

# LAFFITTE RISK ARBITRAGE UCITS

OFFERING MEMORANDUM

UCITS COMPLIANT FUND



**LAFFITTE**  
CAPITAL MANAGEMENT

17, rue du Quatre Septembre  
75002 Paris

ACCORDING TO ARTICLE 411-128 OF THE AMF RULES,  
THIS OFFERING MEMORANDUM HAS BEEN GIVEN TO THE SUBSCRIBER PRIOR TO THEIR FIRST SUBSCRIPTION

## DISCLAIMER

This document is a free translation into English of the prospectus issued in French and it may include errors and/or omissions. It is provided solely for the convenience of English-speaking users.

This prospectus should be read in conjunction with, and construed in accordance with French law.

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# OFFERING MEMORANDUM

## Laffitte Risk Arbitrage is a UCITS Fund

### I- GENERAL CHARACTERISTICS

#### 1. FORM OF THE FUND

**Name:** LAFFITTE RISK ARBITRAGE UCITS

**Legal form of the Fund:** Fonds Commun de Placement (FCP), governed by French law and established in France

**Creation date and projected term:** created on June 10<sup>th</sup>, 2009 for 99 years.

#### 2. SUMMARY OF THE INVESTMENT OFFER

**ISIN code**

A Units: FR0010762187  
USD Units: FR0011158203  
S Units: FR0010768028

**Allocation of income**

Capitalisation

**Currency**

Euro

**Recommended minimum investment period**

3 years

**Frequency of the NAV calculation**

Daily

**Closing date of the annual exercise**

Last NAV in June

**NAV at inception**

Unit A : €10.882,13  
USD Unit: \$10.000,00  
Unit S : €11.395,90  
€1.000 for A and S Units  
\$1.000 for USD Unit.

**Minimum initial subscription**

**Minimum subsequent subscription**

None  
A Unit is open to all subscribers.

**Subscribers concerned**

USD Unit, denominated in US dollar, Unit A is opened to all subscribers willing to benefit from a full and systematic hedge of the foreign exchange risk.

S Unit is dedicated to staff and managers of the asset management company.

The latest annual documents (annual report) will be sent to you within one week, after your request has been received by the Management Company:

**LAFFITTE CAPITAL MANAGEMENT**

17, rue du 4 Septembre - 75002 Paris

Phone: 01 55 04 79 30.

E-mail: [contact@laffittecapital.com](mailto:contact@laffittecapital.com)

All supplementary information can be obtained by contacting Laffitte Capital Management Company at the above address.

## II. PLAYERS

- **Management Company :**

**LAFFITTE CAPITAL MANAGEMENT SAS** was authorized to do business on 03/10/2007. The authorization number is GP0700048.

**Legal status:** Société Anonyme par Actions Simplifiée

**Registered office and postal address:** 17, rue du Quatre Septembre 75002 Paris

- **Custodian :**

**RBC DEXIA INVESTOR SERVICES BANK France SA**

**Legal status:** Société Anonyme

**Regulatory authorities:** CECEI and the regulatory Banking Commission

**Registered office and postal address:** 105, rue Réaumur - 75002 Paris

- **Statutory Auditor :**

**PWC - Cabinet Sellam** represented by: Frédéric Sellam

**Registered office and postal address:** 49-53 Avenue des Champs Elysées - 75008 PARIS

- **Centraliser of subscription and redemption orders :**

**RBC DEXIA INVESTOR SERVICES BANK France SA**

**Legal status:** Société Anonyme

**Headquarters and postal address:** 105, rue Réaumur - 75002 Paris

- **Accounting administrator:**

**RBC DEXIA INVESTOR SERVICES France SA**

**Legal status:** Société Anonyme

**Postal address:** 105, rue Réaumur - 75002 Paris

- **Marketer:**

**LAFFITTE CAPITAL MANAGEMENT SAS** was authorized to do business on 03/10/2007. The authorization number is GP0700048.

**Legal status:** Société Anonyme Simplifiée

**Registered office and postal address:** 17, rue du Quatre Septembre 75002 Paris

The management company reserves the right to use external marketers if need be.

