

Application was made to the Bermuda Stock Exchange for the Class "A" Shares (the "Shares") to be issued in the Russian Federation First Mercantile Fund Ltd. (the "Fund") to be admitted to the Official List of the Bermuda Stock Exchange. It is anticipated that listing approval will be granted on or around 25 January 2002. No application has been made to list the Shares on any other stock exchange.

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P R O S P E C T U S

relating to the issue of Class "A" USD and Euro shares in

R U S S I A N F E D E R A T I O N F I R S T M E R C A N T I L E F U N D L T D

at an initial subscription price of US\$10 and Euro10 per share
on

The Official List of

The Bermuda Stock Exchange

Only the information contained herein should be regarded as authorised by
or on behalf of Russian Federation First Mercantile Fund Ltd

1 July 2006

Listing Sponsor

Apex Fund Services Limited

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Russian Federation First Mercantile Fund Ltd

Permission under the Exchange Control Act 1972 (and regulations thereunder) has been received from the Bermuda Monetary Authority (the "Authority") to start Russian Federation First Mercantile Fund Ltd ("the Fund") in Bermuda.

Approvals or permissions received from the Authority do not constitute a guarantee by the Authority as to the performance of the Fund or its creditworthiness. Furthermore, in giving such approvals or permissions, the Authority shall not be liable for the performance or default of the Fund or for the correctness of any opinions or statements expressed. In addition, a copy of this Prospectus has been delivered to the Registrar of Companies in Bermuda for filing pursuant to the Companies Act 1981 of Bermuda. In accepting this document for filing, the Registrar of Companies in Bermuda accepts no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed with regard to them.

The Shares are offered on the basis of the information and representations contained in the Prospectus and any further information given or representations made by any person may not be considered as being authorised by the Fund or its Directors. Neither the delivery of this Prospectus nor the offer, allotment or issue of Shares constitute a representation that every item of information contained herein is correct subsequent to the date of this Prospectus.

The Directors of the Fund have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts, the omission of which would make misleading any statement herein, whether of fact or opinion. All the Directors accept responsibility accordingly.

It is not intended that the Fund will be registered or licensed in any jurisdiction or with any supervisory or regulatory authority outside Bermuda.

It is anticipated that the Class "A" Shares of the Fund will be quoted on the Bermuda Stock Exchange from 25 January 2002.

The circulation and distribution of this Prospectus in certain countries is restricted by law. Persons into whose possession this Prospectus may come are required to inform themselves of and to observe any such restrictions.

The Fund has been classified as a Bermuda Standard Scheme. As such, the Fund is subject to regulation and supervision as provided for in The Bermuda Monetary Authority (Collective Investment Scheme Classification) Regulation 1998. However, the Fund should be viewed as an investment suitable only for investors who can fully evaluate and bear the risks involved.

Neither the admission of the Shares to the Official List of The Bermuda Stock Exchange nor the approval of the Prospectus pursuant to the Listing Requirements of the Bermuda Stock Exchange shall constitute a warranty or representation by the Bermuda Stock Exchange as to the competence of service providers to, or any other party connected with, the Fund, the adequacy of information contained in the Prospectus or the suitability of the Fund for investment purposes.

This Prospectus includes particulars given in compliance with the Listing Regulations of the Bermuda Stock Exchange for the purpose of giving information with regard to the mutual fund. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Shares have not been and will not be registered under the United States Securities Act of 1933 and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America or to or for the benefit of a United States person. For this purpose, United States person means any national or resident of the United States of America (including any corporation, partnership or other entity organised in or under the laws of the United States of America or any political subdivision thereof) or an estate or trust which is subject to United States federal income taxation regardless of its source of income. As used herein 'United States of America' means the United States of America, its territories and possessions and all areas subject to its jurisdiction.

This Prospectus does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

This Prospectus should be read in its entirety and is published in connection with the continuous offering of Shares in the Fund, which are offered subject to the terms and conditions which are set out herein.

Any reference to "U.S.\$", "U.S. Dollars" or "dollars" contained herein shall refer to the currency of the United States of America.

If you are in doubt about this offer you should consult a stockbroker, licensed dealer, bank manager, solicitor or other professional advisor.

The date of this Prospectus is 1 July 2006.

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ORGANISATION STRUCTURE AND AIMS

THE FUND

The Fund has an authorised capital of US\$12,000 divided into 100 common shares of US\$1.00 par value each and 11,900,000 non-voting redeemable preference shares of US\$.001 par value each (see “Authorised Capital” on page 25). The Fund was incorporated in Guernsey Channel Islands on 3 November 1997 and continued into Bermuda on 4 October 2000 as an open-ended mutual fund company and can, therefore, issue and redeem and reissue its own shares at prices based on Net Asset Value (see the text under the sub-heading “Net Asset Value Per Share” in the section entitled “Shareholder Information, Accounting and Audit”).

The Fund is an amalgamation of two pre-existing companies namely, First Mercantile Emerging Russia Fund Ltd. a company that was incorporated in Guernsey Channel Islands and continued into Bermuda and the Russian Federation Fund Limited a company that was incorporated in the British Virgin Islands (the “Amalgamated Companies”). On 27 April 2001 the shareholders of each Amalgamating Company resolved to effect the amalgamation of each company into the Fund. Pursuant to an amalgamation agreement dated 30 April 2001, the amalgamation became effective on 1 May 2001. The share capital of the Fund has been amended to include the voting redeemable preference shares of par value US\$.001 that resulted from the Amalgamation. As a result of this amalgamation, the Fund inherited both the assets and liabilities of each Amalgamating Company and the Fund has continued as an exempted company registered in Bermuda to which the provisions of the Companies Act 1981 apply.

Under the present law, the Fund is exempt from all income and capital gains taxes within the Islands of Bermuda.

CLASSES OF SHARES

The Bye-laws of the Fund empower the Directors of the Fund to create different series, or classes, of shares. In that event, the net proceeds from the sale of each class of shares will be segregated into separate funds. All income and capital gains earned on the assets of each fund shall accrue to such fund and all expenses and liabilities related to a particular fund and any redemptions of the shares related thereto shall be charged to and paid from the fund in question. Thus, in the absence of insolvency, the trading results of any one fund will have no effect on the value of any other fund and the holders of any class of shares will not have any interest in any assets of the Fund other than the fund attributable to the class of shares held by them. The assets of each such fund will be subject to the general creditors of the Fund.

At the date of this Prospectus, five classes of shares have been created, namely 100 common shares of par value US\$1.00 each which have been issued to FM Asset Management Limited (the “Manager”) and Class A non-voting redeemable preference shares of par value US\$.001 each and are the subject of this offer document, Class B redeemable preference shares (voting shares) which have been transferred from First Mercantile Emerging Russia Fund, Class C redeemable preference shares (voting shares) which have been transferred from The Russian Federation Fund Limited Class A shares and Class D redeemable preference shares (voting shares) which have been transferred from The Russian Federation Fund Limited Class B

shares. Additional classes of non-voting redeemable preference shares can be created at the discretion of the Directors as the demand for shares in different currencies arises. Currently USD and Euro shares are in issue for Class A.

Each reference in this Prospectus to the "Shares" shall, unless the context otherwise requires, be a reference to the redeemable preference "A" Class of Shares. Shares in all classes have equal rights to any dividends declared. The voting rights of the shareholders can be altered by a resolution passed by a majority of three-fourths of the shareholders.

DEALING DAY

Shares will be issued and redeemed on each Dealing Day. The Bye-laws provide that the "Dealing Day" will be weekly on every Monday that is a Business Day, if Monday is not a Business Day it will fall on the next Business Day and/or such other days as the Directors shall from time to time determine. A Business Day means any day normally treated as a business day in the Islands of Bermuda, New York, London and Moscow.

VALUATION DAY

The "Valuation Day" shall be the Business Day immediately preceding a Dealing Day.

PUBLICATION OF NET ASSET VALUE

The Net Asset Value of Shares in the Fund will be listed on www.fmgfunds.com and www.rffmf.com

INVESTMENT OBJECTIVE

The principal investment objective of the Fund is to achieve long-term capital appreciation. The Fund will invest via its wholly owned trading subsidiary CER Investments Limited (the "Subsidiary") either directly or indirectly in a diversified portfolio of securities and other instruments of companies or other entities established in, or which have their primary business in one or more CIS countries (the "Region"). The objectives can be changed by the Directors with full disclosure to all shareholders.

The Fund intends to invest with emphasis on equity and equity-related securities of companies and other entities established in the Region. The Fund intends to diversify into debt securities on a special opportunity basis.

The Fund will attempt to structure a portfolio consisting of liquid shares of major companies in the Region and less liquid and illiquid second and third-tier companies that the Manager today believes to be significantly undervalued relative to other companies in the Region and where the Manager expects future liquidity to provide significant appreciation in the value of such companies. The Fund will invest in both quoted and unquoted securities. Debt securities in which the Fund invests may not be rated.

The Subsidiary was incorporated on 11 August 1997 under the laws of Cyprus as a company with limited liability. It will be beneficially wholly owned by the Fund and will issue shares only to the Fund and its nominees. Investment by the Fund in the Region will be made through the Subsidiary with a view to minimising the tax that may otherwise be payable (see

the section headed “Taxation”). In addition, the Fund may create and organise other wholly owned subsidiaries through which it will invest in the Region if it considers the use of such subsidiaries is required by or desirable under local laws or regulations governing foreign investments in the Region, or would otherwise be advantageous for the Fund, for example, by making available reduced rates of withholding tax in part of the Region on distributions by portfolio companies or otherwise to mitigate the present or future tax liability of the Fund. The Administrator will provide administrative services to the Subsidiary and the Custodian will act as custodian of the assets of the Subsidiary. The Directors of the Subsidiary have resolved to only allot shares in the Subsidiary to the Fund or its nominees.

