s) it deems necessary to hedge the risk of entering into and performing its obligations with respect to the Securities, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s) upon such timing and in such form as it determines appropriate, whether or not in accordance with the rules of the Fund, the Index Calculation Agent may immediately reduce drawings under the Leverage Facility to zero.

Subject to the provisions below, thereafter, on the Business Day falling five Business Days prior to each Index Valuation Date, the Index Calculation Agent will seek to adjust the investments of the Index in the Equity Portfolio with the objective of ensuring that the borrowings under the Leverage Facility will equal 75% of the Index Level as at the most recent Index Valuation Date subject to maximum borrowing of EUR 1,500. Any notional subscriptions and/or redemptions in the Fund will be intended to take effect upon the next available Fund Valuation Date at which such purchases or redemptions may be effected. Repayments of borrowings under the Leverage Facility will be made using cash or through the notional redemption of Fund Shares.

If the amount of borrowings under the Leverage Facility drops to below EUR 125, the borrowings under the Leverage Facility will be repaid in full and no more borrowings shall be made under the Leverage Facility. In addition, the Index Calculation Agent may elect to restrict the borrowings under the Leverage Facility if (a) the Leveraged Index's notional holding in the Fund exceeds 20% of the holdings in the Fund, (b) if the Fund itself incurs leverage, (c) if the Fund becomes Closed to further subscriptions or (d) if the Index Calculation Agent determines in its sole and absolute discretion that the Fund has breached its strategy, objectives, guidelines and/or investment policies (any reference in this paragraph to the "Fund" shall be construed to include the Master Fund). Following any restriction of borrowing under the Leveraged Index pursuant to this paragraph, should the reasons for such restriction cease to exist or are otherwise cured or remedied to the satisfaction of the Index Calculation Agent, the Index Calculation Agent may remove such restriction and

thereafter seek to maintain the target leverage as set out above.

No borrowings may be repaid or drawdown under the Leverage Facility if the effect of such repayment or drawdown is that the amount of borrowings is reduced or increased, as applicable, by an amount less than 5% of the Index Level.

***(C) Liquidation upon final redemption of the Securities***

In respect of the Final Valuation Date, a redemption request (the "**Redemption Request**") to redeem all of the Fund Shares notionally attributable to the Leveraged Index will be deemed to have been made by the Index Calculation Agent on or before the Exercise Date immediately preceding the Final Valuation Date (the "**Redemption Request Date**") so as to redeem notionally the Fund Shares as at the Final Valuation Date.

***(D) Netting of notional subscriptions and notional redemptions***

In respect of any notional subscription or notional redemption of Fund Shares in accordance with the terms and conditions set out herein, the Index Calculation Agent in its absolute discretion in relation to a Publication Date may net the aggregate amount of any such notional subscriptions and notional redemptions of Fund Shares submitted in respect of such Publication Date and any previous Publication Dates (or such other dates on which any other notional redemption requests may have been submitted) as it may determine.

**SCHEDULE 4**  
**UNDERLYING FEES, INDEX FEES AND DISTRIBUTION FEES**

**(A) Underlying Fees**

The Fund Shares themselves are subject to certain management, administration and other fees (together the "**Underlying Fees**") payable to *inter alios* MAXAM Capital Management LLC as investment manager of the Fund, as described in the Information Memorandum relating to the Fund and the Fund Shares.

Such Underlying Fees shall be accounted for in the valuation of the Fund Shares for the purposes of determining the Index Level.

**(B) Index Fee**

"**Index Fee**" means a fee representing the notional cost of structuring the Leveraged Index, which shall accrue daily and shall be calculated and paid monthly in arrear as of each Index Fee Payment Date in respect of the Index Fee Period ending as of such Index Fee Payment Date. The Index Fee payable in respect of an Index Fee Period will be an amount equal to the sum of the Daily Index Fee Accruals for that Index Fee Period. For each day in the Index Fee Period, the amount that shall accrue on that day (each, a "**Daily Index Fee Accrual**") will be equal to the product of:

- (a) 0.25 per cent. per annum (calculated on a Day Count Fraction of Actual/360, as such terms are defined in the Annex to the 2000 ISDA Definitions but with references to "Calculation Period" instead being to "Index Fee Period");
- (b) EUR1,000; and
- (c) (1/360);

in each case as determined by the Index Calculation Agent;

"**Index Fee Payment Date**" means (i) the last Index Business Day of each month in each year from, and including, June 2007 and (ii) with a final Index Fee Payment Date on the Determination Date relating to the Final Valuation Date; and

"**Index Fee Period**" means the period from (and including) an Index Fee Payment Date (or, in the case of the first Index Fee Payment Date, from (and including) the Issue Date) to (but excluding) the next following Index Fee Payment Date.

**(C) Distribution Fee**

"**Distribution Fee**" means a fee representing certain fees, expenses or rebates related to the issuance and distribution of investment products linked to the Leveraged Index, which shall accrue daily and shall be calculated and paid monthly in arrear as of each Distribution Fee Payment Date in respect of the Distribution Fee Period ending as of such Distribution Fee Payment Date. The Distribution Fee payable in respect of a Distribution Fee Period will be an amount equal to the sum of the Daily Distribution Fee Accruals for that Distribution Fee Period. For each day in the Distribution Fee Period, the amount that shall accrue on that day (each, a "**Daily Distribution Fee Accrual**") will be equal to the product of:

- (a) 0.50 per cent. per annum (calculated on a Day Count Fraction of Actual/360, as such terms are defined in the Annex to the 2000 ISDA Definitions but with references to "Calculation Period" instead being to "Distribution Fee Period");
- (b) EUR1,000; and
- (c) (1/360);

in each case as determined by the Index Calculation Agent;

**"Distribution Fee Payment Date"** means (i) the last Index Business Day of each month in each year from, and including, June 2007 and (ii) with a final Distribution Fee Payment Date on the Determination Date relating to the Final Valuation Date; and

**"Distribution Fee Period"** means the period from (and including) a Distribution Fee Payment Date (or, in the case of the first Distribution Fee Payment Date, from (and including) the Issue Date) to (but excluding) the next following Distribution Fee Payment Date.

### **3. PROSPECTUS OF THE FUND**

**Please see section XI of this document.**



## IX. COUNTRY SPECIFIC INFORMATION

*This section should be read in conjunction with, and is subject to, the Product Conditions, the General Conditions and all other sections of this document.*

### 1. The Netherlands

#### Taxation in the Netherlands

##### General

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Securities, but does not purport to be a comprehensive description of all Netherlands tax considerations thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Securities.

This summary is based on the tax legislation, published case law, treaties, regulations and published policy, in force as of the date of this Prospectus, though it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Netherlands tax consequences for:

- (i) holders of Securities holding a substantial interest (*aanmerkelijk belang*) in the Issuer. Generally speaking, a holder of Securities holds a substantial interest in the Issuer, if such holder of Securities, alone or, where such holder is an individual, together with his or her partner (statutory defined term) or certain other related persons, directly or indirectly, holds (i) an interest of 5 percent or more of the total issued capital of the Issuer or of 5 percent or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer;
- (ii) pension funds or other entities that are exempt from Netherlands corporate income tax;
- (iii) investment institutions (*fiscale beleggingsinstellingen*).

For the purpose of the principle Netherlands tax consequences described herein, it is assumed that the Issuer is neither a resident nor deemed to be a resident of the Netherlands for Netherlands tax purposes.

##### Withholding tax

All payments made by the Issuer under the Securities may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

##### Corporate and individual income tax

If a holder is resident or deemed to be resident of the Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of its enterprise to which the Securities are attributable, income derived from the Securities and gains realised upon the redemption, settlement or disposal of the Securities are generally taxable in the Netherlands.

If an individual holder is resident or deemed to be resident of the Netherlands for Netherlands tax purposes (including the individual holder who has opted to be taxed as a resident of the Netherlands), income derived from the Securities and gains realised upon the redemption, settlement or disposal of the Securities are taxable at the progressive rates of the Netherlands income tax act 2001, if:

- (i) the holder has an enterprise or an interest in an enterprise, to which enterprise the Securities are attributable; or
- (ii) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance of activities with respect to the Securities that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies to the holder of the Securities, taxable income with regard to the Securities must be determined on the basis of a deemed return on income from savings and investments (sparen en beleggen), rather than on the basis of income actually received or gains actually realised. At present, this deemed return on income from savings and investments has been fixed at a rate of 4% of the average of the individual's yield basis (rendementsgrondslag) at the beginning of the calendar year and the individual's yield basis at the end of the calendar year, insofar as the average exceeds a certain threshold. The average of the individual's yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Securities less the fair market value of certain qualifying liabilities on 1 January and 31 December, divided by two. The fair market value of the Securities will be included as an asset in the individual's yield basis. The deemed return on income from savings and investments of 4% will be taxed at a rate of 30 per cent.

### **Gift and Inheritance taxes**

Generally, gift and inheritance taxes will be due in the Netherlands in respect of the acquisition of the Securities by way of a gift by, or on the death of, a holder that is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

A holder of the Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax, if he or she has been resident in the Netherlands during the ten years preceding the gift or his or her death. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax if he or she has been resident in the Netherlands at any time during the twelve months preceding the time of the gift. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

### **Value added tax**

In general, no value added tax will arise in respect of payments in consideration for the issue of the Securities or in respect of the cash payment made under the Securities, or in respect of a transfer of Securities.

### **Other taxes and duties**

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Securities.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from the 1st July, 2005, to provide to the tax authorities of another Member

State details of payment of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also with effect from 1st July, 2005, a number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States have agreed to adopt similar measures (either provision of information or transitional withholding) (a withholding system in the case of Switzerland) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

## **2. Subscription Period**

In the Netherlands, applications to subscribe for the Securities may be made at the offices of Deutsche Bank AG, Amsterdam Branch during the period ending at 3pm (CET) on the Primary Market End Date. However, the Issuer reserves the right for any reason to close the subscription period prior to its stated expiry.

## **3. Settlement and Clearing**

The Global Security will be deposited with the Clearing Agent and has been accepted for clearing by it under security and clearing codes set out below:

ISIN            DE000DB9CZM2

## **4. Agent in the Netherlands**

In the Netherlands, the Agent shall be Deutsche Bank AG acting through its office in Amsterdam. The Agent shall act as the warrant agent or paying agent as appropriate at the following address: Deutsche Bank AG, Amsterdam Branch, Herengracht 450-454, 1017 CA Amsterdam, The Netherlands.

## 2. Luxembourg

### Taxation in Luxembourg

The following summary is of a general nature. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Securities should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

#### (i) Non-resident holders of Securities

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Securities, nor on accrued but unpaid interest in respect of the Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Securities held by non-resident holders of Securities.

However, under the Luxembourg laws of 21 June 2005 (the **Laws**), implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15% during the first three-year period starting 1 July 2005, at a rate of 20% for the subsequent three-year period and at a rate of 35% thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Securities coming within the scope of the Laws would at present be subject to withholding tax of 15%.

#### (ii) Resident holders of Securities

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Securities, nor on accrued but unpaid interest in respect of Securities, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Securities held by Luxembourg resident holders of Securities.

However, under the Luxembourg law of 23 December 2005 (the **Law**) payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is resident of Luxembourg will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Securities coming within the scope of the Law would be subject to withholding tax of 10%.

### Subscription Period

In Luxembourg, applications to subscribe for the Securities may be made at the offices of the Agent in Luxembourg specified below during the period ending at 3pm (CET) on the Primary Market End Date. However, the Issuer reserves the right for any reason to close the subscription period prior to its stated expiry.

### **Settlement and Clearing**

The Global Security will be deposited with the Clearing Agent and has been accepted for clearing by it under security and clearing codes set out below:

ISIN            DE000DB9CZM2

### **Agent in Luxembourg**

In Luxembourg, the Agent shall be Deutsche Bank Luxembourg SA. The Agent shall act as the warrant agent or paying agent as appropriate at the following address: 2 Boulevard Konrad Adenauer L-1115 Luxembourg.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended. Any offer or sale of the Securities must be made in a transaction exempt from the registration requirements of such Act pursuant to Regulation S thereunder. The Securities may not be offered, sold or otherwise transferred in the United States or to persons who are either U.S. persons defined as such in Regulation S of such Act or persons who do not come within the definition of a non-United States person under Rule 4.7 of the United States Commodity Exchange Act, as amended.