### III- MANAGEMENT AND OPERATIONS

#### 1. GENERAL CHARACTERISTICS

##### Characteristics of the Units or Shares

- **Isin code :** Isin code : Unit A : FR0010762187 - Unit USD : FR0011158203 - Unit S : FR0010768028
- **Nature of the rights attached to the class of shares:** Each subscriber has a joint ownership right concerning the assets of the Fund and in proportion to the number of shares owned.
- **Registration and management of liability:** the shares are recorded at Euroclear France and follow the normal procedures of payments and delivery.  
The units are held by the depositary as liabilities:  
RBC Dexia Investor Services Bank France S.A. – 105, rue Réaumur – 75002 Paris.
- **Voting rights:** No voting rights are attached to the shares. Decisions are made by the Management Company. Please note that information on changes in the Fund's operating methods are given to bearers either individually, or by way of press, or by any other means complying with the currently applicable regulations.
- **Form shares:** Bearer.
- **Decimalisation:** Yes (thousandths).

##### Closing date

The last NAV was calculated in June. The first closing took place in June 2010.

##### Tax regime

The Fund is not subject to income tax. Shareholders, however, may be subject to tax on the amounts paid by the Fund, if applicable, or when selling shares in the Fund.

The tax regime applicable to the amounts paid by the Fund and to the Fund's unrealised and realised capital gains and losses depends on the tax rules applicable to the investor's specific situation, his tax residence and/or the investment jurisdiction of the Fund.

If the investor is not sure of his tax situation, he/she must consult a tax advisor or a consultant.

Certain amounts paid by the Fund to non-residents in France are likely to be subject to withholding tax.

#### 2. SPECIAL PROVISIONS

##### Classification

LAFFITTE Risk Arbitrage UCITS is a Ucits III Fonds Commun de Placement classified as « Diversified».

##### Investment in other funds

The fund may hold up to 10% of its asset under management in other regulated funds.

##### Management Objective

The fund goal is to achieve a performance un-correlated to the equity market. In other respects, the fund has an objective to maintain a volatility level below 5%.

##### Benchmark

The objective of the management team is to obtain an absolute performance by using different arbitrage strategies, mainly alternatives. The performance of these funds is not assessed in relation to the evolutions of a benchmark.

The objective of the management team is to obtain an absolute performance by using different arbitrage strategies, mainly alternatives. The performance of the funds is not assessed in relation to the evolution of a benchmark.

Nevertheless, the performance may be compared ex-post to the yearly capitalized EONIA for Units quoted in Euro and compared to capitalized Fed Fund Effective Rate US for units quoted in Dollar.

EONIA (Euro Overnight Index Average) corresponds to the daily zero-risk interest rate in the Euro zone. It is calculated by the European Central Bank.

Fed Fund Effective Rate US represents the volume-weighted average of interest rates at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The rate is released by the Federal Reserve.

### Investment Strategy

The fund's objective is to implement strategies of arbitrage (mainly merger arbitrage) by using a three steps process: a **fundamental analysis** linked to a **statistical-probabilistic analysis** and an optimization of the portfolio's allocation.

**The statistical-probabilistic analysis** helps the asset manager to estimate the fair value of a merger arbitrage spread by computing the probability of success of the offer and the potential fall of the stock if the offer fails.

Positions are traded « Long / Short », i.e. the purchase of one stock is compensated by the sale of another one. The decisions of the asset manager are mainly discretionary.

The diversity of the arbitrages, the use of various techniques and markets help the managers to build a diversified portfolio. The split between the arbitrages depends on market conditions.

The strategies are mainly implemented in Europe and in North America. A small part of the portfolio can be invested in other geographic zones (notably in Japan or countries outside of the Organisation for Economic Cooperation and Development).

Investments cover all financial sectors and in every type of market capitalization, under the conditions set forth in the specifications of the financial instruments used.