It is the intention of the Directors that the Fund will provide the Subsidiary with an interest-bearing credit facility in order to fund the acquisition of investments, although the Subsidiary may also be provided with funds in any other manner considered appropriate by the Directors.

The Directors of the Subsidiary intend to conduct its affairs so that it is resident for tax purposes in Cyprus. Provided it does not have a place of business in the Region, it will be able to take the benefit of the double tax treaty between Cyprus and the former Soviet Union (which the Russian authorities have indicated will also apply to Russia) (the “Treaty”). The Directors will take all reasonable steps to ensure that under the Treaty the payment of dividends and interest by portfolio companies to the Subsidiary will be exempt from tax in Russia as will gains made on the disposal of portfolio investments.

INVESTMENT APPROACH

The principal investment objective of the Fund is to achieve long-term capital appreciation. The Fund will invest either directly or indirectly in a diversified portfolio of securities and other instruments of companies or other entities established in, or which have their primary business in one or more countries in the Region.

The Fund intends to invest with emphasis on equity and equity-related securities of companies and other entities established in the Region. The Fund intends to diversify into debt securities on a special opportunity basis.

The Fund will attempt to structure a portfolio consisting of liquid shares of major companies in the Region and less liquid and illiquid second and third-tier companies that the Manager today believes to be significantly undervalued relative to other companies in the Region and where the Manager expects future liquidity to provide significant appreciation in the value of such companies. The Fund will invest in both quoted and unquoted securities. Debt securities in which the Fund invests may not be rated.

Some of the securities in the Region in which the Fund may invest are subject to restrictions on ownership by foreign investors and repatriation of dividends or debt repayments. In light of these restrictions, the Fund and/or the Subsidiary may incorporate a wholly owned subsidiary in one or more of the countries in the Region so as to establish an onshore presence for the Fund in that country. Prior to such incorporation and at any time thereafter, the Fund and/or the Subsidiary may enter into contracts with counterparties who themselves have an onshore presence in the relevant country or who have arrangements in place such that they are not subject, or are or not intended to be subject, to the restrictions on foreign ownership and repatriation. Under such contracts, the Fund and/or the Subsidiary will make a payment or payments to the relevant counterparty, the return of which (together with any gain/loss

thereon) is linked to and dependent upon, inter alia, the performance and/or dividends paid in respect of a particular equity security or the interest and/or principal payments in respect of a particular debt security as well as to the relevant rates of exchange prevailing between any relevant currencies. The Fund and/or the Subsidiary will endeavor to contract with counterparties which are reputable financial institutions. Investors' attention is drawn to "Synthetic Product Risk" in the Risk Factors section.

Assets of the Fund retained and awaiting investment, or arising from realisation of investments and awaiting reinvestment or distribution, will be invested in high-quality US dollar-denominated debt investments, including bank deposits and short-term securities issued or guaranteed by government entities holding a long-term debt rating of "AA" or higher quality as published by Moody's Investors Service or Standard & Poor's Corporation from time to time. Short-term cash deposits may also be held by the Custodian. The Fund may also invest in such instruments where it is in the interests of the Fund for the Manager to take a defensive strategy for temporary purposes, where the liquidity of the Fund's Portfolio Investments and the ability to convert assets in the Region into US dollars allow. Subject to the investment restrictions set out later in this Prospectus, the Fund is authorised to use hedging and investment strategies to hedge various market risks (such as broad or specific market movements, interest rates and currency exchange rates) or to manage the effective maturity or duration of debt instruments held by the Fund, but for no other purpose. Few of these strategies can practicably be used to a significant extent by the Fund at the present time and may not become available for extensive use in the future. Techniques and instruments may change, however, over time as new instruments and strategies are developed or regulatory changes occur.

The Fund's principal investment objective and policies set out above will, in the absence of unforeseen circumstances, be adhered to for at least three years following the date of its Bermuda incorporation. Any material change to the investment objective and policies within that period will only be made with the prior notification to Shareholders.

INVESTMENT RATIONALE

THE POLITICAL ENVIRONMENT

From the October Revolution in 1917 to the collapse of the Soviet Union at the end of 1991, Russia was governed by the Communists and had a centrally planned, socialist economy. Since the end of 1991, significant political changes have occurred, culminating in the adoption of a new constitution on 12 December 1993 and the emergence of a fledgling democracy, reflected in the elected bicameral parliament. The Russian government, formed under the new constitution, has implemented reforms directed at political and economic liberalisation, including efforts to decentralise the economic decision-making process in Russia, to move towards a more market-orientated economy and to foster a multi-party political system.

Today, political uncertainty has been reduced after the recent election of Vladimir Putin as Russia's president. With more than 52% of the popular vote, Putin significantly outscored the next closest candidate Communist leader Zyuganov who had 30% of the popular vote. Mr. Putin's election and the new government he has selected reinforces the administration's commitment to the continuation of democratic reforms. Also, since the December 1999 elections the new Duma, Russia's lower house parliament, is no longer dominated by the

Communist Party and is more cooperative with Mr. Putin's government. No political party or coalition currently has an absolute majority in the Duma, which has resulted in the President wielding substantial decision making power over the Russian government. Over the past two years the government has put forward legislation regarding more radical tax reforms, further banking system restructuring, strengthening investor's rights and lowering social security charges. In 2002, new legislation is due to be enacted regarding corporate taxation, protection of shareholder rights, pensions and money laundering.

Vladimir Putin continues to have high ratings in the opinion polls, and his divide-and-rule tactics have so far prevented the formation of any effective opposition. However, the current strong pro-Western policy of the President carries a risk of a domestic backlash if the rewards to Russia are perceived as insufficient. Possible political setbacks for Russia in 2002 relate to key issues such as nuclear disarmament and Nato enlargement.

THE PRIVATISATION PROCESS

In October 1992, Russia launched the largest mass privatisation programme in history. Privatisation vouchers were distributed to approximately 148 million eligible Russians. The vouchers carried a face value of Rbs 10,000, which was then the equivalent of approximately US\$32. Voucher holders could bid for the shares of the 15,000 medium and large companies that were undergoing privatisation, or sell the vouchers in the newly developed secondary market. The distribution of shares in these companies involved three stages:

(i) distribution of shares to past and present employees on preferential terms; (ii) offering shares to the public through voucher auctions; and (iii) offering shares to the public through other methods, notably investment tenders, commercial tenders, cash auctions and specialised auctions for the sale of shares. During the first phase, most medium and large-scale enterprises could select their preferred privatisation structure from three alternatives. Thirty-four percent of Russian enterprises opted for the first alternative, which generally allowed the acquisition of a total of 40 percent of shares by management and employees on preferential terms. Sixty-four percent of Russian enterprises opted for the second alternative, which allowed employees to acquire 51 percent of the shares from the state at 1.7 times their nominal value, with the remaining shares held by the state and sold to the public. Only two percent of Russian enterprises chose the third alternative, in which certain employees of small enterprises were entitled to acquire a total of 20 percent of the shares at book value one year after implementation of a pre-approved restructuring plan if the terms of the plan were met. The sale of shares by means of closed subscriptions to employees were performed by most medium and large-scale enterprises shortly after the transformation of those enterprises into open joint stock companies.

According to a Presidential Decree dated 1 July 1992, this transformation to open joint stock companies took place by 1 October 1992. Subsequent to the closed subscriptions, the second phase of privatisation commenced and about 29 percent of the remaining shares of each of these enterprises were sold by voucher auctions to the public. Foreign investors were able to participate by purchasing vouchers and bidding at the auctions. Shares were distributed after each auction proportionately based on the number of vouchers offered. Vouchers could also be used by past and present employees to acquire shares on preferential terms, or to invest in new special-purpose Russian Voucher Funds established to provide diversification and on-going investment management. Voucher prices fluctuated from less than US\$8 in 1993 to US\$23 in June 1994. The voucher privatisation programme, and consequently the voucher

auctions, ended on 30 June 1994. It is estimated that 144.5 million vouchers were used to transform more than 40 million Russians into shareholders. Voucher investment funds accumulated 45.32 million vouchers, or about 31 percent of the total issued vouchers.

The third phase of privatisation consisted of investment tenders, commercial tenders, specialised auctions for the sale of shares, and cash auctions. Following a Presidential decree dated 22 July 1994, the State Property Management Committee and the Federal Property Fund began to conduct investment tenders throughout Russia. The investment tenders are partly intended to attract investment and expertise (both domestic and foreign) into the Russian economy. Generally, an investment tender gives a single investor an opportunity to acquire a package of shares. The investor must submit a “sealed” proposal as to the amount of investment the investor is willing to make, subject to a minimum set forth in the company’s investment programme, which is part of its privatisation plan. The person making the highest bid on the day bids are opened is awarded the tender and has the right to acquire the shares. Private sector foreign companies are able to participate in both tenders and auctions with the exception of sectors that are singled out by legislation as requiring consent to foreign investment or those which have limitations on the level of participation by foreign investors.

By the first half of 1995, however, the process of privatisation slowed down (only Rbs178bn in privatisation revenue was generated), forcing the State Property Committee to create non-traditional ways of obtaining money from privatisation. Labeled as “loans-for-shares auctions”, the idea involved providing credit to the government which would pledge government-owned stakes as security for repayment. This non-transparent method has been subsequently criticised because it took the form of strong Russian banks striking deals with the government at the expense of the private investor. As a result, Russian banks have seized majority ownership in certain companies, notably in the oil sector.