## X PARTY LIST

**Issuer:**

Deutsche Bank AG, London Branch  
Winchester House  
One Great Winchester Street  
London EC2N 2DB

**Agent:**

Deutsche Bank AG, London Branch  
Winchester House  
One Great Winchester Street  
London EC2N 2DB

**Agent in The Netherlands:**

Deutsche Bank AG, Amsterdam Branch  
Herengracht 450-454  
1017 CA Amsterdam  
The Netherlands

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## XI PROSPECTUS OF THE FUND

*None of the Investment Manager of the Fund nor the Fund accept any responsibility for the information contained in this document.*

*The information in this section "Prospectus of the Fund" consists of information provided by the Fund. The document attached is a partially redacted Information Memorandum in respect of Maxam Absolute Return Fund Limited and related supplement in respect of the Fund Shares which contains information in respect of the Fund. The Fund is described as the "Feeder Fund" in the Information Memorandum and the MAXAM Absolute Return Fund, L.P is described as the "**Fund**". The Issuer accepts responsibility for accurately extracting such information. The Issuer has not independently verified any such information and takes no further or other responsibility (expressed or implied) in respect of such information.*

*The provision of the information set out below is for informational purposes only, it is not an offer to purchase or subscribe for any fund shares described therein and no person is authorised to take any action in connection with the Securities that would constitute a solicitation or offer to purchase or subscribe for and any such fund shares in any jurisdiction. The information set out below is furnished on a confidential basis exclusively for use and retention by persons who have received this Prospectus from the Issuer or its agent and, by accepting this Prospectus, such recipient agrees not to transmit, reproduce or make available to any other person (other than its investment, legal, tax, accounting and other advisers assisting in its evaluation of the Securities) all or any part of the information below.*



**Name: Deutsche Bank AG London**

**Number: 22**

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**SUPPLEMENT TO THE INFORMATION MEMORANDUM**

**of**

**MAXAM ABSOLUTE RETURN FUND LIMITED**

**Relating to the Offering of  
Class B Shares**

**Par Value U.S. \$0.01 Per Class B Share  
February 2007**

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THIS SUPPLEMENT MAY ONLY BE DISTRIBUTED IN CONJUNCTION WITH THE CONFIDENTIAL INFORMATION MEMORANDUM RELATING TO THE OFFERING OF CLASS A SHARES OF MAXAM ABSOLUTE RETURN FUND LIMITED DATED JULY 1, 2006 (THE "MEMORANDUM"), WHICH IS HEREBY INCORPORATED BY REFERENCE. POTENTIAL INVESTORS IN CLASS B SHARES MUST CAREFULLY REVIEW THIS SUPPLEMENT IN CONJUNCTION WITH THE MEMORANDUM.



**SUPPLEMENT TO THE INFORMATION MEMORANDUM**

**of**

**MAXAM ABSOLUTE RETURN FUND LIMITED**

**RELATING TO THE OFFERING**

**of**

**CLASS B SHARES**

c/o Walkers SPV Limited  
Walker House, 87 Mary Street  
George Town, Grand Cayman  
KY1-9002, Cayman Islands

**OFFERING OF SHARES**

MAXAM Absolute Return Fund Limited (the "Fund") is hereby offering Class B Shares, U.S. \$0.01 par value per Class B Share (the "Class B Shares"). The information memorandum of the Fund, dated July 1, 2006 (the "Memorandum"), which must accompany this supplement, is hereby incorporated by reference in its entirety. All references to Shares in the Memorandum shall be deemed to include the Class B Shares being offered hereby, except where this supplement conflicts with the Memorandum. All capitalized terms used in this supplement and not defined herein are defined in the Memorandum.

Class B Shares are being offered at an initial issue price of U.S. \$1,000 per Class B Share and thereafter, will be issued at the prevailing Net Asset Value per Class B Share.

Class B Shares will have rights, privileges and obligations identical to those of Class A Shares of the Fund, except that Class B Shares will be subject to **a distributor fee of 0.50% per annum of the NAV of the Class B Shares (the "Distributor Fee") which fee shall accrue monthly and paid monthly. The Distributor Fee may be waived in whole or in part at the sole discretion of the Directors.** Potential investors are referred to the Memorandum for a description of the Class A Shares.

\* \*

Except as described above, this Supplement to the Memorandum does not update, amend, modify or supersede any term or disclosure contained in the Memorandum. Prospective investors must review the Memorandum prior to subscribing for Shares of the Fund.



**Number: 22**

**Name: Deutsche Bank AG London**

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**MAXAM ABSOLUTE RETURN  
FUND LIMITED**

(A Cayman Islands exempted company)

PRIVATE OFFERING OF PARTICIPATING SHARES

**INFORMATION MEMORANDUM**

July 1, 2006

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Investment Manager: MAXAM Capital Management LLC  
Administrator: MAXAM Capital Management Limited

**THE SHARES ISSUED BY MAXAM ABSOLUTE RETURN FUND LIMITED ARE NOT FOR SALE TO U.S. PERSONS EXCEPT IN A LIMITED NUMBER OF CASES AS DETERMINED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS OF MAXAM ABSOLUTE RETURN FUND LIMITED AND SUBJECT TO SUCH ADDITIONAL DOCUMENTS AS THE BOARD MAY DETERMINE. NO PERSON HAS BEEN AUTHORIZED IN CONNECTION WITH THIS OFFERING TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS OTHER THAN AS CONTAINED IN THIS INFORMATION MEMORANDUM. PLEASE DIRECT ANY INQUIRIES REGARDING MAXAM ABSOLUTE RETURN FUND LIMITED TO THE ADMINISTRATOR.**

## NOTICES

THE PARTICIPATING SHARES (THE "SHARES") OF MAXAM ABSOLUTE RETURN FUND LIMITED (THE "FUND") WHICH ARE DESCRIBED IN THIS INFORMATION MEMORANDUM (THE "MEMORANDUM") HAVE NOT BEEN NOR WILL THEY BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OF THE STATES OF THE UNITED STATES. THE OFFERING CONTEMPLATED BY THE MEMORANDUM WILL BE MADE IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT FOR OFFERS AND SALES OF SECURITIES WHICH DO NOT INVOLVE ANY PUBLIC OFFERING AND ANALOGOUS EXEMPTIONS UNDER STATE SECURITIES LAWS.

THE MEMORANDUM SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF SHARES IN THE FUND IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE IS NOT AUTHORIZED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATIONS CONCERNING THE FUND WHICH ARE INCONSISTENT WITH THOSE CONTAINED IN THE MEMORANDUM. PROSPECTIVE INVESTORS SHOULD NOT RELY ON ANY INFORMATION NOT CONTAINED IN THE MEMORANDUM.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY OFFERING THE SHARES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. FURTHERMORE, AN INVESTMENT IN THE SHARES IS HIGHLY SPECULATIVE AND INVOLVES CERTAIN RISKS. SEE "CERTAIN RISK FACTORS."

PROSPECTIVE INVESTORS SHOULD NOT CONSTRUE THE CONTENTS OF THE MEMORANDUM AS LEGAL, TAX, OR FINANCIAL ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS OR HER OWN PROFESSIONAL ADVISORS AS TO THE LEGAL, TAX, FINANCIAL OR OTHER MATTERS RELEVANT TO THE SUITABILITY OF AN INVESTMENT IN THE FUND BY SUCH INVESTOR.

THE SHARES OF THE FUND ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT IN ACCORDANCE WITH THE REQUIREMENTS AND CONDITIONS SET FORTH IN THE MEMORANDUM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THE MEMORANDUM IS INTENDED SOLELY FOR THE USE OF THE PERSON TO WHOM IT HAS BEEN DELIVERED FOR THE PURPOSE OF EVALUATING A POSSIBLE INVESTMENT BY THE PERSON IN THE SHARES OF THE FUND.

INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF INVESTORS) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATIONS OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTION AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSIS) THAT ARE PROVIDED TO INVESTORS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE. THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE

COMMENCEMENT OF THE FIRST DISCUSSIONS BETWEEN SUCH INVESTOR AND THE FUND REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.

DISCUSSIONS IN THE MEMORANDUM AS THEY RELATE TO CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES ARE NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL TAX PENALTIES. SUCH DISCUSSIONS WERE WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED IN THE MEMORANDUM, AND ANY TAXPAYER TO WHOM THE TRANSACTIONS OR MATTERS ARE BEING PROMOTED, MARKETED OR RECOMMENDED SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

ALL REFERENCES TO "DOLLARS," "USD," "U.S. DOLLARS," AND "U.S." ARE TO THE CURRENCY OF THE UNITED STATES OF AMERICA, UNLESS OTHERWISE INDICATED.

THE MEMORANDUM DOES NOT CONSTITUTE AN OFFER OF THE SHARES TO ANY MEMBER OF THE PUBLIC IN THE CAYMAN ISLANDS AND THE SHARES MAY NOT BE OFFERED TO ANY MEMBER OF THE PUBLIC IN THE CAYMAN ISLANDS.

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ALL MONETARY AMOUNTS SET FORTH  
HEREIN ARE EXPRESSED IN U.S. DOLLARS.

## **DIRECTORY**

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Registered Office	Walkers SPV Limited Walker House P.O. Box 908 GT Mary Street George Town, Grand Cayman Cayman Islands
Investment Manager	MAXAM Capital Management LLC 16 Thorndal Circle Darien, CT 06820 Telephone: (203) 851-3501 Facsimile: (203) 662-1212
Administrator	MAXAM Capital Management Limited 11 Winton Hill Lane Upper Apartment 11 Hamilton Parish, Bermuda CR03 Telephone: (441) 293-2629
Directors	Suzanne S. Hammond 16 Thorndal Circle Darien, CT 06820  Peter Anderson PO Box 897GT One Capital Place George Town Grand Cayman, Cayman Islands  S. Alan Milgate PO Box 897GT One Capital Place George Town Grand Cayman, Cayman Islands
Legal Advisers as to Cayman Islands law	Walkers Walker House P.O. Box 265 GT Mary Street Georgetown, Grand Cayman Cayman Islands Tel: (345) 949-0100 Fax: (345) 949-7886 Attn: Mark Lewis, Esq.

Legal Advisers as to  
US Law and US Tax Advisers

Tannenbaum Helpern Syracuse & Hirschtritt LLP  
900 Third Avenue, 13<sup>th</sup> Floor  
New York, NY 10022  
USA  
Tel: (212) 508-6700  
Fax: (212) 371-1084  
Attn: Michael G. Tannenbaum, Esq.  
E-mail: tannenbaum@thshlaw.com

Auditors

Goldstein Golub Kessler  
International Cayman  
P.O. Box 1168GT  
Harbour Place South Church Street  
Grand Cayman, Cayman Islands  
Telephone: (345) 946-0166  
Facsimile: (345) 946-3492

## **DEFINITIONS**

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

“1934 Act”	means the U.S. Securities Exchange Act of 1934, as amended;
“Administrator”	means MAXAM Capital Management Limited;
“Administration Agreement”	means the agreement dated June 16, 2006 between the Fund and the Administrator;
“Administration Fee”	means the annual asset based administration fee paid to the Investment Manager;
“Advisers Act”	means the U.S. Investment Advisers Act of 1940, as amended;
“Board”	means the Board of Directors of the Fund or any duly authorized committee of the Board of Directors;
“Broker Dealer”	means a registered broker dealer;
“Customer Account Agreement”	means the agreement dated June 14, 2006 between the Master Fund and the initially selected Broker Dealer;
“Business Day”	refers to any day when the securities markets in the United States and the banks in the Cayman Islands are open for business (other than a Saturday or Sunday), or such other day or days as may be determined by the Directors;
“Class”	means the Shares of the relevant class;
“Class A Shares”	means those Shares denominated in US Dollars;
“Closing Date”	means July 1 or such earlier or later date as the Directors may in their absolute discretion determine;
“Code”	means the U.S. Internal Revenue Code of 1986, as amended;
“Company Act”	means the U.S. Investment Company Act of 1940, as amended;
“Directors”	means the Board of Directors of the Fund or any duly authorized committee of the Board of Directors;
“Fund”	means MAXAM Absolute Return Fund Limited;
“GAAP”	means U.S. Generally Accepted Accounting Principles;

“Initial Offer”	means the initial offer of the Shares commencing on July 1, 2006 and closing on the Closing Date as more fully described in the section headed “OFFER, SUBSCRIPTIONS, TRANSFERS AND REDEMPTIONS - Initial Offer”;
“Investment Manager”	means MAXAM Capital Management LLC;
“Investment Management Agreement”	means the agreement dated June 16, 2006 between the Fund and the Investment Manager;
“Management Fee”	means the annual asset based management fee paid to the Investment Manager;
“Master Fund”	means MAXAM Absolute Return Fund, L.P., a Delaware limited partnership;
“Memorandum”	means this Information Memorandum;
“Net Asset Value”	means the net asset value of the Fund and each Class of Shares as more fully described in the section headed “VALUATION”;
“Net Asset Value per Share”	means the net asset value of each Class of Shares of the Fund divided by the number of Shares of that Class in issue as more fully described in the section headed “VALUATION”;
“Option Account”	means an account maintained at a Broker Dealer to facilitate the option transactions (including, without limitations, purchase, sale, transfer and exercise) option transactions.
“Redemption Date”	means the last Business Day of each calendar month (unless otherwise agreed to by the Directors in their sole discretion) and such other days as the Directors may in their absolute discretion determine;
“Redemption Notice”	means a minimum of thirty (30) prior to the applicable Redemption Date;
“Securities Act”	means the U.S. Securities Act of 1933, as amended;
“Shareholder”	means a holder of Shares;
“Shares”	means the Participating Shares;
“Subscription Agreement”	means the subscription agreement for Shares of the Fund;
“Subscription Date”	means the first Business Day of each calendar month and such other days as the Directors may in their absolute discretion determine;



“Subsequent Offer”	means the offer of the Shares as more fully described in the section headed “OFFER, SUBSCRIPTIONS, TRANSFERS AND REDEMPTIONS - Subsequent Offer”;
“United States” or “US”	means the United States, as defined in Regulation S under the 1933 Act;
“US\$” or “US Dollars”	means the lawful currency of the US;
“US person”	means a US person as defined in Regulation S under the 1933 Act;
“Valuation Date”	means the last Business Day of each calendar month and such other days as the Directors may in their absolute discretion determine.