The fund can be invested in CFD « contract for differences » and/or OTC equity swaps in order to replicate long or short positions. CFD and equity swaps are simple instruments whose underlying assets are equities. These instruments allow the managers to sell and borrow a stock in the same contract.

The asset managers can take positions on European and U.S. equity and index derivatives markets in order to cover or expose the portfolio. It may also take positions on the market rates (interest rate swaps, futures rates), of the currencies (the swap, forward foreign exchange) and repurchase agreements (Total return swap, lending or borrowing of securities, options strategies).

The fund can invest up to 10% of its assets under management in units of other funds. It can also invest in ETF (Exchange Traded Funds) traded on regulated markets.

If the managers consider that there are no better arbitrage opportunities, they can decide to invest up to 100% of the assets in money market instruments. These instruments will have a maturity shorter than 12 months and will be concentrated on the U.S. and Euro zone issuers with a minimum « Investment Grade » Standard & Poor's notation.

The different strategies in the fund are:

#### 1 – Description of the investment strategies:

##### ❖ **Primary Strategy : Merger Arbitrage on announced deals**

#### **Principle of the strategy**

Buy or sell shares (or other securities) involved in the form of a cash takeover bid, of an exchange offer, a squeeze out or mergers. These strategies are implemented only when the operation is officially announced in the market.

The natural order of things would be to purchase the target company at a discount compared to the value implied by the offer and hold the securities until the settlement of the offer. If the offer is in company shares from the buyer (or if the offer is mixed), a selling position is initiated on the shares of the acquiring company in order to take advantage of the difference between the implied value of the offer and market price of the target.

If the probability of success of the operation seems insufficient, the inverse position can be set up (sale of the target) in the case of a takeover or sale of the target and purchase of the purchaser in the case of a stock offer. It is also possible that the target company is the subject of a counter bid in this case it is possible to buy the target shares at a higher price than the current implied value of the first bid.

## ❖ Secondary Strategy : Corporate Action Arbitrages and non-announced deals

To improve the efficiency of management, two strategies may be put into place:

➤ Arbitrage of corporate actions provides an attractive risk/reward because these offers were issued without conditions.

- Arbitrage Preferential Subscription Rights / Underlying shares:

These include the purchase of Subscription rights when they are quoted below their nominal value and the sale of the underlying securities of the subscription (equities, convertible warrants ...), or the reverse if the subscription right is quoted above their theoretical value. Arbitrage is balanced if the quantity of stocks in the short position is exactly the same as the number that DPS will get upon subscription. There are two types of Subscription rights: with or without payment of the new share at strike.

- Arbitrage New Shares / Old Shares:

It is the taking of a long position of the new shares and the taking of a short position on the old shares; these positions would be kept until the conversion date. The difference in value between the shares called "old" and "new" shares is, in principle, due to the dividend payments, which sometimes is not eligible for the new shares and due to the cost of borrowing. Taking a long position in the new shares can be initiated from subscription rights having a strike price. It should be noted that the short position on new shares is rare, although possible, because it is difficult to borrow new shares.

- Share Class Arbitrage :

Share Class arbitrage consists of buying and selling different equity share classes of the same issuer. These may be ordinary shares, saving shares, preferred shares, bearer shares etc...

The spread between different classes depends on the liquidity of each security, the dividend, the voting right, the cost of borrowing and the probability of conversion... The natural position is to anticipate a conversion of a saving or preferred share into an ordinary share but the opposite position may be taken if the spread tightens.

- Arbitrage on American Depositary Receipt :

The act of buying a security against the sale of an "equivalent" security quoted in another place:

- American Depositary Receipt (ADR) or other certificates of deposit or securities for the underlying shares. The ADR are quoted in USD and shares in their local currency. The same goes for ADS (S standing for Share) in Canada, denominated in CAD, against underlying shares.
- Arbitrage between shares quoted in the same currency but listed in the local market and in a foreign market.

Technically, trading ADR or ADS is based upon the possibility to convert them into the underlying stock. The sale of ADR or ADS against the buying of the underlying stock is possible because the ordinary shares can be converted into ADR. These products are considered as totally convertible.