The 1996 privatisation results reflected a difficult year, primarily due to elections held across the country. As a consequence, sales were irregular and revenue targets unfulfilled. The expedited sale of 8.5 percent of UES at the end of the year reflected the desire to generate revenue before the year end, notwithstanding the opposition to its sale voiced by UES management. Successful auctions that did generate interest were primarily in the oil sector, for example Sibneft, YUKOS, LUKoil, Sidanco, Nafta-Moskva, and Mosnefteproduct. On a countrywide scale, sales in the regions were random and demand driven. Investors from St. Petersburg and Moscow accounted for more than 20 percent of total proceeds. In all, Russia privatised 4,997 enterprises in 1996, compared with 10,152 in 1995. Overall, 126,800 enterprises have been privatised since 1992. The State Statistics Committee stated that privatisation revenue declined 15 percent in 1996 in real terms to Rbs 3.23 trn (US\$630 mn). Since 1996, privatisation revenue was generated in the following manner: Rbs 1.5 trn (US\$292 mn) from the sale of shares in joint stock companies; Rbs 540bn (US\$105 mn) from the sale of leased property; Rbs 361 bn (US\$70.4 mn) from real estate sales; and Rbs 85 bn (US\$16.58 mn) from the sale of insolvent enterprises. Private ownership was established via tenders, auctions and the purchase of leased property at 3,874 enterprises, or 77.5 percent of total privatisation. The bulk of privatisation revenues were generated in the cities of Moscow and St. Petersburg and the regions of Samara, Tyumen, Moscow, Sverdlovsk, Kemerovo, Chelyabinsk and Nizhny Novgorod.

In August 1998 Russian capital markets were severely damaged by the Russian government debt default. Most Russian stocks lost value and were traded at extremely low levels. At this time the State Committee for Property halted most privatization programs as they were not

expected to be well received. Later in the year the government adopted a new privatization policy aimed at selling small stakes of already privatized and publicly traded companies through public auctions.

In the wake of Russia's financial crisis, in 1999 the Russian government raised Rbs 8.5 billion in revenues from privatization, about 40% less than had been planned. Another Rbs 9 billion was generated by dividends on state-owned blocks of shares and rent charged for state property. A total of 697 small and medium-sized businesses were privatized in 1999.

The property ministry has stated that it expects to privatise 80-90% of the 11,000 state owned firms over the next 3 years. The Property Ministry collected USD1.17bn from privatization in 2001 and a similar amount is expected to be collected in 2002.

Russia is actively seeking to join the World Trade Organisation ('WTO'). In order to achieve membership of the WTO Russia will have to make deep cuts in subsidies, tariffs and other international trade barriers. The deregulation of infrastructure monopolies is also on the agenda.

THE ECONOMIC SITUATION

Until 1991, the Russian economy was state controlled and regulated. Since then, the economy has gone through drastic reforms, including the liberalisation of trade, the freeing of many prices and the implementation of mass privatisation. The result of the reform process was a severe contraction in the Russian economy. Between 1990 and 1996 GDP declined by 41.7 percent and industrial production by 52.77 percent. Inflation reached 2,525 percent for the year 1992 and the currency has devalued from 32 rubles per U.S. dollar in April 1991 to approximately 5,800 rubles per U.S. dollar in August 1997. Following the August 1998 Russian debt default, the ruble rapidly depreciated against the U.S. dollar to 20.65 rubles by year end, a 230% devaluation versus the June 30, 1998 exchange rate. In 1999 the ruble devalued by only 30%. For the year 2000, the Russian government had projected a 32% inflation rate, but strong world oil and metals prices reinforced the balance of payments and created strong support for the ruble. Thus inflation reached only 22% for the year. After the severe collapse of the ruble in 1998, the local economy received a boost as local product sales increased and import substitutes declined. Russia's economic performance in 1999 was a major positive surprise. The Russian State Statistics Committee reported that the country's GDP was up by 3.2% compared to a 4.9% decline in 1998. The most impressive growth was in the import substitute industries such as food processing and consumer goods. Also, Russia's growth reflected a strong recovery in the oil and metallurgy sectors, which are traditionally major contributors to the country's export earnings.

With growth in real GDP at 8.3% in 2000, Russia had its best year since the transition began. Though the effects of devaluation are diminishing and consumer imports are growing, a strong balance of payments and internal demand continue to support economic growth. For the first time in many years, Russia has met its fiscal goals. Federal revenue rose from 9% of GDP in 1998 to 13.4% in 1999. The increase in revenues was largely due to high oil prices and improvements in cash tax collections. Since August 1999, oil companies are obliged to pay taxes only in cash. This is a very significant improvement versus the beginning of 1999 when cash payments accounted for only 43% of tax revenues. Gazprom and RAO UES have also increased their tax payments. These companies and 18 oil firms account for one-third of all tax payments in Russia.

In 2001, GDP growth was 5%. However, further positive economic growth will be sustainable over the medium term only if the government is successful in implementing further economic reforms and in restructuring the banking sector. The new government favors a radical approach to tax reform, reducing a number of taxes and tax rates. President Putin plans to strengthen the role of federal authorities and to increase overall tax collections. Inflation in 2001 was 21.6%, however, falling oil prices and supply constraints should help reduce inflation to an estimated 15% in 2002.

THE SECURITIES MARKET

The National Association of Participants of the Securities Market (NAUFOR), the Russian market self-regulatory organisation, oversees the self-imposed standards of market practices. NAUFOR supervises the operations of the Russian Trading System (RTS), the screen-based quotation system modeled on the NASDAQ system in the US. In December 1996, NAUFOR officially opened RTS-2, a second-tier market to include smaller, less-liquid stocks. By mid-1997, approximately 100 Russian equities were trading on RTS and another 120 on RTS-2. In 1999 RTS introduced a new clearing system, which guaranteed transaction clearance and is more convenient in terms of settlements.

While trading of Russian equities is getting increasingly efficient, the clearance and settlement procedures are both cumbersome and expensive. Currently, proof of equity ownership in Russia is evidenced through an entry in the shareholder's register, which, in many cases, is operated by the issuer or one of its affiliated entities. Although securities laws adopted on 22 April 1996 state that any company with more than 500 shareholders owning common shares has to appoint an independent registrar, in many cases this law is not complied with.

INVESTMENT CRITERIA

The Directors believe that selectively chosen equity investments in companies in the Region offer an opportunity to obtain above average "emerging markets' returns". The "first wave" of international investors (mainly hedge funds) has been very active in Russia and certain other republics in the Region starting from the early days of privatisation in 1992-1993. The returns achieved by some of these investors have drawn worldwide attention to the markets in the Region. As perceived Russia risk diminished during 1996, the Russian equity market reacted dramatically as the major equity indexes appreciated by more than 150 percent during the first nine months of 1997. After the late 1997 Asian crisis and the August 1998 Russian debt default the Russian equity market crashed resulting in most stocks trading at early 1996 levels. By 1999, political risk was significantly reduced, and the stock market reacted very positively yielding a return of almost 200%.

Currently, the valuations of some actively traded and well-researched companies are approaching international levels and represent limited upside for investors when compared to the less-liquid and illiquid second and third-tier companies. However, in the Directors' opinion, the vast majority of companies in the Region are still considerably undervalued as a result of their size and the lack of proper research and adequate reporting to their shareholders. The Fund will try to identify companies that are illiquid and difficult to acquire today, but either are, or are likely to become, by Regional standards, sound and competitive companies, which are more likely to benefit from the development of domestic capital

markets and any improvement in the general economic situation in the near future. The Directors believe that investments in such companies are more likely to result in higher returns when compared to investments in established companies.

SOURCES

The statistics quoted in this “Investment Rationale” section have been derived from the following sources: PlanEcon, European Intelligence Unit, International Financial Law Review and Goskomstat.

INVESTMENT RESTRICTIONS

Investment of the Fund’s assets will be subject to certain restrictions determined by the Directors. The Board has determined that the Fund (including the Subsidiary) will not:

- (i) purchase any security if, as a result, more than 20 percent by value of the total assets of the Fund would then be invested in securities or exposed to the solvency or creditworthiness of a single company, group or issuer;
- (ii) make short sales of securities or maintain a short position in any security;
- (iii) purchase securities on margin, except such short-term credits as may be necessary or routine for the clearance or settlement of transactions and the maintenance of margin with respect to forward contracts or other hedging transactions;
- (iv) purchase or sell commodities or real estate, except that the Fund may invest in securities secured by real estate or by interests in real estate;
- (v) invest in securities having unlimited liability;
- (vi) acquire or deal in forward currency contracts or currency derivatives except when, in the opinion of the Manager, it is desirable to do so for the purpose of hedging currency risk;
- (vii) undertake derivative transactions, except to the extent that the resulting exposure on delivery or exercise is limited to a maximum of 10 percent of the underlying value of the Fund at the time of the transaction.

The above restrictions apply as at the date of the relevant transaction or commitment to invest. Changes in the portfolio do not have to be effected merely because, owing to appreciations or depreciations in value, or by reason of the receipt of, or subscription for, any rights, bonuses or benefits in the nature of capital or of any acquisition or merger or scheme of arrangement for amalgamation, reconstruction or conversion or exchange or of any repayment or redemption or other reason outside the control of the Fund, any of the restrictions would thereby be breached. However, the Fund will give due regard to the above restrictions when making investments.

The above restrictions do not apply to securities issued or guaranteed by any member country of the Organisation for Economic Co-operation and Development (OECD) or any of their agencies or instrumentalities or by any supranational institution, organisation or authority of

which one or more OECD member country is a member.