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## **THE FUND**

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### **Introduction**

*Generally.* The Fund was incorporated as an exempted company under the laws of the Cayman Islands on June 5, 2006. Shares of the Fund are issued in Classes. The Fund is offering Class A Shares denominated in U.S. dollars pursuant to this Memorandum. The initial purchase price per Class A Share is U.S.\$1,000. Thereafter, subsequent Share purchases shall be at the prevailing Net Asset Value per Share of the relevant Class. Upon acquiring Shares, investors become Shareholders in the Fund. The Fund qualifies as a “Mutual Fund” under section 4(3) of the Mutual Funds Law (2003 Revision) of the Cayman Islands and is or will be so registered in the Cayman Islands.

*Additional Classes.* In addition to the Shares being offered, the Fund, from time to time, may, at the Board of Directors’ sole approval, offer additional voting or non-voting classes of shares, without obtaining Shareholder approval, which shares may be offered on terms that differ from those discussed herein. Such differing terms may include, but are not limited to, offering shares in a currency other than U.S. dollars or offering shares that utilize more leverage than the Shares offered herein. Such additional classes of shares may be offered pursuant to different offering documents.

*The Master Fund.* The Fund will implement its strategy by investing all of the Fund’s assets in a centralized management company, commonly known as a “master” fund (the Fund being a “feeder” fund). The Master Fund is MAXAM Absolute Return Fund, L.P., a Delaware limited partnership (the “Master Fund”). The Master Fund will utilize the services of the Investment Manager to allocate the assets of the Fund to Broker Dealers. References throughout this document to the investment objective, policy, restrictions of the Fund, including without limitation, risk factors of the Fund, will refer to the investment objective, policy, restrictions and risk factors of the Master Fund (to the extent applicable), unless context otherwise requires.

Notwithstanding the foregoing, the Investment Manager reserves the right to retain all or part of the Fund’s assets for allocation directly at the Fund level in its sole discretion.

The information in this Memorandum is qualified in its entirety by the Fund’s Memorandum and Articles of Association (the “Memorandum and Articles of Association”) which are available upon request.

## **INVESTMENT OBJECTIVE AND POLICY**

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### **The Fund’s Investment Objective**

The Fund will primarily seek long term capital appreciation with low volatility. The Investment Manager will attempt to achieve the objective by allocating the Fund’s assets to Broker Dealers who will invest such assets in equity securities, option strategies and other equity related derivatives. All investments involve investment risk and may result in losses instead of gains, as the achievement of the Fund’s investment objective cannot be assured. See “CERTAIN RISK FACTORS.”

### **The Fund's Investment Strategy and Process**

The Fund’s assets will be invested in the Master Fund. The Master Fund’s assets will generally be held in customer accounts at the selected Broker Dealers. The Broker Dealers will be selected by the Investment

Manager based upon their trading strategy, their ability to implement a trading strategy and efficiently trade the assets of the Master Fund on a time and price basis. While the Investment Manager retains the authority to use the services of one or more Broker Dealers, it is likely the only services of one Broker Dealer will be used. The Investment Manager will provide the selected Broker Dealer with the authority to trade securities that are in the Standard & Poor's 500 Index on a discretionary basis. The Investment Manager will also open an Option Accounts wherein the Investment Manager will grant the selected Broker Dealers the authority to trade options in accordance with the Broker Dealer's trading strategy. Such options transactions will be used as a hedge against the long positions.

### **Temporary Investments**

Pending investment of capital in accordance with the Fund's Investment Strategy and Process and its Investment Objective, or to facilitate redemptions by Shareholders as permitted by this Memorandum, the Fund may, among other things, hold cash or invest in cash equivalents. Among the cash equivalents in which the Fund may invest are: obligations of the U.S. Government, its agencies or instrumentalities, commercial paper, and certificates of deposit and bankers' acceptances issued by U.S. banks that are members of the Federal Deposit Insurance Corporation. The Fund may also enter into repurchase agreements and may purchase shares of money market mutual funds in accordance with applicable legal restrictions.

### **Investment Restrictions**

The following investment restrictions of the Fund may not be changed without the approval of Shareholders holding at least 67% of the Shares held by the Shareholders:

(a) the Fund will invest no more than 20% of the value of its total assets (at the time of investment) in the securities of any one issuer, except obligations of the U.S. Government, its agencies or instrumentalities, commercial paper, and certificates of deposit and bankers' acceptances issued by U.S. banks that are members of the Federal Deposit Insurance Corporation or money market mutual funds; and

(b) the Fund will not purchase real estate or interests in real estate.

\* \* \*

The foregoing description is general and is not intended to be exhaustive. Investors must recognize that there are inherent limitations on all descriptions of investment processes due to the complexity, confidentiality and subjectivity of such processes. In addition, the description of virtually every strategy must be qualified by the fact that investment approaches are continually changing, as are the markets invested in by the Fund. Finally, the Investment Manager may pursue additional strategies, in its absolute discretion, in its pursuit of the Fund's investment objective.

### **Borrowing and Lending**

The Fund is authorized to borrow in order to fund redemption requests. There are no restrictions on the Fund's borrowing capacity other than limitations imposed by lenders and any applicable credit regulations.

### **Dividend Policy**

The Fund does not expect to make any distributions to Shareholders out of the Fund's current earnings and profits. Rather, the Fund will reinvest such income and capital gains. Potential investors should keep

this limitation in mind when determining whether or not an investment in the Fund is suitable for their particular purposes. All income and profits earned by the Fund will accrue to the benefit of the Fund and will be reflected in the Net Asset Value. The Directors, on the advice of the Investment Manager, reserve the right to change such policy without the consent of the Shareholders.

## **MANAGEMENT AND ADMINISTRATION**

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### **The Directors of the Fund**

The Board of Directors of the Fund consists of three (3) Directors, each of whom serves in accordance with the laws of the Cayman Islands and in accordance with the Memorandum and Articles of Association. The Directors' primary function is to supervise the general conduct of the affairs of the Fund. The Directors have appointed the Investment Manager to perform and/or delegate certain management and administrative tasks on behalf of the Fund. There is no mandatory age of retirement for directors. The Memorandum and Articles of Association provide that every Director shall be indemnified and held, to the extent permitted under applicable law, harmless by the Fund out of its assets against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him otherwise than by reason of his own dishonesty in or about the conduct of the Fund's business or affairs or in the execution or discharge of his duties other than as a result of his dishonesty or by reason of his breach of fiduciary duties to the Fund. A brief biographical description of each of the Directors follows:

**Suzanne S. Hammond.** For Ms. Hammond's biography, see "The Investment Manager" below.

**Peter Anderson.** Mr Anderson is a chartered accountant and partner in Rawlinson & Hunter Chartered Accountants in Grand Cayman. He trained with Coopers & Lybrand in the UK and qualified as a Chartered Accountant in 1981 before moving to Coopers & Lybrand in the Cayman Islands, where he gained considerable experience in all aspects of the "offshore markets." In 1988, he left Coopers & Lybrand and joined John Benbow to form Benbow Anderson & Co., Chartered Accountants. Effective January 1, 2002 Benbow Anderson & Co. was acquired by Deloitte & Touche in the Cayman Islands and Mr. Anderson became a partner in Deloitte & Touche. Effective July 1, 2004 following a reorganisation, Mr. Anderson and two other partners resigned from Deloitte & Touche in the Cayman Islands to concentrate their services with Rawlinson & Hunter.

Mr Anderson currently acts as a Director for several Cayman Islands Registered Mutual Funds and other companies. Mr. Anderson who has Cayman status was born and raised in Belfast, Northern Ireland and graduated with honours from Queens University, Belfast, where he received a B.Sc. in Economics in 1976. He became a fellow of the Institute of Chartered Accountants in Ireland in 1991 and is a past President of the Cayman Islands Society of Professional Accountants.

**S. Alan Milgate** is a Director with Rawlinson & Hunter, an international firm of chartered accountants with a global network of offices established over 70 years ago. The Cayman Islands firm has been offering a comprehensive range of professional services since it was established in 1973. Alan is a director of The R&H Trust Co. Ltd. and The Harbour Trust Co. Ltd., duly licensed Cayman Islands trust companies owned and operated by Rawlinson & Hunter in the Cayman Islands. He is also a director of a number of client companies. He is a qualified Chartered Accountant (Canada), a member of the Society of Trust and Estate Practitioners (STEP), a Chartered Financial Analyst charter holder, and a member of the Cayman Islands Society of Professional Accountants. Alan has over ten years of international experience in the financial services industry and joined the Cayman practice in December 1997.

## **The Investment Manager**

The Fund has retained MAXAM Capital Management LLC, a Delaware limited liability corporation, to serve as its investment manager (the “Investment Manager” or “MAXAM”) pursuant to an investment management agreement (the “Investment Management Agreement”). The Investment Manager is registered as an investment adviser under the Advisers Act and has attached hereto as Exhibit II a copy of Part II of its most recent Form ADV.

The Investment Manager is principally engaged in the business of providing consulting and specialized investment services to financial institutions, other investment companies, investment managers and individuals. It is anticipated that in the future the Investment Manager may also develop, manage and provide consulting services to other of its own proprietary multi-advisor funds.

The Investment Manager is primarily responsible for performing the services set forth in the Investment Management Agreement. Specifically, the Investment Manager is responsible for allocating assets among the various Broker Dealers and monitoring their performance. The Investment Management Agreement also provides that the Investment Manager will be responsible for, among other things, the supervision of the general administration and accounting services required by the Fund in connection with its business and operation.

The Investment Management Agreement provides that the Investment Manager shall not be liable to the Fund or its Shareholders for any error of judgment or for any loss suffered by the Fund or its Shareholders in connection with its services in the absence of gross negligence, willful default, fraud or dishonesty in the performance or non-performance of its obligations or duties. The Investment Management Agreement contains provisions for the indemnification of the Investment Manager by the Fund against liabilities to third parties arising in connection with the performance of its services, except under certain circumstances specified as per the Investment Management Agreement. Notwithstanding any of the foregoing to the contrary, the liability provisions of the Investment Management Agreement shall not be construed so as to relieve (or attempt to relieve) the Investment Manager of any liability to the extent (but only to the extent) that such liability may not be waived, modified or limited under applicable law (including liability under U.S. securities laws which, under certain circumstances, impose liability even on persons acting in good faith), but shall be construed so as to effectuate the provisions of the liability provisions to the fullest extent permitted by law.

The Investment Management Agreement has an initial term expiring on December 31, 2011 and will be automatically renewed for successive one-year periods, subject to termination (i) by either party in the event of the other party's willful default or fraudulent conduct in connection with the performance of such Agreement or (ii) by either party at anytime upon not less than ninety (90) days' prior written notice to the Fund.