➤ The operations in the pre-announcement that is to say not formally announced but widely expected present a risk which is higher than that of the rest of the portfolio in exchange for much more attractive yields. This strategy is more dynamic than the others, and the management team favours arbitrage of announced mergers and acquisitions.

In practice, these operations can work on the same principle as the one mentioned above for announced mergers and acquisitions. It is to capture the under-valuation in the market for the target of the offer compared to its theoretical value determined by the potential terms of the offer. These strategies should therefore also be within the analytical framework of announced mergers and acquisitions.

## 2 –Risk monitoring:

The portfolio is designed to comply with a monthly Value at Risk reflecting a maximum risk of 20%. The VaR represents a statistical estimate, during normal market situations, of the potential maximum loss the portfolio may suffer within a month with a 99% probability. The VaR is calculated on a daily basis by the Investment Company.

The portfolio is exposed to the following risks:

- Equity risk: main risk for the investor;
- Interest rate risk: low;
- Currency risk: low.

As a rough guide, the average monthly VaR is 12% and the indicative average weekly volatility of the portfolio is around 3%.

### **3 – Description of Assets (except derivatives) used to reach the investment objectives:**

The assets may be invested as follow:

#### **a) Between 0% and 100% in equities**

In most cases, the transactions are related to the shares of companies. There may be circumstances where the operation is extended to other types of financial instruments such as (convertible bonds, debt securities, subscription warrants). The analysis of the risk / reward on investment helps to determine what instrument or instruments will be the most adequate.

#### **b) Between 0% and 100% in money market instruments**

The fund is long cash. The cash management consists of investing in the money market. The instruments used are ECP, USCP, Certificate of deposit, Treasury Bill, French BTF).

These instruments will have the following characteristics:

- Maturity shorter than 12 months
- Geographical allocation on European and North American issuers
- Issuers with a minimum « Investment Grade » Standard & Poor's notation.

#### **c) Between 0% and 10% in units of:**

- French and European Funds complying with the 85/611/ECC directive.

The selected funds will have various classifications including money market funds.

Allocation to this asset class will be carried out in order to diversify the portfolios, enhance cash management and optimize the performance.

### **4 – Derivatives instruments**

The asset managers can take positions on French or foreign equities and index derivative markets in order to hedge or expose the portfolio. It may also take positions on market rates (interest rate swaps, futures rates), on currencies (the swap, forward foreign exchange) and repurchase agreements (Total return swap, lending or borrowing of securities, options strategies).

The use of these instruments is to cover any risk linked to the strategy that could occur (FX risk, interest rate risk, volatility risk, equity and indices risk).

The fund can be invested in CFD « contract for differences » and/or OTC equity swaps in order to replicate long or short positions. CFDs and equity swaps are simple instruments. The underlying assets are equities. These instruments allow the managers to sell and borrow a stock in the same contract.

In terms of performance, CFDs reflect the same performance as the underlying shares. CFDs are used through a convention and the counterparties are selected according a strict procedure. CFDs may cause a liquidity risk.

### **5 – Cash loans**

The fund reserves the possibility of borrowing cash up to 10% of its net assets in compliance with existing regulations.

### **6 – Securities lending/borrowing**

Nature of interventions: Coverage for the selling and anticipation of increased activity on the securities.

Compensation:

- The collateral which was given as a guaranty for the securities borrowed is remunerated according to money market rates
- The commission rate is paid on the basis of the nominal of the borrowed security depending on the refinancing market conditions of the stock.

Nature of the operations carried out:

- Repos
- Lending Securities
- Contract for Difference (CFD), Equity Swap
- Optional strategies

The fund reserves the right to carry out these operations in advance in order to guarantee the supply and coverage of these positions.