Notwithstanding the investment restrictions set out above, the Fund may invest in the Region through the Subsidiary or other wholly owned subsidiaries which it may organise for that purpose in one or more jurisdictions, and may lend money to the Subsidiary or such other subsidiaries, if it considers the use of such subsidiaries is required by or desirable under local laws or regulations governing foreign investments in the Region, or would otherwise be advantageous for the Fund such as by making available reduced rates of withholding tax in the Region on distributions.

BORROWING

Although there are no restrictions in the Bye-laws regarding borrowing, the Fund in normal circumstances does not intend to employ leverage in its investment strategy. The Board of Directors may however change their policy in the future. The Directors may exercise the borrowing powers given to them in the Fund's Bye-laws (see the text under the sub-heading "Borrowing Powers" in the section entitled "Bye-laws of the Fund" (Page 33)).

INVESTMENT ADVISER AND KEY PERSONNEL

FMC Securities Limited have been appointed Investment Adviser ("Advisers") for the Manager. The Key Personnel of the Advisers are:

Yury A. Lopatinsky is President of First Mercantile Capital Group. Before joining First Mercantile, he was Managing Director and acting CEO of Creditanstalt Russia. He initiated and oversaw the merger of Creditanstalt with Grant Financial Group where he had been Head of Equity Sales since 1994. Prior to relocating to Moscow to become part of the Grant Financial Group, Mr. Lopatinsky was with Merrill Lynch in New York. Mr. Lopatinsky holds a Bachelor of Arts degree in Industrial and Labor Relations from Cornell University. Mr. Lopatinsky was one of the first non-Russian professionals to receive a Broker/Dealer license from the Russian Ministry of Finance.

Jim Mullins has over 15 years experience in financial management and accounting. Jim is a Fellow of the Association of Certified Accountants. Jim is currently CFO at First Mercantile Capital Group. Prior to joining FMCG, he was Partner Designate at Coopers & Lybrand, Moscow and has worked in Russia since 1995. Jim has extensive experience in business planning, due diligence, audit, corporate restructuring, financial management and management information systems. Jim also worked in the venture capital industry and has experience in raising finance, deal structuring and syndication. One of his investments was voted the Venture Capital deal of the year in the UK in 1996. Jim was previously a Management Consultant with Deloitte & Touche, UK.

Serge Skvortsov is a Portfolio Manager at First Mercantile Capital Partners. Prior to joining First Mercantile, he worked as an associate research analyst with Bear, Stearns in New York, U.S. He wrote daily market commentary on several emerging markets, took part in the initiation of coverage for major Russian telecom companies, and worked with the emerging markets strategy team. Mr. Skvortsov holds a Bachelor of Arts degree in Finance from San Diego State University. During his university years

Mr. Skvortsov worked part time for Salomon Smith Barney (California), and Banco Fonte Cindam (Brazil).

RISK FACTORS

Potential investors should note that there are significant risks inherent in investing in the Region, not typically associated with investing in securities of companies in more-developed countries, including those described below. There are also specific risks associated with the Region and the fundamental changes taking place there, which will probably continue to create instability and uncertainty in the future. Investment is only suitable for sophisticated investors who understand and are able to bear the risks of a total loss on his/her investment.

POLITICAL RISK

Since the break-up of the Soviet Union at the end of 1991, countries in the Region have undergone substantial political and social upheaval. Though the transition from a centrally controlled, command system to market-orientated, democratic models is taking place, the terms on which this will occur are not yet clear and may be affected by fears of inflation. The potential consequences, however, are profound and investors should take into account the unpredictability of their eventual outcome.

In historical context, the Region has a legacy of political centralisation. At a moment of fundamental change, this results not only in regional interests and tensions but, given the superpower status which the former Soviet Union had, has left questions as to the role of each of the countries in the Region and their reintegration into the world community. The Net Asset Value of the Fund may therefore be affected by many uncertainties including political or diplomatic developments, social and religious instability, governmental policy changes, taxation and interest rates, currency repatriation restrictions and other political and economic developments in the law or regulations in the countries in the Region and, in particular, the risks of expropriation, nationalisation and confiscation of assets and changes in legislation relating to the level of foreign ownership.

ECONOMIC RISK

The planned economy of the former Soviet Union was run with qualitatively different objectives and assumptions to those prevalent in a market system. Much of the industrialisation took place during the communist period and the level of centralisation and monopolism in such a large country was commensurate. Similarly, in its economic relations, the Soviet economy was orientated overwhelmingly towards other communist states whose needs have now changed.

Furthermore, while capital flight has been estimated in billions of dollars, the external debt of countries in the Region is generally rising. Significant macro-economic obligations also arise as a result of the non-viability in certain cases of entire cities established in remote regions around one principal economic activity. The domestic tax burden is high and the discretion of local authorities to create new forms of taxation has resulted in a proliferation of taxes, in some cases imposed or interpreted retrospectively.

Instability has resulted in a short-term approach, for instance in relation to bank lending. There are limited means for channeling what domestic savings exist through institutionalised

and rational means and businesses can experience difficulty in obtaining working capital.

Inter-enterprise debt has now become a macro-economic issue. Banks and financial systems are not well developed and telecommunications, as well as other forms of infrastructure are often of low standards.

REGULATORY RISK

Companies in which the Fund invests may be or later become subject to unduly burdensome and restrictive regulation affecting the commercial freedom of the invested company which may diminish the value of the Fund's investment in it. Restrictive or excessive regulation may therefore be a form of indirect nationalisation.

SETTLEMENT RISK

The absence of an organised securities market as well as the undeveloped state of the banking and telecommunications systems will lead to concerns arising in relation to settlement, clearing and registration of transactions in securities where these are acquired other than as direct investments. Furthermore, due to the local postal and banking systems, no guarantee can be given that all entitlements attaching to securities acquired by the Fund, including in relation to dividends, can be realised.

CUSTODY RISK

Local custody services remain undeveloped and although the Fund will endeavor to put in place control mechanisms, including the selection of agents to register securities on behalf of the Fund and regular audits of entries on relevant share and securities registers, there is a transaction, settlement and custody risk of dealing in Regional Securities. For example, at present, Russian securities are registered in book entry form only and are not in practice evidenced by any share certificates.

NATIONALISATION AND PRIVATISATION

A strong feeling of pro-nationalisation exists in the Region and the anti-privatisation lobby in the Russian parliament may gain sufficient influence to halt or reverse the privatisation process. The possibility of re-nationalisation of Russian companies cannot therefore be ignored and it is also conceivable that some privatised companies may return to state control. The Manager will endeavor to avoid making investments in companies or sectors which appear to be particularly vulnerable to this possibility; no assurance, however, can be given that the Manager will be successful in avoiding such eventualities. The Manager will also seek to assess the ability of recently privatised companies to service debt commitments in light of historical trends. However, there can be no assurance that accurate data to support such assessment will be available.

LACK OF MARKET ECONOMY

Businesses in the Region have only a very recent history of operating within a market-orientated economy. As a result, relative to companies operating in Western economies, companies in the Region are generally characterised by a lack of: (i) experienced management; (ii) modern technology; and (iii) a sufficient capital base with which to develop and expand their operations. It is unclear what will be the effects on companies in the

Region, if any, of those countries' attempts to move toward a more market-orientated economy.

LACK OF SPECIFIC INVESTMENTS AND INVESTMENT RESTRICTIONS

There are currently a limited number of potential investments for the Fund and demand for available investments may artificially inflate their price. In addition, foreign investment in Regional Securities may, in certain cases, be legally restricted.

SYNTHETIC PRODUCT RISK

The synthetic products in which the Fund may invest are subject to the following counterparty and regulatory risks. The counterparty risk lies with each party with whom the Fund contracts for the purpose of making investments (the "counterparty") and, where relevant, the entity in the Region with whom the counterparty has made arrangements where it is necessary to ensure an onshore presence in a particular country in the Region. The Fund may not be entitled to assert any rights against the entity in the Region with whom it may not have a contractual relationship. The Fund may not be able to procure that the counterparty asserts its own rights, if any, against any onshore entity in the Region with whom it has made arrangements. In the event of the counterparty's insolvency, the Fund will only rank as an unsecured creditor. In the event of the insolvency of any entity in the Region with whom the Fund does not have a direct contractual relationship, it is likely that the Fund will lose its entire investment. The effectiveness and legality of the synthetic product structure, and in particular the ability of the Fund's counterparty to invest efficiently in the Region from offshore, may be subject to intervention by the relevant authorities, their re-interpretation of law and current commercial and tax efficient practice and legislation, as well as to changes in relevant laws and regulations. As a result, the Fund may not get back all or any part of its investment in the synthetic products in which it invests or it may find that the proceeds of its investment are not repatriable. It may not be possible for the Fund to negotiate favourable terms for its investment in synthetic products. In some cases the Fund may be obliged to hold harmless and indemnify its counterparty from and against all losses resulting from a breach by the Fund of its obligations or in respect of all costs and expenses incurred by the counterparty in relation to its arrangements with any onshore entity. If the underlying investment or the synthetic product structure is re-characterised, the Fund may be forced to terminate its investment in the synthetic product earlier than had been anticipated and at a loss to part or all of the investment. When investing in synthetic products, the Fund will comply with the investment restrictions set out in this Prospectus.

The Fund may be obliged to provide working capital to any subsidiary it incorporates in a country in the Region by way of share capital. If it is sought to repatriate capital out of any such subsidiary, the time it may take to liquidate such subsidiary or to reduce such subsidiary's share capital may affect the Fund's ability to distribute profits or capital to its shareholders on time.