The Investment Manager will use its best efforts in connection with the purposes and objectives of the Fund and will devote so much of its time and effort to the affairs of the Fund, as may, in its judgment, be necessary to accomplish the purposes and objectives of the Fund. However, it should be noted that the Investment Manager (or its principals, affiliates, or employees) may conduct any other business, including any business within the securities industry, whether or not such business is in competition with the Fund.

The Investment Manager, its respective affiliates, principals and employees may engage or participate in other activities or ventures, whether or not of the same nature as the Fund. No Shareholder shall be entitled to any profits that the Investment Manager, any of its affiliates, principal or employees shall

derive from any activities or ventures other than those derived from the Fund, whether or not such businesses or ventures are of the same nature as, and/or compete with the Fund. The Investment Manager, its affiliates, principals and employees shall not be prohibited from buying or selling securities for their own account, including securities that are the same as those held by the Fund. As a result of its other activities, the Investment Manager may have conflicts of interest in allocating time, services and functions among the Fund and other business ventures. See "CERTAIN RISK FACTORS."

The following is a brief description of the principal decision-makers of the Investment Manager as it relates to this Fund:

**Sandra L. Manzke** is Chief Executive Officer of MAXAM. Prior to establishing MAXAM in 2005, she was the founder and Co-Chief Executive Officer of Tremont Capital Management, Inc. ("Tremont"). Ms. Manzke established Tremont in October 1984 after serving as a Principal at Rogers, Casey & Barksdale, Inc., from 1976 to 1984. From 1974 to 1976, she worked as an independent consultant at Bernstein Macauley where she was responsible for reviewing the firm's products. She began her career at Scudder Stevens & Clark in 1969.

Ms. Manzke's extensive experience in designing and implementing multi-manager, multi-asset class investment programs includes among many others, one of the first insurance only hedge fund of funds for investment by the segregated accounts of Life Insurance Companies for their variable life products, the Maxima Alpha Strategy Funds, the Bomaral Fund, and Minority Equity Trust. She has broad experience in all aspects of pension fund consulting, manager research, performance measurement, and program administration.

Ms. Manzke was recognized by the 100 Women in Hedge Funds organization as a "Legend in the Hedge Fund Industry." Ms. Manzke holds a Bachelor of Fine Arts degree from Pratt Institute.

**Suzanne S. Hammond** is a Managing Director of MAXAM and is responsible for product design. Prior to joining MAXAM, she was a director and Senior Vice President of Tremont Partners, Inc. and was also Secretary and Treasurer of Tremont and a director of the Tremont subsidiary, Tremont (Bermuda) Limited. Ms. Hammond was responsible for the oversight of Tremont's domestic and offshore proprietary products. Ms. Hammond was also responsible for supervising certain investment clients.

Prior to joining Tremont in 1989, Ms. Hammond spent six years with Rogers, Casey & Barksdale, Inc. as a Senior Analyst responsible for major consulting clients. For five years prior to joining Rogers, Casey, Ms. Hammond served as the liaison representative managing listed Midwestern companies on the New York Stock Exchange, Inc. Prior to that, she worked for three years in the Corporate Banking Division at Morgan Guaranty Trust Company.

Ms. Hammond holds a Bachelor of Arts degree in Russian History/Economics from the University of North Carolina, Chapel Hill and an A.B.A. from Colby Sawyer College of which she is a trustee.

**Joseph A. Soares** joined MAXAM in November 2005, as a Managing Director. He is responsible for several of MAXAM's clients as well as a member of the Investment Committee and ongoing review of the underlying investment managers.

Joseph started his career at Tremont in 1992 as a fund analyst and worked his way up through the ranks to be a Senior Vice President and the Director of Client Service. His department consisted of a staff of 15 and was responsible for client reporting, manager monitoring and all portfolio operations. He was on Tremont's New Product Development Committee and instrumental in helping to design Tremont's



internal Investment Management System, which monitored and tracked their portfolio holdings. Joseph also spent 18 months managing the Tremont (Bermuda) Limited office, where the main focus was fund administration.

Joseph holds Series 7, 63, 24 and 3 Licenses. He has a Bachelor's degree in Economics from the State University of New York at Albany.

**Spottswood P. Dudley** is a Managing Director of MAXAM. He is also the Chief Compliance Officer for MAXAM.

Prior to joining MAXAM, he was the Chairman and CEO of Tremont Life Holdings Ltd. which is a Bermuda holding company owning Tremont International Insurance Ltd. and Tremont Services Ltd. From 1987 until 2001, Spottswood owned and was President of Dudley & Company, Inc., a consulting and insurance brokerage firm. He practiced law from 1975 to 1978 with Kostelantz, Ritholz and Mulderig. From 1978 to 1982, he was a partner in the Firm of Mulderig and Werner. From 1982 to 1986, he was a partner in the successor firm to Mulderig and Werner, Werner and Dudley.

Spottswood is a graduate of Princeton University and the University of Virginia School of Law. He is a member of the Bar in New York, Virginia and the District of Columbia.

### **The Administrator**

The Fund has appointed MAXAM Capital Management Limited to act as the administrator, registrar and transfer agent of the Fund (the "Administrator"). The Administrator serves pursuant to an Administration Agreement with the Fund.

The Administrator will assist the Fund in performing certain day-to-day tasks on behalf of the Fund, including: (i) calculating portfolio valuations using independent pricing sources; (ii) reconciling cash and portfolio positions; (iii) maintaining books and records; (iv) calculating all Fund fees; (v) reconciling general ledger accounts; (vi) preparing periodic financial statements; (vii) coordinating annual audit; (viii) communicating with Shareholders; (ix) communicating with others relating to the Fund; (x) processing subscriptions of new Shareholders; (xi) maintaining the Fund's register of Shareholders; (xii) calculating and disseminating the net asset value each month; (xiii) disbursing distributions with respect to the Shares, legal fees, accounting fees, and officers' and Directors' fees; and (xiv) conducting meetings of Shareholders and Directors.

The Administrator receives, as negotiated from time to time, an administration fee consistent with its customary charges for providing accounting, shareholder record keeping and administrative services to the Fund and is also entitled to be reimbursed for actual out-of-pocket expenses incurred in the performance of its duties. The fees to be received by the Administrator for providing administrative services are based on the net assets of the Fund subject to an annual minimum.

Either party may terminate the Administration Agreement at any time provided that at least ninety (90) days' written notice has been given to the other party.

The Administrator will not, in the absence of negligence, wilful default or fraud on its part or on the part of its directors, officers, employees or delegates, be liable to the Fund or any Shareholder for any act or omission, in the course of, or in connection with, the services rendered by it under the Administration Agreement or for any loss or damage which the Fund may sustain or suffer as the result of, or in the course of, the performance or non-performance by the Administrator or its servants, agent or delegate of its duties under or pursuant to the Administration Agreement.

The Fund will indemnify the Administrator from and against all liabilities, losses, costs or expenses (including reasonable legal and accounting expenses) ("Losses") which may be imposed on, incurred by, or asserted against the Administrator by reason of its performance or non-performance of its obligations or duties hereunder, other than Losses resulting from the negligence, willful default or fraud on the part of the Administrator, or the material breach of this Agreement by the Administrator.

See "FEES AND EXPENSES" herein for a description of the fees payable to the Administrator pursuant to the Administration Agreement.

### **Broker Dealer**

Generally, portfolio transactions for the Master Fund will be cleared through and held in custody at brokerage accounts maintained at the selected Broker Dealers.

The Master Fund may utilize various Broker Dealers to execute, settle and clear securities transactions, however it is likely that only the services of one Broker Dealer will be utilized. In selecting Broker Dealers to effect portfolio transactions, the Investment Manager may also consider such factors as price, the ability of the Broker Dealers to effect transactions as well as the Broker Dealer's facilities, reliability and financial responsibility. Accordingly, if the Investment Manager determines in good faith that the amount of commissions charged by a Broker Dealer is reasonable in relation to the forgoing, the Master Fund may pay commissions to such Broker Dealer in an amount greater than the amount another broker might charge.

## **OFFER, SUBSCRIPTIONS, TRANSFERS AND REDEMPTIONS**

### **Initial Offer**

The minimum initial investment in the Fund by each investor is U.S.\$500,000, subject to the discretion of the Board to reduce such amounts, provided that the Board will not reduce the minimum subscription to below \$50,000 or such other amount specified under Cayman Islands law from time to time. Shares will be issued at an issue price equal to \$1,000 per Share on the date on which the initial offer commences. Thereafter, subsequent Share purchases will be at the prevailing Net Asset Value per Share of the relevant Class.

The Initial Offer of the Shares will commence on July 1, 2006 and will close on the Closing Date, being July 1, 2007 or such earlier or later date as the Directors may in their absolute discretion determine. The Initial Offer is not underwritten or guaranteed by any person or entity.

Applicants for Shares during the Initial Offer should complete the appropriate application form, which is available from the Administrator, and send it to the Administrator so as to be received by the Administrator at least two (2) Business Days before the Subscription Date. Cleared funds in respect of the subscription monies must be received for the account of the Fund at least two (2) Business Days

before the Subscription Date. If the relevant application form and/or subscription monies is/are not received by these times, the application will be held over until the next Subscription Date. The Board has the right to waive these requirements. In the case of Shares purchased other than during the Initial Offer, these will then be issued at the relevant Net Asset Value per Share on that Subscription Date. Once completed applications have been received by the Administrator, they are irrevocable.

The Directors, or the Administrator as their delegate, reserve the right to reject any application in the Initial Offer in full or in part in their absolute discretion.

Any interest earned on subscriptions received prior to the Subscription Date will normally accrue to the benefit of the Fund. In exceptional circumstances, the Directors may, subject to the prior approval of the Administrator, declare such interest to have accrued to the benefit of the investor.

### **Subsequent Offer**

The Shares are available for general subscription to certain qualified investors (as more fully described in the section headed “OFFER, SUBSCRIPTIONS, TRANSFERS AND REDEMPTIONS – Eligible Investors”).

Shares will be available for subscription on each Subscription Date. In the case of Shares issued other than during the Initial Offer, these will be issued at the relevant Net Asset Value per Share as at the immediately preceding Valuation Date. Applicants for Shares must send their completed application forms, which are available from the Administrator, by mail (with a copy by facsimile) so as to be received by the Administrator at least two (2) Business Days before the Subscription Date and cleared funds must be received for the account of the Fund at least two (2) Business Days before the Subscription Date. Failure to do so will cause the application to be held over to the following Subscription Date. In the case of Shares issued other than during the Initial Offer, these will then be issued at the relevant Net Asset Value per Share as of the immediately preceding Valuation Date.

In its exclusive discretion, the Board of Directors may from time to time deem Shares to have been purchased on dates earlier than the date the Fund receives payment for those Shares, but in no event earlier than the last Subscription Date. The Directors may exercise this discretion to facilitate administration of the Fund and to minimize accounting costs in circumstances where funds are received in payment for Shares a short period after a Subscription Date and the performance of the Fund during that period is such that the existing Shareholders will not be materially disadvantaged by the Directors' deeming such payment to have been received on that Subscription Date.

The Fund reserves the right to reject any application in whole or part at its absolute discretion, in which event the amount paid on application or the balance thereof (as the case may be) will be returned as soon as practicable in US Dollars to the account from which it originated, and at the risk and cost of the applicant.

Applications for Shares will not be dealt with and Shares will not be issued until receipt of notification that an applicant's funds have been cleared in the full amount of the subscription. Subject thereto, Shares are deemed to be issued on the relevant Subscription Date.

The Directors reserve the right from time to time to resolve to close any Class to new subscriptions, either for a specified period or until they otherwise determine. During any such period such Shares will not be available for subscription.

Any interest earned on subscriptions received prior to the relevant Subscription Date will normally accrue to the benefit of the Fund. In exceptional circumstances, the Directors may, subject to the prior approval of the Administrator, declare such interest to have accrued to the benefit of the investor.

### **Form of Shares**

All of the Shares are issued in registered form. A Shareholder's entitlement will be evidenced by an entry in the Fund's Register of Shareholders and not by a certificate. A Share may be registered in a single name or in joint names. Where Shares are registered in joint names, a joint holder will be required to authorize the Administrator to act upon the sole written instructions of any one of the joint holders in respect of the transfer or redemption of all or any of those Shares.

The Directors reserve the right to reject any application received during the Subsequent Offer in full or in part in their absolute discretion.