## Risk Profile

*The investments of customers will be invested mainly in financial instruments selected by the Investment Company. These instruments will follow developments, evolutions and the ups and downs of the market. Given the nature of the activities of the FCP, performance can fluctuate significantly, depending on the period. The performance over a period of time is not in any way a sign of future performance. Potential investors have to consider these following factors in order to estimate if their investment objective reflects this profile of risk taker.*

By decreasing importance, the main risks are the following:

### ➤ Main risks

#### **The risk of a merger or acquisition failure**

The evolution of the probabilities of failure (success rate) with a merger-acquisition determines the evolution of the spread on the strategy. In the case of a normal strategy, the withdrawal of an operation can lead to a significant drop in the stock of the target company and possibly a rise in shares of the predatory company in the case of a public offer of exchange. The risk is all the more important as the offer(s) premium at the announcement is generous and when the probability of a non-completion of the transaction is high. In the case of “reverse deals” strategies (selling position on the target company by an offer and possibly buying the purchaser), initiated on the basis of expectations of failure of merger, the risk lies in the success of the offer.

#### **The risk linked to a high leverage**

Due to the fact that the products require a low initial payment, a minimal variation of the underlying assets can generate a gain or loss of a significant proportion of the initial investment. The fund managers can use the leverage through borrowing cash or securities and by using financial instruments. This leverage enhances the potential gains but also heightens the risk of loss.

This risk may cause a significant fall of the fund’s Net asset Value.

#### **Risk of not fulfilling the fund’s objective – Discretionary Risk**

Considering the fund’s strategy, the main risk taken by the investor depends on the fund manager’s capacity to correctly estimate the fair value of a company and to anticipate any event that could have an impact on its value. Globally it depends on its capacity to correctly evaluate the risk/reward of the arbitrages.

This risk may cause a significant fall of the fund’s Net asset Value.

#### **The Risk of counterparty**

Considering the OTC instruments, the fund could bear a counterparty risk. This risk measures the loss that could occur in a case of a counterparty default. A case of default may cause a significant fall of the fund’s Net asset Value.

Specifically, the operating rules and the guarantees linked to these operations (collateral and margin calls) respect the rules and regulations applicable to this kind of instruments.

#### **The risk of capital loss**

The fund offers no capital guarantee or protection. Investors may not get back the total value of their initial investment.

## **Interest rate Risk**

Assets of the fund may be invested in the money market. The return of these investments is negatively linked to a decline in interest rates.

Furthermore, the evolution of the interest rate curve has had an impact on the return of merger arbitrage positions specifically on cash bids with a long timetable.

This risk may cause a significant fall of the fund's Net asset Value.

## **Risks linked the strategies of arbitrage implemented in the fund**

### **Risk of non-correlation between stocks**

The risk of mean reversion (non-correlation) occurs when a supposed stable statistical relation between two shares is not confirmed by the market following a shock on the pair. In order to limit this risk a statistical review over a past period has to validate the effectiveness of the pair trade.

### **The risk of failure counter-bid and delay of a merger and acquisition**

The evolution of the probabilities of failure (success rate) with a merger-acquisition determines the evolution of the spread on the strategy. In the case of a normal strategy, the withdrawal of an operation can lead to a significant drop in the stock of the target company and possibly a rise in shares of the predatory company in the case of a public offer of exchange. The risk is all the more important as the offer(s) premium at the announcement is generous and when the probability of a non-completion of the transaction is high. In the case of strategies "Reverse Deals" (selling position on the target company by an offer and possibly buying on the purchaser), initiated on the basis of expectations of failure of merger, the risk lies in the success of the offer.

Furthermore, any delay in the completion of the merger increases the cost of financing and may reduce the return of the arbitrages implemented in the fund.

### **Dividend Risk**

A non anticipated change in the dividend significantly influences the profitability of the strategy arbitrage.

### **Loan and Borrowing Risk**

In the case of a higher fee paid to the lender of short sale securities, the profitability of the strategy may be significantly reduced. Furthermore if the lender recalls the loan, the position has to be bought back even if market conditions are not suitable.

Any of these risks may cause a significant fall of the fund's Net asset Value.

### **➤ Other risks**

### **Currency Risk**

The fund can purchase and sell securities in currencies other than the currency of the fund (EUR). To limit the potential adverse impact of a contrary trend in the foreign exchange markets, the fund may have recourse to enter into a policy of covering the currency risk.