OFFICIAL DATA

The quality and reliability of official data published by the governments and government agencies of countries in the Region is generally not equivalent to that of more developed Western countries.

THE MARKET FOR REGIONAL SECURITIES

Many securities of companies in the Region are traded on over-the-counter markets and, despite a number of stock exchanges, there is still no organised public market for such securities. This increases the difficulty in valuing the Fund's investments and, until a market develops, some of the Fund's investments will generally be illiquid. Local securities are not listed in the manner that would be expected in other markets thereby limiting the number of potential investments available to the Fund. Furthermore, the extent of restructuring, inter-enterprise debt and lack of financing alternatives results in an increased risk of possible business failures. Though it is intended that investment by the Fund will be diversified, such an event could have a material effect on the Net Asset Value of the Fund. The range of potential investment opportunities may also be restricted.

VALUATIONS

Reduced secondary market liquidity may mean that market quotations may only be available from a limited number of sources and may not represent firm bids for actual sales. This may affect the Fund's ability to obtain accurate market quotations for the purposes of valuing its portfolio and calculating its Net Asset Value. Given the nature of the market, there is likely to be a wide spread between bid and offer prices for Securities in the Region.

ACCOUNTING PRACTICE

Accounting, auditing and financial reporting standards in countries in the Region are not equivalent to International Accounting Standards, in particular, because accounting and auditing have been carried out solely as a function of compliance with tax legislation. Consequently, the quality and reliability of information available to the Fund will be less than in developed capital markets and corresponding investments. Due to the relative quality of information, lack of historical data and high inflation, this applies even where supplementary accounts have been prepared or an audit carried out to international standards. Obligations on companies in the Region to publish information are also relatively limited, thus further restricting opportunities for the Fund to carry out due diligence.

EXCHANGE AND CURRENCY RISK

The Fund's assets will generally be invested in securities denominated in the local currency of the relevant country in the Region, which will not be freely convertible into other currencies outside of that country nor internationally traded. The currencies of some of the countries within the Region are internally convertible but where there is a limited availability of such other currencies, this may tend to inflate their values relative to that local currency and there can be no guarantee of the liquidity or competitiveness of such markets. The value of an investment in the Fund and its income, as denominated in U.S. dollars, may be affected by fluctuations in the value of the underlying currency of the Fund's investments against the U.S. dollar or by control regulations. The countries in the Region have generally experienced significant devaluations relative to the U.S. dollar.

The Fund may attempt to mitigate the risks associated with currency fluctuations by entering into forward, futures or options contracts to purchase or sell the relevant currency to the extent such possibilities are available on terms acceptable to the Fund.

INFLATION

With growth in real GDP at 7.6% and inflation at 2.4% in 2000, Russia has had its best year since the transition began. In 1999 Russia's CPI rose 36.5 percent, while in 1998, the year of Russia's debt default, the ruble lost 246 percent of its value against the USD while CPI rose over 84 percent. While the Russian government is usually optimistic about inflation forecasts, inflation risk is still a very serious issue for Russia.

INVESTMENT RESTRICTIONS

Foreign investment in companies within the Region is, in certain cases, legally restricted. Sometimes these restrictions are contained in constitutional documents of an enterprise which are not publicly available. The Directors do not believe that such investment restrictions currently impose a material constraint on the Fund's ability to realise gains through investments in companies within the Region.

REPATRIATION RESTRICTIONS

Foreign investment legislation currently provides general assurances of the rights of foreign investors to remit profits and dividends from their investments in Russia. In some cases, however, these rights are subject to currency, tax and export restrictions. No guarantee can therefore be given that all profits will be capable of being remitted. In other countries in the Region such investment legislation may not yet exist.

TAXATION

(a) Russia

Russian tax law and practice is not as clearly established as that of the Western nations. Laws and regulations in this area change frequently. Positions adopted by the tax authorities are sometimes unpredictable and even irrational, and the tax environment can be a hostile one for enterprises. A new Tax Code has been approved by the Russian parliament. The new Tax Code should result in dramatic structural changes in the Russian tax system, as well as a large number of specific changes in the types of taxes imposed, tax rates and policies applied. However, the current reforms remain very controversial. It is possible therefore that the current interpretation of the law or understanding of practice may change or, indeed, that the tax laws themselves may be changed substantially, possibly with retroactive effect in some cases. Substantial confusion and inefficiency may result during the transition period. Accordingly, it is possible that the Fund could become subject to taxation in Russia that is not anticipated either at the date of this document or when investments are made, valued or disposed of.

(b) Double Tax Treaty

At present, the largest country in the Region, Russia, and the Cypriot tax authorities are negotiating a new Double Tax Treaty which, when and if concluded, may change the existing tax regime for transactions between Russian and Cypriot legal entities. It is possible that the revised treaty may prescribe less favourable tax treatment for Cyprus companies investing in Russia than is currently the case.

(c) Cyprus

The question of the taxation of any profits realised by the Subsidiary on the sale of Russian securities depends on whether the Cyprus tax authorities will consider the Subsidiary as holding such securities as a long-term investment or whether they will consider the Subsidiary to be a dealer in securities. If the securities are deemed to be long-term investments, there is no taxation in Cyprus because any gain is considered to be a gain of a capital nature. If the Subsidiary is considered to be a dealer in securities the gain is taxed at 4.25 percent because it is considered to be income. The present tendency of the Cyprus Tax authorities is to consider companies such as the Subsidiary as dealers in securities.

(d) Bermuda

Under current Bermuda legislation there is no withholding tax, capital gains tax, income or profits tax, or other capital transfer tax, estate duty or inheritance tax payable in Bermuda with respect to the Fund or any shareholders of the Fund who are resident outside Bermuda.

Furthermore, the Fund has obtained from the Ministry of Finance in Bermuda, under the Exempted Undertakings Tax Protection Act, 1966 (as amended), an assurance that, in the event of there being enacted in Bermuda any legislation which in the future may impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28 March 2016 be applicable to the Fund except insofar as such tax applies to persons ordinarily resident in Bermuda or to land in Bermuda leased or let to the Fund.

LEGAL SYSTEM

The rate of legislative change is extremely rapid, as is the magnitude of the changes, the content of which, when eventually adopted into law is difficult or impossible to predict and may have an adverse effect on foreign investment in the Region. It is similarly difficult to anticipate the impact of legislative reforms on securities in which the Fund will invest. Although there is significant political support for legislative change to bolster and facilitate the movement to a market economy, it is not certain that legislation when enacted will advance this objective either consistently or in a coherent manner. This has resulted in a lack of confidence in the courts to give clear and consistent judgments. Legal Acts are published by a variety of State bodies and complete compliance with legal rules and standards, including in relation to privatisation, has often been difficult to achieve even for those willing to do so. There is also a lack of precedent in relation to market-orientated legal relations. The espoused Soviet doctrine that all which was not permitted was forbidden led to a lack of confidence in the rule of law and an over-emphasis on form. In recent times this policy has been reversed, but this has had the negative consequence that the effectiveness of legal regulation is subject to doubt, and the lack of enforcement is an issue and a risk. This issue has been exacerbated by the unstable political process.

In certain cases in countries within the Region there is an apparent conflict between different pieces of legislation and uncertainty as to the hierarchy of legislation. This problem is

compounded by the frequent re-interpretation of the law by regulatory authorities often with retroactive effect.

Nevertheless, in Russia, a new Civil Code and new laws on joint stock companies and the securities market have been passed and have generally improved the legal environment for investments and clarified the basic rules, as have, in part, proposals for the revision of the law on exchange control.

ENVIRONMENTAL CONCERNS

Significant areas of the Region are seriously polluted and substantial environmental work will be required to address the problem. The expense of addressing this problem is variously estimated and will impose commensurate costs both on the relevant State and also private enterprise.

PERFORMANCE OF THE SHARES

Investors should be aware that the price of Shares and the income from them can go dramatically down as well as up.

CRIMINAL ACTIVITY

There are a large number of criminal groups operating in the Region, which often succeed in extorting protection money from companies. A company's management may be forced into defrauding their company. Fraud, particularly when coupled with significant bad debtors may lead to business failure.

POSSIBLE BUSINESS FAILURES

The insolvency or other business failure of any one or more of the Fund's investments could have an adverse effect on the Fund's performance and ability to achieve its objectives. Russia has enacted a law on the insolvency of companies, but as yet no significant level of experience exists on how this law will be implemented and applied in practice. Business failure is increased by the lack of financing alternatives for companies in the Region.

THE BANKING SYSTEM

The banking system in Russia is ill-developed and subject to two main risks: first, insolvency due to concentrated debtor risk; and secondly, the effect of inefficiency and fraud in bank transfers. In addition, banks have no infrastructure to channel domestic savings to companies in need of finance, the effect being increased difficulty in obtaining working capital.

QUALITY OF INFORMATION

Investors in Russia have access to less-reliable or less-detailed information, including both general economic data and information concerning the operations, financial results, capitalisation and financial obligations, earnings and securities of specific companies.

The quality and reliability of information available to the Fund will, therefore, be less than in respect of investments in Western countries.

MAINTAINING A BALANCED PORTFOLIO

Although the Fund will attempt to structure a balanced portfolio, rapid and significant changes in the values of securities in which it has invested may have the effect of placing the Fund in the position of having too great a proportion of its Net Asset Value concentrated in one country in the Region or a limited number of market sectors.

SECOND AND THIRD -TIER SECURITIES

As described above, the Fund will invest in liquid shares of major companies in the Region and less-liquid and illiquid second and third-tier companies. The less-liquid and illiquid second and third-tier companies may involve greater risks of loss of the investment than first-tier securities.