### **Provisions relevant to all applications**

*Cayman Islands Anti Money Laundering Regulations*  
**[Redacted]**

*Other Jurisdictions*

**[Redacted]**

*Confirmation of Ownership and Unsuccessful Applications*  
**[Redacted]**

### **Transfers**

Transfers of Shares are permitted only with the prior consent of the Directors, which consent may be withheld in the absolute discretion of the Directors. Any transferee of Shares is required to furnish the same information that would be required in connection with a direct subscription in order for a transfer application to be considered by the Fund. Violation of applicable ownership and transfer restrictions may result in a compulsory redemption.

### **Redemptions**

*Generally.* A Shareholder may request a redemption of Shares, on at least thirty (30) days' prior written notice to the Administrator, on the last Business Day of each calendar month (the "Redemption Date"), or on a date other than as at the end of a calendar month at the Board's discretion, at a redemption price equal to the Net Asset Value per Share of the relevant Class on such Redemption Date. The Board may waive or shorten such notice period on a case by case basis in its sole discretion. Generally, Shareholders who submit a timely Redemption Notice will receive one hundred percent (100%) of their requested redemption amount within thirty (30) days following the applicable Redemption Date. However, the Board, in its sole discretion, may reserve up to five percent (5%) of the requested redemption amount which will be payable, without interest, within a reasonable time after the completion of the Fund's year-end audit for the year in which the redemption occurred or at such earlier time as the Board determines, in its absolute discretion.

The Directors reserve the right to temporarily suspend or limit redemptions by Shareholders if the

Directors determine, on advice from the Investment Manager, that such redemptions would negatively affect the Fund's financial integrity. The Fund also may withhold a portion of any proceeds of redemption if necessary to comply with applicable legal or regulatory requirements.

#### *Inability to Liquidate*

In circumstances where the Fund is unable to liquidate investments in an orderly manner in order to fund redemptions, or where the value of the assets and liabilities of the Fund cannot reasonably be determined, the Fund may take longer than the time periods mentioned above to effect settlements of redemptions or may even suspend redemptions. In the discretion of the Directors, the Fund may settle redemptions in kind and provide for liquidation using a liquidation trust or similar structure. Any such distributions in kind will not materially prejudice the interests of the remaining shareholders.

#### *Compulsory Redemptions*

The Fund may require the compulsory redemption of Shares for any or no reason. Compulsory redemptions will be made at the relevant Class' Net Asset Value per Share as of the date specified in such notice.

#### *Miscellaneous*

The Administrator will redeem the Shares at the relevant Class' Net Asset Value per Share on the Redemption Date less any applicable charges and expenses referred to herein. Redemption requests may initially be sent by fax, however, Shareholders should be aware of the risks associated with sending documentation in this manner and that the Administrator will not be responsible in the event of non-receipt of any redemption request sent by fax. In any event, the original redemption request must be sent to the Administrator. Redemption payments will be made in U.S. Dollars, unless made in kind (or partially in cash and partially in kind), and will be remitted either by wire transfer to an account designated by the Shareholder at the bank from which the subscription price was paid. Additionally, the Fund may provide for liquidation using a liquidation trust or similar structure. A request for redemption received after 5:00 p.m. Cayman time will be treated as a request for redemption as of the next Business Day.

A request for a partial redemption of Shares may be refused, or the holding may be redeemed in its entirety, if, as a result of such partial redemption, the aggregate Net Asset Value of the Shares retained would be less than US\$50,000 or unless the Directors determine otherwise. Where the aggregate Net Asset Value of the Shares held by a Shareholder has fallen below US\$50,000 as a result of a partial redemption, the Fund will notify the Shareholder in writing and allow such Shareholder thirty (30) days to purchase additional Shares to meet the minimum requirement, unless the Directors determine otherwise.

A redemption request, once given, is irrevocable unless redemptions are suspended or unless the Directors otherwise determine in their sole discretion.

Redemptions will be suspended in any period when there is a suspension of the calculation of the Net Asset Value of the Fund.

## **Eligible Investors**

Investment in the Fund is suitable only for investors or entities that can afford to make high risk investments and that have adequate means of providing for their current needs and contingencies and have no need for liquidity in such an investment.

There is no public market for the Shares now, nor is one expected to develop in the future. The Shares have not been registered under the Securities Act and are being offered in reliance upon the exemption provided in Section 4(2) of the Securities Act and Regulation D thereunder. The Shares have not been registered under the securities laws of any state or other jurisdiction and will not be offered in any state of the United States except pursuant to an exemption from registration. In addition, the Fund is not registered under the U.S. Investment Company Act of 1940, as amended (the "Company Act").

It is the responsibility of each investor to verify that its purchase and payment for the Shares is in compliance with all relevant laws of the investor's jurisdiction or residence.

Each prospective investor will be required to make the representations set forth in the Subscription Agreement annexed and to indemnify the Fund, the Investment Manager, the Administrator and each of their respective directors, officers and employees against any liability, costs and expenses (including, without limitation, reasonable attorneys fees) resulting from a breach of such representations. Appropriate legends may be placed on Share certificates, if any, setting forth restrictions described in this Memorandum.

## **VALUATION**

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### **Valuation**

The Net Asset Value of the Fund means the Fund's assets, at fair value, less liabilities, and any accrued but unpaid expenses. Each Class' Net Asset Value per Share will be calculated by dividing the particular Class' Net Asset Value by the number of that Class' Shares then outstanding. The Fund's Net Asset Value and the Net Asset Value of each Class of Shares are valued, on a trade date basis, as of the end of the last Business Day of each calendar month (the "Valuation Date"). Such determination is made by the Administrator (in consultation with the Investment Manager) acting in good faith as follows:

1. Securities that are listed on a securities exchange (including such securities when traded in the after hours market) shall be valued at their last sales prices on the date of determination on the largest securities exchange on which such securities shall have traded on such date (or, in the event that the date of determination is not a date upon which a securities exchange was open for trading, on the last prior date on which such securities exchange was so open not more than 5 days prior to the date of determination). If no such sales of such securities occurred on either of the foregoing dates, such securities shall be valued at the "bid" price for long positions and "asked" price for short positions on the largest securities exchange on which such securities are traded, on the date of determination, or (or, if the date of determination is not a date upon which such securities exchange was open for trading, on the last prior date on which such a securities exchange was so open not more than 5 days prior to the date of determination). Securities that are not listed on an exchange but are traded over-the-counter shall be valued at representative "bid" quotations if held long by the Fund and representative "asked" quotations if held short by the Fund, unless included in the NASDAQ National

Market System, in which case they shall be valued based upon their last sales prices (if such prices are available).

2. Options that are listed on a securities exchange shall be valued at their last sales prices on the date of determination on the largest securities exchange on which such options shall have traded on such date; provided, that, if the last sales prices of such options do not fall between the last “bid” and “asked” prices for such options on such date, then the Investment Manager (in consultation with the Administrator, who shall calculate such values) shall value such options at the mean between the last “bid” and “asked” prices for such options on such date.
3. Futures contracts and options thereon, which are traded on commodities exchanges, are valued at their settlement value as of the close of such exchanges
4. Securities for which no such market prices are available shall be valued by the Investment Manager, acting in good faith. In valuing such securities, the Investment Manager (in consultation with the Administrator, who shall calculate such values) may, but is not obligated to, use the services of an independent appraiser.
5. In the event the Investment Manager deems any of the foregoing valuation methods to be inadequately representative of an asset's value, the Investment Manager, acting in good faith and a commercially reasonable manner, may assign to such asset an alternate value. Furthermore, all assets of the Fund other than those described in the preceding four (4) paragraphs will be assigned such value as the Investment Manager (or an affiliate), may reasonably determine in good faith. Independent appraisals may be conducted but are not required.
6. Liabilities will be determined using Generally Accepted Accounting Principles.
7. All values assigned to securities and other assets and liabilities by the Investment Manager will be final and conclusive as to all Shareholders.

Notwithstanding the foregoing, if the Directors should determine, after consulting with the Investment Manager, that special circumstances exist whereby the value of any asset or liability of the Fund should be determined in a manner other than as set forth above, the value of such asset or liability shall be the value assigned by the Directors in good faith. In all events, the value of such asset or liability determined by the Directors shall be conclusive and binding on all of the Shareholders and all parties claiming through or under them.

Prospective investors should be aware that situations involving uncertainties as to the valuation of portfolio positions could have an adverse effect on the Net Asset Value if judgments regarding appropriate valuations should prove incorrect. Absent bad faith or manifest error, the Investment Manager's Net Asset Value determinations are conclusive and binding on all Shareholders.

All accrued debts and liabilities are deducted from the value of the Fund's assets in determining the Fund's Net Asset Value and, to the extent possible, from the value of the assets attributable to the Shares in determining the Net Asset Value. These debts and liabilities include (a) fees of the Investment Manager that are earned but not yet paid, (b) monthly amortization of organization costs, (c) any allowance for the Fund's estimated annual audit and legal fees and other operating expenses, and (d) any contingencies for which reserves are determined to be required. Net Asset Valuations are expressed in United States Dollars and any

items denominated in other currencies are translated at prevailing exchange rates as determined by the Investment Manager in consultation with the Administrator.

### **Suspension of Valuation**

The Board may suspend the calculation of the Net Asset Value of the Fund as well as subscription and redemption rights, including the right to receive the redemption price, for Shareholders, during any period when in the opinion of the Board, after consultation with the Investment Manager:

- (i) the disposal by the Fund of assets that constitute a substantial portion of its assets is not feasible; or
- (ii) it is not possible to promptly transfer monies involved in the acquisition, disposition or realization of investments that constitute a material portion of the assets of the Fund at normal rates of exchange; or
- (iii) proceeds of any sale or withdrawal of proceeds cannot be transmitted to or from the Fund's account; or
- (iv) for any reason the prices of any investments that constitute a material portion of the assets of the Fund cannot be reasonably, promptly or accurately ascertained; or
- (v) during any breakdown in the means of communication normally employed in the determining of Net Asset Value or the price or value of any investments held by the Fund or the Master Fund; or
- (iv) any recognized exchange or market in which the Fund's investments are normally dealt or traded is closed (other than customary holiday or weekend closings), or when trading thereon is restricted or suspended; or
- (v) any of the above circumstances apply to the Master Fund.

The Board shall be entitled to rely on advice from any broker dealer, bank, the Investment Manager or the Administrator in connection with any determination to suspend the calculation of the Net Asset Value of the Fund.

No issue or redemption of Shares will take place during any period when the calculation of the Net Asset Value of the Fund is suspended. In such circumstances, the application form or redemption request form may be withdrawn, provided that notice of the withdrawal is received by the Administrator before the suspension is ended. Unless withdrawn, issues or redemptions will be acted upon on the first Subscription Date or Redemption Date after the suspension is ended at the relevant Net Asset Value on the immediately preceding Valuation Date.

### **FEES AND EXPENSES**

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#### **Management Fee**

Under the provisions of the Investment Management Agreement, the Investment Manager receives an annual asset based management fee (the "Management Fee") of one (1%) per annum or an amount equal to approximately 0.083% monthly. The Management Fee will be calculated and paid monthly, in arrears. The Management Fee will be calculated at the Master Fund level and then will be prorated based upon a



Shareholder's actual period of ownership of its Shares at the Master Fund level. Payment of the Management Fee is due as of the last Business Day of each calendar month and is payable by the Master Fund within a reasonable time thereafter.

The Investment Manager reserves the right to waive or reduce the Management Fee with respect to any Shareholder, including, without limitation, its affiliates and/or employees.

No performance based fee is charged by the Investment Manager.

### **Administration Fee**

For its administrative duties the Administrator receives an annual administration fee (the "Administration Fee") that is equal to 0.20% of the Net Asset Value of the Fund. The Administration Fee will be calculated and paid monthly, in arrears on the Net Asset Value of the Fund on the last Business Day of each month. The Administration Fee will be prorated based upon a Shareholder's actual period of ownership of its Shares. Payment of the Administration Fee is due as of the last day of each calendar month and is payable by the Fund within a reasonable time thereafter. The Administrator is entitled to reimbursement of actual out-of-pocket expenses incurred on behalf of the Fund. The Administrator may waive or reduce the Administration Fee with respect to any Shareholder in the Fund, including, but not limited to, its affiliates and employees.

### **Fees Relating to Brokerage**

The Master Fund (and indirectly, the Fund) pays all brokerage fees and commissions. The Investment Manager will seek to obtain rates of compensation with respect to the management of the Fund's assets and liabilities in accordance with its obligation of best execution. The rates, however, are not necessarily the lowest available. The Investment Manager takes into consideration the Broker Dealer's trading strategies, facilities, reliability, execution practices and its trading efficiency in making the determination to pay such rates.