Adverse publicity and investors' perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of securities in second and third-tier companies, especially in a thinly traded market. Analysis of the value of securities issued by second and third-tier companies and their creditworthiness may be more complex than for securities in first-tier companies.

Securities in second and third-tier companies may be more susceptible to real or perceived adverse economic and competitive industry conditions than securities in first-tier companies. In particular, second and third-tier companies often have limited product lines, markets or financial resources. They may be dependent for their management on one or two key individuals and can be more susceptible to losses and risk of insolvency. Furthermore, the shares of second and third-tier companies may be thinly traded and therefore may have to be sold at a discount from current market prices or sold in small lots over an extended period of time. Finally, government policies or economic conditions that favour government owned or monopolistic enterprises may be instituted at the expense of smaller companies.

ADDRESSES

The Fund

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Administrator, Registrar & Transfer Agent

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DIRECTORS AND OFFICERS

The Directors of the Fund are as follows:

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James Mullins
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Moscow 11280
Russian Federation

Yury A. Lopatinsky
10 Vostochnaya Street
Moscow 11280
Russian Federation

DIRECTORS' INTERESTS

Peter Hughes is the Managing Director of Apex Fund Services Ltd, the Administrator of the Fund and a Director of the Manager.

James Keyes is a partner of Messrs. Appleby Spurling Hunter, legal adviser to the Fund.

Yury A. Lopatinsky has an interest in both the Manager and the Investment Advisor.

Johan G. Kahm has an interest in FMG Fund Managers Limited, distributor to the Fund.

Carl de Geer has an interest in FMG Alterum Fondgrupp AB, distributor to the Fund.

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, or may act in a professional capacity to the Fund on such terms as the Directors may determine. No Director shall be disqualified by his office from contracting with the Fund in any capacity, nor shall any such contract or arrangement entered into by the Fund in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Fund for any profit realised by any such contract or arrangement by reason of such Director holding that office if he shall declare the nature of his interest. The Directors of the Fund do not hold the Fund's shares and there is no qualification for Directors to hold any shares. Directors are able to vote on contracts in which they have a material interest. There is no age limit for the retirement or non-retirement of Directors. No Director has a service contract with this Fund other than that stated above.

CO-CUSTODIANS

The Bank of Bermuda Limited (the "Bank" and the "(BoB)") has been appointed by the Fund as custodian of certain of its assets. Pursuant to a Custodian Agreement dated 1 July 2004, the Fund has appointed the Bank to act as custodian of certain assets of the Fund under the supervision of FM Asset Management Limited. The Bank of Bermuda Limited is a licensed bank incorporated in Bermuda under the Bank of Bermuda Act 1890 and is engaged in a wide range of international banking and trust services through its main office in Bermuda and its subsidiaries worldwide. By a Novation Agreement dated on or about 7 July 2006 HSBC Institutional Trust Services (Bermuda) Limited replaced The Bank of Bermuda Limited as

Custodian.

HSBC Institutional Trust Services (Bermuda) Limited was incorporated in Bermuda on 22 February 2006. The principal activity of the Custodian is to provide trustee and custody services to a variety of collective investment schemes. The Custodian is a wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England. As at 31 December 2005 HSBC Holdings plc had consolidated gross assets of approximately US\$1,502 billion.

BoB will only be responsible for those assets of the Fund held directly to its order (including assets held by any affiliate, associate, agent, sub-custodian or delegate appointed by the it) and more particularly will be responsible specifically and solely for the custody of American Depository Receipts held by the Fund. Custody of Russian equities such as Russian shares and MinFin Bonds will be handled by the other Co-Custodian, namely UBS Nominees (see below).

Closed Joint Stock Company UBS Nominees will act as custodian of the Company (the "Custodian") pursuant to a custodian agreement between the Company and the Custodian (the "Custodian Agreement"). The Custodian Agreement is terminable. The term of the Custodian Agreement shall commence after the Company and the Custodian have signed it and continue for a period of twelve months. Thereafter, it shall automatically renew for an additional twelve-month term unless expressly terminated by either the Company or the Custodian by delivering to the other party a notice in writing specifying the date of such termination, which shall not be less than thirty calendar days after the date of receipt of such notice.

The Custodian is a company organized under the laws of the Russian Federation in October 1997, and is licensed by the Russian Federal Financial Markets Service ("FFMS") as a professional participant with the right to perform depository activities. The Custodian is an indirect wholly owned subsidiary of UBS AG, Switzerland ("UBS"). UBS and its subsidiaries are included under UBS AG's global professional indemnity and Banker's Blanket Bond insurance policies that at present provide cover in excess of US\$100 million. UBS combines the global presence and experience of UBS AG with the Russia expertise and market leadership.

The Custodian started providing custody services to foreign and domestic investors in April 1998. As of 1 December 2005 the Custodian provided custody services to 118 international and domestic clients, and the market value of the assets under custody was worth USD4.48 billion. The Custodian is regulated by FFMS and the self-regulated organization called the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD). The Custodian is regularly audited. UBS handles the internal financial and operational audit every 2 years. PricewaterhouseCoopers Audit performs external financial audit annually.

The Custodian has no ownership rights over customer property held by it, and no actions by the Custodian will lead to any future rights of ownership over such property. The Custodian will hold the Company's assets in a segregated account in the name of the Company and such assets will be separately identified as belonging to the Company. In accordance with the Russian legislation all Company's assets will be unavailable to the creditors of the Custodian in the event of its insolvency.

The Company will pay the Custodian safekeeping, transaction and corporate actions services

fees as agreed in the Schedule C to the Custodian Agreement.

ADMINISTRATOR, REGISTRAR AND TRANSFER AGENT

Apex Fund Services Ltd (the “Administrator”) has been appointed as administrator of the Fund. The Administrator shall perform all general administrative tasks for the Fund, including the preparation of valuations, keeping of financial records and acting as registrar and transfer agent. The Administrator receives an annual fee calculated in accordance with its customary schedule of fees and is also entitled to be reimbursed for all out of pocket expenses properly incurred in performing its duties as Administrator of the Fund.

Under the Administration Agreement, the Fund will indemnify the Administrator to the fullest extent permitted by law against any and all judgements, fines, amounts paid in settlement and reasonable expenses, including legal fees and disbursements, incurred by the Administrator, save where such actions suits or proceedings are the result of fraud, willful default or negligence of the Administrator.

In accordance with the terms of the Administration Agreement, the services of the Administrator may be terminated on at least 90 days written notice from either the Fund or the Administrator (or such shorter notice as the parties may agree to accept) or earlier on the liquidation of either the Fund or the Administrator.

PURCHASE AND SALE OF SHARES

APPLICATION FOR SHARES

Applications for Shares should be made on the Fund's application form set out at the back of this document to Russian Federation First Mercantile Fund Ltd, accompanied by a cheque or funds wired for the sum to be invested. To be included in the next following Dealing Day's issue, applications and payment must be received not later than 1 Business Days preceding the Dealing Day. However, if paying by cheque, the Administrator should be contacted who will determine whether there is sufficient time available to clear the relevant cheque.

Application forms should be sent by courier or by facsimile to:

Russian Federation First Mercantile Fund Ltd
Suite 502, International Centre
26 Bermudiana Road, Hamilton HM 11, Bermuda
Fax: +1 441 292-1884
Attention: Peter Hughes (e-mail: peter@apex.bm)

Applications for Shares must be for a minimum amount of US\$10,000 or Euro10,000 except in the case of an existing shareholder, or at the discretion of the Manager.

Duly completed applications received and accepted by the Fund are irrevocable. The Fund reserves the right to reject and return any application and remittance if it considers it appropriate and not to accept further remittances until such time as it thinks fit. The proceeds from the Shares issued will be invested in accordance with the investment objective of the Fund (Page 6).

The number of Shares to be allotted in respect of each application will be determined by dividing the sum remitted by the Net Asset Value per Share on the Valuation Day immediately preceding the next following Dealing Day, calculated as set out under the sub-heading “Net Asset Value Per Share” in the section entitled “Shareholder Information, Accounting and Audit”.

Following receipt of accepted applications, Shares in the Fund will be allotted on the next following Dealing Day. A contract note will be sent to applicants confirming acceptance of application and the number of Shares allotted. Shares are held in book entry form.

The Manager is entitled to make a sales charge of up to 5 percent of the amount subscribed, which, if applied, will reduce the amount available for the purchase of Shares in the Fund. No other discounts or commissions have been granted by the Fund.

FORM OF REMITTANCE

Payment is preferred in U.S. Dollars. Investors should either enclose a cheque for the Shares applied for with the application form set out at the back of this document or instruct their bankers to transfer monies by telegraphic transfer to:

For **USD** Payments use the following correspondent bank (beneficiary details below):

Correspondent Bank: HSBC Bank USA Inc.
140 Broadway, New York NY 10015, USA.
SWIFT: MRMDUS33
ABA: 021-001-088
A/c Number: 000023868
Beneficiary Bank: HSBC Bank Plc. London
Further Credit A/c Name: Russian Federation First Mercantile Fund Ltd.
A/c Number for USD: 60002270
Reference: *Name of Investor*

For **EUR** Payments:

Bank: HSBC Bank Plc.
8 Canada Square, London, England.
SWIFT: MIDLGB22
Beneficiary A/c Name: Russian Federation First Mercantile Fund Ltd.
A/c Number for EUR: 60002254
Reference: *Name of Investor*

Note: Euro payments do not require a correspondent bank.

NOMINEE FACILITY

A nominee facility is available and should an investor wish to take advantage of this facility he or she should contact the Manager.

FORM OF SHARES

Shares in the Fund are in book form.