### **Directors' Remuneration**

For their services, the Directors who are not affiliated with the Investment Manager receive a flat annual fee (in accordance with reasonable and customary fees) for serving in such capacity. The Directors will be entitled to be reimbursed for reasonable out of pocket expenses.

### **Organizational Expenses**

The Investment Manager has and will advance organizational costs of the Fund, but is entitled to reimbursement from the Fund for all amounts expended by it on behalf of the Fund in connection with the organization of the Fund. The Fund intends to amortize its organizational costs and expenses over a period of sixty (60) months. If such amortization would result in a qualified opinion, the Board has the right to expense the organizational costs for financial statement purposes and amortize the organizational costs and expenses at the end of the first year following commencement of the Fund when calculating monthly Net Asset Values. The Administrator will provide reconciliation at year-end where the Net Asset Value per Share does not correspond to the financial statements. In the event that the Fund amortizes its expenses and terminates before such expenses are amortized, the unamortized portion of the organizational expenses, may at the absolute discretion of the Board, be accelerated and debited against the Fund's Net Asset Value, thereby decreasing amounts otherwise available for distribution to the Shareholders.

## Ongoing Expenses

The Fund will be responsible for all ongoing costs and expenses associated with its administration and operation. Such costs may include but will not be limited to, the cost of maintaining the Fund's registered office, the Fund's annual government registration fee, brokerage commissions, communications, Directors' fees and expenses, Fund administration and other service providers expenses, its pro rata share of Master Fund costs, insurance premiums (if any) of the Fund and the Investment Manager, printing costs, and all tax, accounting (and audit) and legal fees, and similar ongoing operational expenses of the Fund. Fees and expenses that are identifiable with a particular Class of Shares are charged against that Class in computing its Net Asset Value. Other fees and expenses will be charged to the Fund as a whole or otherwise in the discretion of the Board.

The Investment Manager and any affiliates retained by it will be reimbursed for certain expenses incurred on behalf of the Fund.

## CERTAIN RISK FACTORS

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Prospective investors should give careful consideration to the following risk factors in evaluating the merits and suitability of an investment in the Fund as they relate specifically to Shares or to the Fund in general, as the context requires. The following does not purport to be a comprehensive summary of all of the risks associated with an investment in the Fund. Rather, the following are only certain risks to which the Fund is subject and that the Directors wish to encourage prospective investors to discuss in detail with their professional advisors.

It should be noted that all investments in securities are speculative and subject to risk of loss of capital as does an investment in this Fund.

1. *Limited Operating History.* The Fund and the Investment Manager are recently formed entities and have limited histories upon which investors can evaluate the anticipated performance of the Fund. Employees of the Investment Manager have been managing similar partnerships and funds for several years. However, the past performance of these employees is not an indication of the future success of the Fund.

2. *Achievement of the Fund's Investment Objective.* No assurance can be given that the Fund will achieve its overall investment objective of seeking long term capital appreciation and low volatility. Additionally, the profitability of the Fund's investment program depends on the ability of the Broker Dealer to execute the Broker Dealer's investment strategy and to execute trades. In addition, the Investment Manager will not have direct control of the Fund's assets as they will be held in custody accounts at the Broker Dealer. Given these factors, and the ones set forth in the Memorandum, and due to the fact that an investment in the Fund entails a high degree of risk, there exists a possibility that an investor could suffer a substantial (or even a complete) loss as a result of an investment in the Fund.

3. *Master Fund.* As discussed herein, the Fund will implement its strategy by investing its net assets in the Master Fund. As such, an investment by the Fund in the Master Fund may be affected by an investment by other limited partners in the Master Fund. In view of the fact that all expenses of the Master are shared pro rata among its investors, if other investors in the Master Fund redeem their interests, the possibility exists that the Fund will bear the burden of an increased share of the Master Fund's expenses.

4. *Lack of Management Control by Investors.* Investors will become Shareholders of the Fund. The Shareholders cannot take part in the management or control of the Fund's business, which is the sole responsibility of the Directors (who have delegated certain of these responsibilities to the Investment Manager). The general partner of the Master Fund, in certain circumstances, also has the right to dissolve the Master Fund. The Shareholders do not have such a right. The Shareholders have certain limited voting rights, but do not have any authority or power to act for or bind the Fund. The Directors may require any Shareholder, at any time, to redeem, in whole or in part, its Shares in the Fund.

5. *Illiquidity.* There is no market for the resale of the Shares and accordingly, the Shares may be disposed of only through the redemption procedures, described elsewhere in this Memorandum. The Shares are subject to limited redemption rights. Accordingly, since the Fund does not plan to make any distributions, Shareholders will be required to have sufficient liquid assets, separate from their investment in the Fund, to meet their individual tax obligations. Furthermore, the Fund may be unable to liquidate some of its investments to fund redemptions in a timely manner. Neither the Fund, the Investment Manager, nor each of their affiliates have agreed to purchase or otherwise acquire from any Shareholder any Shares or assume the responsibility for locating prospective purchasers of Shareholders' Shares. Even if a purchaser for a Shareholder's Shares were available, approval of the transfer by the Fund and satisfaction of certain requirements specified in the Articles would be required before any transfer may occur. In addition, the Shares have not been registered under the securities laws of any jurisdiction and the Fund has no plans to, and is under no obligation to, register the Shares under any such law. Accordingly, Shares may not be transferred unless registered under applicable securities laws or unless appropriate exemptions from such laws are available. In light of the restrictions imposed on a transfer of Shares, and in light of the limitations imposed on a Shareholder's ability to redeem his or its Shares, an investment in the Fund should be viewed as illiquid and subject to risk.

6. *Lack of Certain Registration and Regulatory Protection.* The Fund is not registered as an investment company under the Company Act (or any similar legislation in any jurisdiction). Investors, therefore, will not be accorded the protective measures provided by such legislation. The customer accounts established by the Master Fund will be with the selected Broker Dealer and subject to rules imposed on such Broker Dealer, some of which may not always work to the benefit of the Fund. Lastly, the Investment Manager is advised that the Broker Dealer is not registered as an investment adviser under the Advisers Act.

7. *Dependence upon Investment Manager; Dependence on the Broker Dealer.* All decisions with respect to the general management of the Fund's assets will be made by the Investment Manager who has complete authority and discretion in the management and control of the business of the Fund, including the authority to delegate all investment management activities. Shareholders will have no right or power to take part in the management of the Fund, nor in any decision with regard to the allocation of management of the Fund's assets. As a result, the success of the Fund for the foreseeable future will depend largely upon the ability of the Investment Manager, and no person should invest in the Fund unless willing to entrust all aspects of the management of the Fund to the Investment Manager, having evaluated its capability to perform such functions. Shareholders have certain limited rights to consent as set forth in this Memorandum but do not have any authority or power to act for or bind the Fund.

The overall success of the Fund depends upon the ability of the Investment Manager to be successful in selecting Broker Dealers whose trading strategies will prove effective within the broad parameters set between the parties. Therefore, much depends on the ability of the selected Broker Dealer to execute a trading strategy in a manner that generates profits within such broad parameters. The past performance of such strategy is not necessarily indicative of future profitability, nor is the past performance of a Broker Dealer to implement its trading strategy indicative of future profitability. Any

factor which would make it more difficult to execute more timely trades, such as, without limitation, a significant lessening of liquidity in a particular market, changes in taxation or regulation, interest rate changes, would all be detrimental to profitability. Further, the Investment Manager may modify its strategy from time to time in an attempt to evaluate market movements more favorably. As a result of such periodic modifications, it is possible that the strategy used in the future may be different from those presently in use. In addition, it is not known what effect, if any, the size of the Fund's account or the increase in total funds being managed by the Investment Manager will have on the performance of the Fund.

8. *Limited Liability.* No Shareholder will be liable for the losses or debts of the Fund beyond that Shareholder's Shares, nor may any Shareholder be assessed or otherwise required to contribute additional capital, provided that the Shareholder does not enter into any contract on behalf of the Fund or bind the Fund in any way or permit his name to be used in the name of the Fund.

9. *Conflicts of Interest.* Conflicts of interest between the Fund on the one hand, and the Investment Manager and/or its officers and directors on the other hand, may raise issues discussed in "POTENTIAL CONFLICTS OF INTEREST" below.

10. *Early Termination.* In the event of the early termination of the Fund, the Fund would have to distribute to the Shareholders *pro rata* to their shareholdings in the assets of the Fund. Certain assets held by the Fund may be highly illiquid and might have little or no marketable value. In addition, the securities held in the various brokerage accounts for the Fund would have to be sold by the Fund or distributed to the Shareholders. It is possible that at the time of such sale or distribution certain securities held by the Fund would be worth less than the initial cost of such securities, resulting in a loss to the Shareholders.

11. *Effects of Substantial Redemptions.* Substantial redemptions by Shareholders within a short period of time could require the Investment Manager to arrange for the Fund's positions to be liquidated more rapidly than would otherwise be desirable, which could adversely affect the value of the remaining Shares. In addition, regardless of the period of time in which withdrawals occur, the resulting reduction in the Fund's assets could make it more difficult to generate a positive rate of return or recoup losses due to a reduced equity base.

12. *Current Income.* The Fund's investment policies should be considered speculative, as there can be no assurance that the Investment Manager's assessments of the short-term or long-term prospects of investments will generate a profit. In view of the fact that the Fund will likely not pay dividends, an investment in the Fund is not suitable for investors seeking current income for financial or tax planning purposes.

13. *Market Risks.* Securities of the kind proposed to be invested in by the Fund and their issuers are affected by, among other things: changing supply and demand, governmental laws, regulations and enforcement activities, trade, fiscal and monetary programs and policies; and national and international political and economic developments. The effect of such factors on the prices of securities in general, or a particular security, is difficult to predict and there can be no assurance that the investment objective will be met.

14. *Pricing Information.* While pricing information is generally available for securities in which the Fund invests, reliable pricing information may at times not be available from any source. Prices quoted by different sources are subject to variation. For the purposes of valuing such investments, valuations of investments for which pricing information cannot be obtained are made by the Investment Manager based upon such information as is available. The Investment Manager may rely upon appropriate pricing services

and shall not, in the absence of gross negligence or willful default be liable for any loss suffered by the Fund or any Shareholder by reason of any error in calculation resulting from any inaccuracy in the information provided by any pricing service.

15. *Special Techniques Used by the Broker Dealers.* The Broker Dealers use special investment techniques that may subject the Fund's investments to certain risks. Certain, but not all, of these techniques and the risks that they entail are summarized below. The Fund, in any event, is not designed to correlate to the broad equity market, and should not be viewed as a substitute for equity investments.

- (a) *Risks of Market Illiquidity.* Despite the heavy volume of trading in securities, the markets for some securities have limited liquidity and depth. The lack of depth could be a disadvantage to the Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices.
- (b) *Risks of Options Trading.* In seeking to enhance performance or hedge assets, the put and call options on stock indexes may be used. A stock index measures the movement of a certain group of stocks by assigning relative values to the common stocks included in the index. Examples of well-known stock indexes are the Standard & Poor's Composite Index of 500 Stocks and the Standard & Poor's 100 Index. Both the purchasing and the selling of call and put options contain risks. Although an option buyer's risk is limited to the amount of the purchase price of the option, an investment in an option may be subject to greater fluctuation than an investment in the underlying securities. In theory, the exposure to loss is potentially unlimited in the case of an uncovered call writer (i.e. a call writer who does not have and maintain during the term of the call an equivalent long position in the stock or other security underlying the call), but in practice the loss is limited by the term of existence of the call. The risk for a writer of an uncovered put option (i.e., a put option written by a writer that does not have and maintain an offsetting short position in the underlying stock or other security) is that the price of the underlying security may fall below the exercise price. The effectiveness of purchasing or selling stock index options as a hedging technique will depend upon the extent to which price movements in assets that are hedged correlate with price movements of the stock index selected. Because the value of an index option depends upon movement in the level of the index rather than the price of a particular stock, whether a gain or loss will be realized from the purchase or writing of options on an index depends upon movements in the level of stock prices in the stock market generally, rather than movements in the price of a particular stock. Successful use of options on stock indexes will depend upon the ability of a Broker Dealer to predict correctly movements in the direction of the stock market generally. This ability requires skills and techniques different from those used in predicting changes in the price of individual stocks.
- (c) *Risks of Over-the-Counter Options Trading.* Trading equity and options in the over-the-counter market is subject to counterparty risk and is without the protection afforded with respect to options transactions on regulated exchanges through the Options Clearing Corporation.
- (d) *Risks of Loss of Entire Options Investment.* An option is a wasting asset. Its value is reduced as its life shortens, and it becomes worthless upon expiry. As a consequence,

an option buyer that does not sell an option in the secondary market prior to expiry nor exercises an option prior to expiry loses his entire investment in the option.

- (e) *Risks of Assignment of Options.* In the event a short option position is assigned by its buyer, a hedged options position becomes net long or net short. Although the remaining portion of the previously hedged position may be liquidated or otherwise adjusted to limit exposure to price changes, substantial losses may result if, for instance, a trading halt occurs in the remaining options position (either in the option or the underlying security) followed by a price gap at the reopening of trading.
- (f) *Risks of Prohibition of Exercise Rights.* The options markets have the authority to prohibit the exercise of particular options. If a prohibition on exercise is imposed at a time when trading in the option is halted, holders and writers of that option will be locked into their position until one of the two restrictions is lifted.

16. *Concentration of Investment in Particular Industries or Companies.* The Fund has no requirements for diversification other than as described under “INVESTMENT OBJECTIVE AND POLICY- Investment Restrictions.”

17. *Type of Securities in which the Fund May Invest.* As set out in this Memorandum and as generally authorized by the Memorandum and Articles of Association, the Fund may invest in securities and other business interests of any and all types and descriptions, including “restricted” securities. Notwithstanding the foregoing, the Fund will not invest in real estate and hard commodities.

18. *Use of Leverage.* The Investment Manager has the authority to borrow money in order to fund redemption requests. There are no restrictions on the Fund's borrowing capacity other than limitations imposed by lenders and any applicable credit regulations.

19. *Making of Loans.* The Fund may not make loans.

20. *Underwriting of Securities and Other Issuers.* The Fund will not underwrite securities of other issuers in connection with the distribution of securities.

21. *Policy with respect to Portfolio Turnover.* The Fund has no definite policy with respect to portfolio turnover. The Fund may incur a significant turnover rate, since the Fund's investment strategies sometimes may involve short-term considerations.

22. *Possibility of Fraud or Misappropriation.* The Fund's assets are not held by an independent custodian. Such actual custody rests with the Broker Dealers. Therefore, there is the risk a Broker Dealer could abscond with those assets or that such assets could be otherwise misappropriated. Lastly, the Broker Dealer could become insolvent and unable to meet its obligations when they become due or may become subject to regulatory constraints, in which events the investors would be adversely affected. In addition, information supplied by the Broker Dealer may be inaccurate or even fraudulent. The Investment Manager is entitled to rely on such information (provided it does so in good faith) and is not required to undertake any due diligence to confirm the accuracy thereof.

23. *Certain Conflicts of Interest.* An investment in the Fund constitutes the acceptance and acknowledgement of certain conflicts of interest (See “POTENTIAL CONFLICTS OF INTEREST”). Each Broker Dealer has the responsibility for making execution decisions on behalf of the Fund as to the time and price. In this regard, there may be competition with other accounts of each Broker Dealer that

could make it difficult or impossible to take or liquidate a position in a particular security at a price or in a profitable manner.

24. *Administrator Not Independent.* The Administrator is also the Investment Manager. As such, the Administrator will not provide the independent oversight that otherwise might be provided by a wholly independent administrator.

25. *Anti-Money Laundering.* If the Investment Manager, the Administrator, the Broker Dealers or any governmental agency believes that the Fund has accepted subscriptions for Shares by, or is otherwise holding assets of, any person or entity that is acting directly or indirectly, in violation of a U.S., international or other anti-money laundering laws, rules, regulations, treaties or other restrictions, or on behalf of any suspected terrorist or terrorist organization, suspected drug trafficker, or senior foreign political figure(s) suspected in engaging in foreign corruption, the Directors, in consultation with the Investment Manager, the Broker Dealers, or such governmental agency may freeze the assets of such person or entity invested in the Fund or suspend their rights. The Fund may also be required to remit or transfer those assets to a governmental agency.

26. *Reserve for Contingent Liabilities.* Under certain circumstances, the Fund may find it necessary to establish a reserve for contingent liabilities or withhold a portion of the Shareholder's settlement proceeds at the time of redemption, in which case, the reserved portion would remain at the risk of the Fund's activities.

27. *Valuations.* Profits and losses are allocated to the partners of the Master Fund including the Fund for each accounting period (as such term is used in the Master Fund's Confidential Private Placement Memorandum), which may end at times other than the end of the Master Fund's fiscal and tax year. Such allocations are based on the value of the assets at the time. Where such values are established by trading on an active securities market or the equivalent, the general partner of the Master Fund (the "General Partner"), or a party designated by the General Partner, will use those values in allocating the profits and losses. In other cases, the General Partner, or the party designated by the General Partner, will exercise its best judgment as to value, based on all the facts known to it at the time.

28. *Cross-Class Liability.* Although the Memorandum and Articles of Association of the Fund require the Fund to segregate the assets of each Class in its books, and to allocate the liabilities of the Fund among those Classes, so that the assets of one Class are not available to satisfy the liabilities of another, this arrangement is binding only as between the Shareholders of the Fund amongst themselves, and as between the Shareholders and the Fund itself. It is not binding on outside creditors of the Fund, who deal with the Fund as a corporate whole. Accordingly, where indebtedness is incurred for the account of one Class, and a creditor obtains judgement against the Fund for that debt, any assets of the Fund, regardless of Class, would be available to satisfy that judgement. This will be the case in respect of any outside creditor, unless that outside creditor agrees to limit his recourse to the Class concerned. As of the date of this Memorandum, the Directors are not aware of any existing or contingent liability.

29. *Changes in Applicable Law.* The Fund must comply with various legal requirements, including requirements imposed by the Federal securities laws, tax laws and pension laws. Should any of those laws change over the scheduled term of the Fund, the legal requirements to which the Fund and the Shareholders may be subject could differ materially from current requirements.

THE FOREGOING LIST OF "RISK FACTORS" DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN AN INVESTMENT IN THE FUND. PROSPECTIVE INVESTORS SHOULD READ THE ENTIRE INFORMATION

MEMORANDUM AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO INVEST.

## **POTENTIAL CONFLICTS OF INTEREST**

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Due to the operations which are or may be undertaken by the Administrator, the Directors, the Investment Manager and their respective holding companies, subsidiaries and affiliates (each an “interested party”) conflicts of interest may arise.

The Administrator, the Directors and the Investment Manager may provide similar services to others provided that the services they provide to the Fund are not impaired thereby. An interested party may acquire or dispose of any investment notwithstanding that the same or similar investments may be owned by or for the account of or otherwise connected with the Fund. Furthermore, an interested party may acquire, hold or dispose of investments notwithstanding that such investments had been acquired or disposed of by or on behalf of the Fund by virtue of a transaction effected by the Fund in which the interested party was concerned provided that the acquisition or disposal by an interested party of such investments is effected on normal commercial terms as if negotiated on an arm’s length basis and the investments held by the Fund are acquired on the best terms reasonably obtainable having regard to the interests of the Fund.

The Investment Manager has agreed that in rendering services to any other accounts other than those of the Fund which it may have at present or in the future, it will use its best efforts to achieve equitable treatment for all accounts. In particular, the Investment Manager will ensure that investment allocations as between all accounts will be made in a manner that is fair and does not prejudice the interests of the Fund.

Should a conflict of interest arise in relation to the Fund, the Fund will endeavour to ensure that it is resolved fairly.

### **Certain Investment Manager Activities**

The Investment Manager performs advisory services and consulting services for its own account and for others, or may so do in the future, including for other investment funds similar in nature to the Fund and for other accounts. Also, the Investment Manager and/or its affiliates and/or employees may from time to time, have an interest, direct or indirect, in a security whose purchase or sale is recommended or which is purchased, sold or otherwise traded for the Fund. As a result, the Investment Manager may sell or recommend the sale of a particular security for certain accounts including accounts in which it has an interest and it or others may buy or recommend the purchase of such security for other accounts, including accounts in which it has an interest and, accordingly, transactions in particular accounts may not be consistent with transactions in other accounts or with the Investment Manager’s investment recommendations. For example, the Investment Manager may recommend that the Fund sell a security, while not recommending such sale for other accounts in order to enable the Fund to have sufficient liquidity to honor Shareholders’ redemption requests. Where there is a limited supply of investments, the Investment Manager will ensure reasonable efforts to allocate or rotate investment opportunities on a fair and equitable basis, but the Investment Manager cannot assure absolute equality among all accounts and clients. From time to time the Fund may buy (or sell) securities, which are being sold (or bought) for other managed accounts.

The Investment Manager and its affiliates may engage in other business ventures. In managing the operations of more than one entity, conflicts of interest may arise with respect to allocating time, personnel and other resources. The decision makers will devote such time to the affairs of the Fund, as they, in their sole discretion, deem necessary.



## **Administrator**

The Administrator and the Investment Manager are the same entity. As a result, the Administrator will not act as a source of independent oversight with respect to the Fund and/or the Investment Manager as might otherwise be the case where the Administrator is wholly independent of the Investment Manager.

## **Common Counsel**

The law firms of Tannenbaum Helpert Syracuse & Hirschtritt LLP and Walkers serve as counsel to the Fund and the Investment Manager and, together or individually, may serve as counsel to other investment funds sponsored or managed by the Investment Manager or its affiliates. Should a future dispute arise between the Fund and the Investment Manager, separate counsel may be retained as circumstances then dictate. Counsel to the Fund do not represent the Shareholders. Potential investors should seek independent legal counsel before making an investment in the Fund.

## **SPECIAL INFORMATION REGARDING THE MASTER FUND/FEEDER FUND INVESTMENT STRUCTURE**

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The Fund will seek to achieve its investment objective by investing all or part of its assets in an interest in a centralized company, commonly known as a “Master Fund,” which is a separate investment vehicle but with an investment objective identical to that of the Fund. Therefore, the Fund’s interest in the securities owned by the Master Fund is indirect. In such arrangement, the Fund is often referred to as a “Feeder Fund.” In addition to selling an interest to the Fund, the Master Fund may sell interests to other affiliated and non-affiliated investment companies or institutional investors (*i.e.*, other feeder funds). Such investors will invest in the Master Fund on the same terms and conditions and will pay a proportionate share of the Master Fund’s expenses. However, the other investors investing in the Master Fund are not required to sell their Interests at the same offering price as the Fund due to variations in sales commissions and other operating expenses. Therefore, investors in the Fund should be aware that these differences may result in differences in returns experienced by investors in the different funds that invest in the Master Fund. The Investment Manager has considered the advantages and disadvantages of investing the assets of the Fund in the Master Fund, as well as the advantages and disadvantages of the Master Fund/Feeder Fund format.

To the extent the Fund’s capital is invested in a Master Fund, any or all of the fees and expenses payable or allocable by the Fund, including, without limitation, the Investment Management Fee and the Administration Fee, will be paid or allocated (as the case may be) by the Fund or the Master Fund, but will not be duplicated (other than fees and expenses incurred by both the Fund and the Master Fund, such as, without limitation, professional, legal and auditing fees).

Limited Partners with smaller investments in the Master Fund (if any) may be adversely affected by the actions of certain limited partners with more significant investment in the Master Fund. For example, if a limited partner with a significant investment in the Master Fund redeems a significant amount of assets from the Master Fund, the remaining limited partners in the Master Fund may experience higher pro rata operating expenses, thereby producing lower returns.

Redemptions could result in a distribution “in kind” of Master Fund assets (as opposed to a cash distribution from the Master Fund). In addition, the distribution in kind may result in a less diversified portfolio of investments and could adversely affect the liquidity of the Fund.

## TAXATION

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### Introduction

This summary of the principal tax consequences applicable to the Fund and its Shareholders is based upon advice received from the Fund's Cayman Islands and U.S. legal and tax advisers. Moreover, while this summary is considered to be a correct interpretation of existing laws in force on the date of this Memorandum, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with such interpretation or that changes in such laws will not occur.

THIS SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING UNITED STATES FEDERAL TAX PENALTIES. THIS SUMMARY WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN, AND ANY TAXPAYER TO WHOM THE TRANSACTIONS OR MATTERS ARE BEING PROMOTED, MARKETED OR RECOMMENDED SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### The Fund

*Cayman Islands Taxation.* On the basis of present legislation, the Fund is not subject to taxation in the Cayman Islands. There are currently no Cayman Islands corporation, income, capital gains, profits or other taxes. The Fund's only Cayman Islands regulatory liability is to pay the applicable Cayman Islands annual registration fee payable to the Cayman Islands government under the Companies Law, as amended, of the Cayman Islands which is currently approximately U.S.\$804 and an annual registration fee payable in respect of the registration of the Fund under the Mutual Funds Law.