REDEMPTION

To redeem shares, redemption requests should be made in writing and sent by airmail or via facsimile to the Administrator together with the relevant share certificate, if applicable. Any redemption requests should contain the following information: the exact name and address of the person requesting redemption, the number of shares to be redeemed and the name of the person to whom payment is to be made. Notice to redeem must be received by the Administrator by the close of business at least 5 Business Days preceding a Dealing Day.

Subject to certain restrictions (see the text under the sub-heading “Net Asset Value” in the section entitled “Bye-laws of the Fund”), redemption of Shares will take place on the Dealing Day immediately following receipt of such written request and share certificate (if there is one) at the Net Asset Value per Share calculated at the close of business in Bermuda on the Valuation Day immediately preceding that Dealing Day. A cheque will be posted or funds will be wired within 28 days of the relevant Dealing Day, together with details of the redemption and share certificate for the balance (if any) of the holding.

The Fund reserves the right to require redemption of the Shares of any shareholder whose total shareholding in the Fund is Shares having a Net Asset Value of less than US\$10,000.

There are no restrictions on who may buy Shares in the Fund provided the legislation of the countries of citizenship, residence and domicile of the potential investor permits such purchase. The Fund's Bye-laws include a clause empowering the Directors to redeem compulsorily Shares acquired by any person who has acquired them in contravention of such legislation or in the event that to do so would eliminate or reduce the exposure of the Fund or its shareholders to adverse tax or regulatory consequences under the laws of any country or, if the acquisition or holding of Shares might be expected to prejudice or risk prejudicing in any way either the Fund or the Shareholders.

TRANSFER OF SHARES

Shares are transferable by instrument in writing signed by (or in the case of a transfer by a body corporate, signed on behalf of or sealed by) the transferor and registered in the register of shareholders of the Fund. Unless the Directors otherwise agree, no transfer may be made which would result in either the transferor or the transferee remaining or being registered as the holder of Shares valued at less than US\$25,000 at the time of such intended transfer

DIVIDENDS

The Fund's overall objective is to maximise capital appreciation of the Shares and accordingly it is the current intention of the Directors that dividends will not be declared. To the extent that a dividend policy is consistent with this objective the Directors may, from time to time, declare dividends.

CHARGES AND EXPENSES

THE MANAGER

The Manager is entitled to receive from the Fund a management fee payable on the last Valuation Day in each month in arrears at the rate of 2 percent per annum of the Net Asset Value of the Fund calculated on that Valuation Day on all share classes except the Class “D” Shares (management shares) where the rate will be 0.5 percent per annum.

In addition, the Manager is entitled to a performance fee calculated on each Valuation Day. A performance fee of 20% of Net Profits (over 8%p.a.) is calculated and becomes due to the Manager at each Valuation Day, but will be paid quarterly (“Performance Fee”). Net Profits are defined as the cumulative profits for the fiscal year before the incentive fee, after deduction of all transaction costs, management fees, expenses and the amount that would have been earned in that fiscal year had the assets of the Fund been invested at a rate of 8%p.a. Trading Profits shall include both realized and unrealized profits. If Net Profits for a month are negative, there shall be ‘carry forward losses’ for the beginning of the next month. No Performance Fee will be payable until Net Profits exceed carry forward losses, after adjustment for redemptions. Once earned, the Performance Fee will be retained by the Manager regardless of the Fund’s future results.

During any period of suspension of the determination of the Net Asset Value the payment of the performance fees to which the Manager is entitled will be postponed (although such fees will continue to accrue), however management fees will continue to be paid.

The Manager may charge a placement fee prior to the issuing of Shares in the Fund of a sum not exceeding 5% of the amount subscribed, which will be deducted from subscription moneys received thus reducing the amount available for the Purchase of Shares in the Fund.

The Manager is also entitled to be reimbursed for certain reasonable out-of-pocket and third-party expenses incurred in the performance of its duties. The fees of the Manager may be altered by the mutual agreement of the Fund and the Manager. All management expenses will be charged to income.

THE INVESTMENT ADVISER

The Investment Adviser is entitled to such fees as may be agreed between the Manager and the Investment Adviser from time to time. All such fees will be borne by the Manager and will not be the responsibility of the Fund.

FUND EXPENSES

The Fund will incur costs in connection with the operation of the Fund, which include the fees due to the Manager, Directors' fees, administration, audit, custody and legal fees. The Fund will also incur the cost of amalgamation, estimated at US\$30,000, which will be amortised over a 60-month period.

DIRECTORS' REMUNERATION AND EXPENSES

The Directors shall be entitled to such remuneration as may be determined by the

shareholders of the Fund voting in General Meeting. The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in the execution of their duties. One of the Directors currently receives \$2,000 per annum. No other Directors have or currently receive remuneration from the Fund.

CUSTODIAN FEES

In remuneration for its services rendered to the Fund as the Custodians, HSBC Institutional Trust Services (Bermuda) Limited shall receive from the Fund a minimum of US\$3,000 per annum and UBS Nominees a fee based on the assets of the Fund with a minimum of US\$2,400 per annum.

ADMINISTRATOR, REGISTRAR AND TRANSFER AGENT FEES

The Administrator is entitled to fees commensurate with the work and responsibilities undertaken and which may vary from time to time and is initially at the higher of \$11,000 per month or 15 basis points per annum of the net assets of the Fund.

SHAREHOLDER INFORMATION, ACCOUNTING AND AUDIT

NET ASSET VALUE

The Net Asset Value will be calculated in accordance with the valuation guidelines established by the Directors from time to time. The Net Asset Value and the Net Asset Value per Share will be calculated by the Administrator in US Dollars on each Valuation Day. The Net Asset Value will be calculated at the mid price, as described below.

The Net Asset Value of the Fund will be determined by subtracting the liabilities of the Fund from the value of the Fund's assets. In calculating the liabilities of the Fund the Administrator will include, without limitation, the accrued liabilities, including all fees, expenses and such amounts in respect of contingent or projected expenses as the Directors consider fair and reasonable determined in accordance with generally accepted accounting standards. In particular an amount equal to any performance fee which would be payable to the Manager if all of the Shares were redeemed on that Dealing Day will be included. The calculation of the value of the assets of the Fund will include all cash and investments held by the Fund and all accrued interest and dividends to be received by the Fund as at the relevant Valuation Point and any unamortised expenses.

The assets of the Fund will be valued in accordance with the guidelines determined from time to time by the Directors. Listed investments will be valued on the basis of their quoted prices. Where bid and offer prices are quoted, investments shall be valued at mid prices for the purposes of calculating the Net Asset Value. Unlisted securities and quoted securities for which a price is unavailable will be valued at their fair value as may be determined in good faith by the Directors. If the Directors consider that any of the above valuation rules do not give rise to a fair value, they may adopt or approve such other valuations as they consider fair in the circumstances.

The Net Asset Value per Share will be calculated by ascertaining the Net Asset Value of the Fund and dividing such sum by the number of Shares in issue.

ANNUAL ACCOUNTS

Annual accounts will be prepared to 31 March each year or the closest weekly Valuation Day to this date.

ANNUAL GENERAL MEETINGS

The Annual General Meeting of the Fund will be held in Bermuda, with at least 14 days notice, accompanied by the current annual accounts, being given in writing to all holders of the Common Shares in the Fund.

AUDITORS' CONSENT

KPMG, Chartered Accountants, have accepted their appointment as Auditors of the Fund. A copy of the Auditors' statement consenting to their appointment as Auditors of the Fund is incorporated herein as an integral part of this Prospectus.

The Auditors have given and have not, before delivery of a copy of this Prospectus for filing with the Registrar of Companies in Bermuda, withdrawn their written consent to the inclusion of their name in the form and context in which it appears.

GENERAL INFORMATION

INCORPORATION

The Fund was continued into Bermuda on 4 October 2000.

AUTHORISED CAPITAL

The Fund has an authorised share capital of US\$12,000 divided into 100 common shares of par value US\$1.00 each and 11,900,000 non-voting redeemable preference shares of par value US\$0.001 each.

Each holder of common shares is not entitled to receive dividends, may not redeem its holding and is only entitled to be repaid the par value of those common shares upon a winding up or distribution of capital.

Each holder of a common share is entitled at general meetings of the Fund, on a vote upon a show of hands, to one vote and, on a vote on a poll, to one vote for each share held. All shares in the Fund must be fully paid up.

Each of the non-voting redeemable preference class 'A' shares carries no preferential or preemptive rights upon the issue of new shares. Upon a winding up or distribution of capital shareholders are entitled to receive the Net Asset Value of their shares. A non-voting redeemable preference share does not confer the right to vote at general meetings of the Fund.

Upon a winding up or distribution of capital shareholders are entitled to receive the Net Asset Value of their class 'B', 'C' and 'D' shares. A voting redeemable preference share confers the right to vote at general meetings of the Fund, on a vote upon a show of hands, to one vote and, on a vote on a poll, to one vote for each share held. All shares in the Fund must be fully paid up.

MATERIAL CONTRACTS

The following contracts, not being entered into in the ordinary course of business, have been entered into by the Fund on the date of this Prospectus and are or may be material:

- a contract dated 1 June 2001, made between the Fund and Manager whereby the Manager was appointed managers of the Fund, this contract is ongoing unless terminated by either party with 3 months notice in writing;
- contracts dated 1 July 2004, made between the Fund, the Manager and The Bank of Bermuda Limited whereby The Bank of Bermuda Limited and ING Bank (Eurasia) ZAO were appointed Custodian to the Fund and/or Subsidiary;
- a contract dated 1 July 2004, made between the Fund and the Administrator whereby Apex Fund Services Ltd was appointed as Administrator and Registrar and Transfer Agent of the Fund.