The Fund has applied for and expects to receive from the Governor-in-Cabinet of the Cayman Islands an undertaking under section 6 of the Tax Concessions Law, as amended, that for a period of twenty (20) years from the date of the undertaking: (a) no law that is thereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation will apply to the Fund or its operations; and (b) no such tax in the nature of an estate, duty or inheritance tax will be payable on the Shares, debentures or other obligations of the Fund or by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law, as amended.

*US Federal Income Taxation.* The Fund has been advised that it should not be subject to U.S. Federal income taxes on income or gains from its trading (except in respect of any dividends received in the course of such trading) provided that it does not engage in a trade or business within the U.S. to which such income or gains are effectively connected. Pursuant to a safe harbor under the United States Internal Revenue Code of 1986, as amended, a non-U.S. corporation which trades stock or securities or commodities for its own account should not be treated as engaged in a trade or business within the U.S. provided that the non-U.S. corporation is not a dealer in stock or securities or commodities. The Fund intends to conduct its business in a manner so as to meet the requirements of this safe harbor. If the activities of the Fund are not covered by the foregoing safe harbor, there is a risk that the Fund (but not any investor) will be required to file a U.S. federal income tax return for such year and pay tax at full U.S. corporate income tax rates as well as an additional thirty percent (30%) branch profits tax.

The Fund should not be subject to U.S. federal income or withholding tax on U.S. source interest income (other than in the case of certain contingent interest or interest received from a borrower ten percent (10%) or

more of the equity of which is owned by the Fund, neither of which the Fund anticipates receiving) provided that the Fund is not engaged in a trade or business within the U.S. to which such interest income is effectively connected, and provided that the Fund's interest-bearing securities qualify as registered obligations and that the Fund periodically supplies an Internal Revenue Service Form W-8BEN or its equivalent.

*Changes in Law.* All laws, including laws relating to taxation in the Cayman Islands, the United States and other jurisdictions are subject to change without notice.

### **Shareholders of the Fund**

Shareholders who are not otherwise subject to Cayman Islands or United States taxes by reason of their residence, domicile or other particular circumstances should not become subject to any such taxes by reason of the ownership, transfer or redemption of the Shares.

### **MATERIAL CONTRACTS**

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The following contracts, not being contracts entered into in the ordinary course of business, have been entered into since the incorporation of the Fund and are, or may be, material.

1. The Investment Management Agreement
2. The Administration Agreement
3. The Customer Account Agreement

### **THE FUND**

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#### **General**

The Fund was incorporated under the Companies Laws (as amended) of the Cayman Islands on June 5, 2006 as an exempted company with limited liability.

Paragraph 3 of the Fund's Memorandum of Association states that the Fund's principal objects are unrestricted (except as prohibited by law).

The Directors are given authority to effect the issue of Shares as provided for in the Articles of Association of the Fund.

#### **Share Capital**

The share capital of the Fund is US\$100,000.00 divided into 10,000,000 unclassified Shares of U.S.\$0.01 par value each. The Directors have the power to issue different classes of Shares on different terms other than the Class A Shares offered herein.

Each of the outstanding Shares of a Class participates ratably with all other outstanding Shares of the same Class in the Fund's fees, expenses, assets and earnings. There are no outstanding options relating to any shares, nor has it been agreed conditionally or unconditionally to put shares under option. Subject to the provisions herein, the Fund, in its sole discretion, may issue additional Classes of shares without notice to, or the consent of, the Shareholders.

Each share has equal dividend, distribution and liquidation rights, and following the Initial Offering Period, shares are subscribed for and redeemed in accordance with the Net Asset Value of the shares of

the relevant Class and, on a solvent winding up, surplus assets attributable to such Shares will be distributed to the holders of such shares.

*General.* The Fund may by ordinary resolution of the Shareholders increase its authorized share capital, consolidate and divide all or any of its share capital into shares of a larger amount or sub-divide its Shares or any of them into shares of a smaller amount. The Fund may, by special resolution of the Shareholders, reduce its authorized share capital.

Shares will be issued in registered form and will not be freely transferable. Fractions of Shares may be issued.

Save as disclosed above:

- (a) no Shares have been issued or agreed to be issued for cash or other consideration and no such Shares are now proposed to be issued other than under the terms of the offer as described herein; and
- (b) no Shares or any other capital of the Fund are under option or agreed conditionally or unconditionally to be put under option.

No pre-emption rights exist in respect of the Shares, either under Cayman Islands law, under the Articles of Association or otherwise.

### **Rights of Shares**

Shareholders shall be entitled to dividends in proportion to the assets attributable to that share Class and on a pro rata basis within that Class, in the event that any are declared (see the section headed “Dividend Policy”). In the event of the liquidation of the Fund, Shareholders are entitled to the return of capital as more fully described in the section headed “Winding up” below.

### **Variation of Class Rights**

The special rights attached to each Class of share may from time to time (whether or not the Fund is being liquidated) be materially varied or abrogated with the consent in writing of the holders of not less than two-thirds of the issued shares of that class, or with the sanction of a resolution passed by a majority of two-thirds of the votes cast at a separate meeting of the holders of the shares of that class.

To every such separate meeting all the provisions of the Articles of Association as to the general meetings of the Fund shall apply, *mutatis mutandis*, except that the necessary quorum at any such meeting will be one or more persons holding or representing by proxy at least one third of the issued shares of that class. If a quorum is not present within thirty minutes from the time appointed for a meeting, those holders of shares of the relevant class present will form a quorum. The rights attached to the shares of any Class shall not be deemed materially adversely varied or abrogated by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them, the redemption or repurchase of any shares, by the passing of any Directors’ resolution to change or vary any investment objective, investment technique and strategy and/or investment policy in relation to a Class or any modification of the fees payable to any service provider to the Fund.

Subject to the provisions herein, the Fund, in its sole discretion, may issue additional Classes of Shares without notice to, or the consent of, Shareholders.

## **Further Issues of Shares**

The Fund may, by resolution of the Board, at any time decide to offer further voting or non-voting shares up to the amount of authorized share capital and, without prejudice to any special rights previously conferred on the holders of existing Shares, to allot, issue, grant options over or otherwise dispose of the Shares or any other Classes of Shares (including fractions of shares) with or without preferred, deferred or other special rights or restrictions, whether with regard to dividend, voting or otherwise and to such persons, at such times and on such other terms as the Board will think proper, but not in a manner to reduce the financial rights of Shareholders without their consent.

## **Alterations to the Fund's Share Capital**

The Fund may, by an ordinary resolution of the Shareholders, (*i.e.*, a simple majority of those Shareholders present and entitled to vote, who do vote in favor of the resolution) increase its authorized share capital. By a special resolution of the Shareholders (*i.e.*, a resolution passed by a two-thirds (2/3rds) majority of those persons present and entitled to vote thereon) the Fund may reduce its authorized share capital subject to confirmation by the courts of the Cayman Islands.

## **Share Premium Account**

The initial offer price of U.S. \$1000 per Share of Class A Shares represents a par value of U.S.\$0.01 and a share premium of U.S.\$999.99 (the "Share Premium"). The Share Premium received by way of subscriptions for Shares will be credited to the Fund's Share Premium account and will be included in the Net Asset Value. The Share Premium account may be used in any manner allowed under the Companies Law.

## **Voting and Other Rights**

Subject to any rights or restrictions for the time being attached to any Class or Classes of Shares, every Shareholder present in person or by proxy and entitled to vote at any general meeting of the Fund's Shareholders or at any meeting of any Class of the Fund's Shareholders, will have one (1) vote on a show of hands. On a poll, every Shareholder entitled to vote will have one (1) vote for each Share of which it is the holder. On a poll, a Shareholder entitled to more than one (1) vote need not use any or all of its votes or cast all of the votes it uses in the same way. General meetings of the Fund's Shareholders may, but need not, be held annually to approve the selection of auditors and attend to such other business as may properly be placed before such a meeting. Shareholders will receive at least ten (10) days' notice of any Shareholders' meeting and will be entitled to vote their shares either personally or by proxy. If the form of proxy sent with the notice of meeting is not completed and returned prior to the meeting and the Shareholder does not appear personally at such meeting, such Shareholder's shares will be voted in the discretion of the proxy and the attorney-in-fact designated in the Subscription Agreement executed by such Shareholder.

## **Proxy Voting Policies and Procedures**

The SEC adopted Rule 206(4)-6 under the Advisers Act which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, the Investment Manager has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions relating to investments by the Fund in a manner that serves the best interests of the Fund, determined by the Investment Manager in its discretion, taking into account the following factors: (i) the impact on the value of the returns of the Fund;

(ii) the attraction of additional capital to the Fund; (iii) the alignment of the interests of the Fund's management with the interests of the Fund's beneficial owners, including establishing appropriate incentives for the Fund's management; (iv) the costs associated with the proxy; (v) the impact on redemption or withdrawal rights; (vi) the continued or increased availability of portfolio information; and (vii) industry and business practices. The proxy voting policies and procedures also address how the Investment Manager will vote proxies with regard to specific matters, such as voting rights, termination or liquidation of the issuers in which the Fund will invest, approval of board members or advisors and other issues. Shareholders may request a copy of the proxy voting policies and procedures and the proxy voting record relating to the Fund by contacting the Investment Manager.

### **Amendment of Articles of Association**

Subject as provided herein, the Articles of Association of the Fund may only be altered or amended by the passing of a special resolution of the Shareholders to that effect.

### **Directors**

The Articles of Association contain provisions relating to Directors as follows:

- (a) a Director may hold any other office or place of profit under the Fund (other than the office of auditor) in conjunction with his office of Director on such terms as to tenure of office and otherwise as the Directors may determine;
- (b) a Director may not vote in respect of any contract in which he is materially interested unless he first discloses his interest to the Board of Directors. He shall not be disqualified by his office from contracting with the Fund. If a Director declares his interest in any contract which the Fund is considering entering into, he may be counted in the quorum of any meeting to consider the contract and may vote on any resolution to enter into such contract;
- (c) the Directors may be reimbursed for travel, hotel and other expenses incurred by them in attending meetings of the Directors or in connection with the business of the Fund. Any Director who devotes special attention to the business of the Fund may be paid such extra remuneration as the Directors may determine. Directors' remuneration will be paid annually in arrears;
- (d) there is no provision for the retirement of Directors on their attaining a certain age and the Articles of Association do not provide for retirement of Directors by rotation;
- (e) the Directors are authorized under the Articles of Association of the Fund to exercise all powers of the Fund to borrow money; and
- (f) at the date of this Memorandum, no Director nor any connected person has any interest, beneficial or non-beneficial, in the Shares of the Fund nor any options in respect of such Shares nor in any agreement or arrangement with the Fund.

No Director has any direct or indirect interest in any contract or arrangement which was either unusual in its nature or significant to the business of the Fund in the current financial year and remains outstanding.

### **Winding up**

The Fund will be wound up in accordance with the Companies Law (as amended) of the Cayman Islands

and with the Articles of Association of the Fund.

The Fund will be wound up on the passing of a special resolution by a majority of two-thirds of the votes cast at a meeting of the holders of all of the voting Shares in issue as of the date of that meeting.

As soon as practicable after the Fund is wound up the liquidator of the Fund will realize all assets of the Fund and, after paying all liabilities and costs, distribute the proceeds of the realization, to the holders of Shares of each Class *pari passu* according to the Net Asset Value of such Shares.

## **GENERAL INFORMATION**

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### **Reports**

The fiscal year end of the Fund is December 31 in each year. Audited annual accounts and reports for the Fund, which will be prepared in accordance with U.S. General Accounting Principals, will be sent to Shareholders upon their completion. The Administrator will communicate the Fund's Net Asset Value of the Shares to Shareholders on a monthly basis.

### **Miscellaneous**

As at the date of this Memorandum:

- (a) there are no outstanding debt securities or warrants created or issued by the Fund;
- (b) since incorporation and establishment, the Fund has not been engaged in any litigation or arbitration and no litigation or claim is known to the Directors to be pending or threatened against it which may have a significant effect on the Fund or its financial position;
- (c) the Fund has not commenced business, no accounts have been made up and no dividends have been declared;
- (d) there are no existing or proposed Directors' service contracts; and
- (e) the Fund does not have any loan capital (including term loans) outstanding or created but unissued and any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, guarantees or other contingent liabilities.