INSPECTION AND DISCLOSURE OF INFORMATION

Copies of the above documents, together with copies of the Fund's Bye-laws and Memorandum of Association may be inspected during normal business hours at the Fund's registered office.

The Net Asset Values of the Shares will be made public at the offices of the Administrator and at the registered office of the Fund.

EXCHANGE CONTROL AND BERMUDA DISCLOSURE

The Fund has been classified as non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority whose permission for the issue of Shares has been obtained. The issue, redemption and transfer of Shares to, by and between persons regarded as non-resident in Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act 1972 of Bermuda and regulations made thereunder. Issues and transfers involving any person regarded as resident in Bermuda for exchange control purposes require specific prior authorisation under the Act. The Fund, by virtue of being non-resident of Bermuda for exchange control purposes, is free to acquire, hold and sell any foreign currency and securities without restriction.

No Share or loan capital of the Fund is under option or agreed conditionally or unconditionally to be put under option. No Share or loan capital of the Fund has been issued or agreed to be issued within the two years immediately preceding the date of this Prospectus or is proposed to be issued as fully or partly paid either for cash or consideration other than as set out above. There is no real or personal property purchased or acquired by the Fund, or proposed to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of this issue, or the purchase or acquisition of which has not been completed at the date of issue of this Prospectus. Save as disclosed in this Prospectus, no Director of the Fund has any interest, direct or indirect, in the promotion of or in assets which are proposed to be acquired by, disposed of by or leased to the Fund and no Director of the Fund has a material interest in any contract or arrangement entered into by the Fund which is significant in

relation to the business of the Fund.

Save as disclosed in this Prospectus, no amount or benefit has been paid or given, or is intended to be paid or given by the Fund to any promoter or Director, or any firm of which a Director is a partner.

There is no minimum amount, which in the opinion of the Directors, must be raised by the issue of the Shares pursuant to this Prospectus to provide for the matters referred to in Section 28 of The Companies Act, 1981 of Bermuda.

TAXATION

The Fund is an exempted company within the meaning of The Companies Act 1981 of Bermuda and as such, under current law, is not liable for any taxes in Bermuda. The Fund is required to pay an annual government fee, currently \$1,780.

The Fund has received an undertaking from the Minister of Finance of the Bermuda Government under the provisions of the Exempted Undertakings Tax Protection Act 1966, which until 28th March, 2016 exempts the Fund and its shareholders (other than those ordinarily resident in Bermuda) from any Bermudian taxes computed on profits or income or on any capital asset gain or appreciation or any tax in the nature of estate duty or inheritance tax (apart from any taxes on land in Bermuda leased or let to the Fund).

Potential purchasers of Shares should inform themselves as to the possible tax and other consequences under the laws of the countries of their citizenship, residence and domicile, which might be relevant to the purchase, holding and eventual sale of Shares.

LITIGATION

There is no pending litigation or claims of material importance against any member of the Fund, as far as is known by the Directors.

BYE-LAWS OF THE FUND

The following is a summary of significant provisions in the Fund's Bye-laws:

DEFINITIONS

- (a) "Dealing Day" means weekly on every Monday that is a Business Day, if Monday is not a Business Day it will fall on the next Business Day and/or such other days as the Directors shall from time to time determine.
- (b) "Business Day" means any day normally treated as a business day in the Islands of Bermuda, New York, London and Moscow.
- (c) "Market" means any formal or informal market on which the investments of the Fund are or can be dealt in or traded.
- (d) "Valuation Day" means the Business Day immediately preceding a Dealing Day.

NET ASSET VALUE

The Net Asset Value of each share of the Fund outstanding shall be determined by the Directors:

- as at the close of business on each Valuation Day except when determination of the Net Asset Value has been suspended under the provisions of the Bye-laws;
- on such other occasions as may be required by the Bye-laws;
- on such other occasions as the Directors may from time to time determine.

Any determination of Net Asset Value made pursuant to the Bye-laws shall be binding on all parties.

The Directors may declare a suspension of the determination of Net Asset Value as well as the issue and redemption of Shares for the whole or any part of any period in which, in the opinion of the Directors, it is not reasonably practicable to value any of the investments of the Fund for any one or more of the following reasons:

- there is closure of any market on which a substantial portion of the Fund's investments are normally dealt in or traded, other than customary holiday and week-end closings;
- restriction of trading on the market on which a substantial portion of the Fund's investments are normally dealt in or traded;
- the existence of an emergency as a result of which, in the opinion of the Directors, disposal by the Fund of investments owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the Net Asset Value;
- the occurrence of a breakdown in any of the means normally employed by the Directors in ascertaining the prices of investments or when for any other reason the prices of the investments cannot reasonably be ascertained;
- political, economic, military or monetary circumstances which are beyond the control and responsibility of the Fund prevent the Fund from disposing of the assets, or determining the Net Asset Value, of the Fund in a normal and reasonable manner;
- any period when a deficiency in the computer systems renders the calculation of the Net Asset Value impossible; or
- as a consequence of any decision to liquidate or dissolve the Fund.

In addition, if on any Valuation Day, any shareholder(s) wishes to redeem Shares totaling more than ten per cent (10%) of the issued capital of the Fund, the Directors may defer redemption of such Shares, and the calculation of the Net Asset Value, to a subsequent Dealing Day being not later than the fifth Dealing Day following receipt of the application for redemption. In such cases, suspended subscription and redemption requests shall be carried out on the basis of the next following Net Asset Value.

BORROWING POWERS

The Directors may exercise all the powers of the Fund to borrow money (including the power to borrow for the purpose of redeeming Shares) and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Fund or of any third party. The Fund does not currently intend to employ leverage in its investment strategy. The Directors of the Fund may change this policy in the future.

COMPULSORY REDEMPTION OF SHARES

The Directors may require the redemption of any Shares in the Fund of any shareholder whose total shareholding is Shares having a Net Asset Value of less than US\$25,000

ALTERATION OF BYE-LAWS

No Bye-law shall be rescinded, altered or amended and no new Bye-law shall be made until the same has been passed by a resolution of the Directors and subsequently confirmed by a resolution passed by a majority of three-fourths of such shareholders present as, being entitled so to do, vote in person or by proxy at a meeting of the Fund at which notice specifying the intention to propose such resolution has been duly given.

ANTI-MONEY LAUNDERING PROVISIONS

As a result of anti-money laundering regulations, documentation may be required for subscriptions into the Fund. This will be used for compliance with these regulations and to verify the identity of investors and will remain confidential. Please note that the Manager reserves the right to request further documentation or information. Failure to provide such documentation or information may result in rejection of the subscription and/or the withholding of redemption proceeds.

Documentation need not be provided if the subscriber or the beneficial owner(s) of the investment:

- (a) have an existing investment in the Fund and have already provided documentation; or
- (b) are settling the subscriptions by a bank transfer originating from the account of the subscriber, by a bank based in a Recognised Jurisdiction (see below) (in which case, evidence of the payment instruction in the form of instruction voucher, bank advice or bank statement showing the origin of the instruction must be provided); or
- (c) have already provided evidence of identity to the Manager; or

In the event of none of the above applying to a subscriber, the subscriber will have to provide proof of identity to the Manager. Such proof of identity may include:

- (a) In the case of private individuals (including beneficiaries of trusts):
 - (i) a certified* copy of an official identity card; or
 - (ii) a certified* extract from a full passport (i.e. a copy of the front cover and pages showing photograph, personal details and signature, date and place of issue and serial number).
- (b) in the case of corporate investors:
 - (i) a certified* copy of Articles of Association or Statutes or Published Accounts or Certificates of Incorporation or Trade Register Entry or Certificate of Trade or Partnership Agreements; and
 - (ii) names and addresses of all directors or partners and specimen signatures.

* The certified documents must be certified by a professional person such as a lawyer, notary or accountant or official entity such as an embassy or government ministry.

Recognised Jurisdictions

Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Guernsey, Gulf Co-operation Council, Hong Kong, Iceland, Ireland, Isle of Man, Italy, Japan, Jersey, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States of America.

ANNEXURE "A"

DEFINITION OF "UNITED STATES PERSON"

The definition of "United States person" is as follows:

- (i) any natural person resident in the United States;
- (ii) any partnership or corporation organized or incorporated under the laws of the United States;
- (iii) any estate of which any executor or administrator is a United States person;
- (iv) any trust of which any trustee is a United States person;
- (v) any agency or branch of a foreign entity located in the United States;
- (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a United States person;
- (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and
- (viii) any partnership or corporation if:
 - (A) organized or incorporated under the laws of any foreign jurisdiction; and
 - (B) formed by a United States person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rules 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Additionally

- (1) Any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-United States person by a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States shall not be deemed a "United States person."
- (2) Any estate of which any professional fiduciary acting as executor or administrator is a U.S. person shall not be deemed a United States person if:
 - (i) an executor or administrator of the estate who is not a United States person has sole or shared investment discretion with respect to the assets of the estate; and
 - (ii) the estate is governed by foreign law.
- (3) Any trust of which any professional fiduciary acting as trustee is a United States person shall not be deemed a United States person if a trustee who is not a United States person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settlor if the trust is revocable) is a United States person.
- (4) An employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country shall not be deemed a United States person.
- (5) Any agency or branch of a United States person located outside the United States shall

not be deemed a "United States person" if

- (i) the agency or branch operates for valid business reasons; and
 - (ii) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located.
- (6) The International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organizations, their agencies, affiliates and pension plans shall not be deemed "United States persons".

("United States" means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia).