### **Risk linked to investment in emerging market securities**

The fund reserves the right to invest in non-OECD countries. The shares of these countries provides less liquidity than the large caps in developed countries; and certain securities from these countries can be difficult to handle if the securities are not negotiable, or are no longer negotiable on a momentary basis.

This situation is due in particular to the absence of trade in the market or due to the regulatory restrictions. As a result, the possession of such securities can result in exceptions to the normal functioning of the fund in accordance with the rules and regulations of the scheme. In addition, a market decline could be more marked and faster than in developed countries, the net asset value could decline more sharply and more rapidly.

### **Risk linked to investment in small capitalizations**

Punctually the fund can invest in small capitalization companies i.e. companies whose capitalization is below €150M. The liquidity for these securities is thinner and the market's fall may be amplified compared to the effect on medium and big capitalizations.

Any of these risks may cause a significant fall of the fund's Net asset Value.

The list of risks cannot be full. Potential investors may ask for advises before subscribe.

#### Guarantee or protection

LAFFITTE RISK ARBITRAGE UCITS offers no capital guarantee or protection.

#### Subscribers and the investor profile typology

**Unit A:** Unit A is opened to all subscribers.

**Unit USD:** Unit USD, denominated in US Dollar, is opened to all subscribers willing to benefit from a full and systematic hedge of the foreign exchange risk. The Unit has been created on December 12<sup>th</sup>, 2011.

**Unit S:** Unit S is exclusively dedicated to staff and managers of the asset management company who have a permanent position and at least a three month seniority status. The subscribers can be extended to include family members up to the first lineage. The subscription has to be approved by the investment management company's executive committee.

The Fund may be included in a life insurance contract.

The subscriber targets an absolute performance independent to the equity markets.

The amount that is reasonable to invest in mutual funds depends on the individual situation of each investor. In order to determine the amount, we must take into account your financial capacity / personal assets, current needs up to 3 years but also your desire to take risks, or conversely, to emphasize a prudent investment. It is also strongly recommended to diversify your investments sufficiently so as not to expose them to only the risks of this fund.

By buying this fund, the subscriber accepts all the risks mentioned in the risk profile.

#### Allotment of results

The revenue for the fund is fully capitalized.

#### Initial value and amounts of subscription

Type of Unit	Isin Code	Currency	Initial Value	Minimum amount for the first subscription	Minimum amount for the next subscription
A	FR0010762187	Euro	10 882,13	1.000 Euros	none
Part USD	FR0011158203	USD	10 000,00	1.000 USD	none
S	FR0010768028	Euro	11 395,90	1.000 Euros	none

#### Terms of subscription and redemption

- Terms of subscription and redemption:**

Subscriptions and redemptions applications are centralized at the depository at 11h00 (Paris time) one business day preceding the valuation date D.

Subscriptions are made into amounts or in the number of units and redemptions only in the number of units on the basis of unknown prices.

The payment related to purchases occurs in D+3 on the basis of net asset value in D and in D+5 for redemptions.

In case of redemption and subscription the same day for the same number of units by the same holder, the payments will occur in D+3.

- Date and frequency of the net asset value**

The frequency is daily. If the validation date D occurs on an official holiday in France or the Stock Exchange is closed, it will be dated on the preceding trading day. This information is published on the website of the company: [www.laffittecapital.com](http://www.laffittecapital.com)

- Financial institution responsible for receiving subscriptions/redemptions:**

RBC DEXIA INVESTOR SERVICES BANK France S.A., 105, rue Réaumur 75002 PARIS.

## Fees and commissions

- **Subscriptions and redemption fees:**

The subscription and redemption fees increase the subscription price paid by the investor or decrease the redemption price. The fees paid by the fund offset the costs incurred by the fund to invest or divest the entrusted assets. The fees which are not paid to the fund are returned to the Management Company, the marketer, and so on.

For A and S units

Maximum fees paid by the investor and debited at the moment of the subscriptions and redemptions	Basis	Rates
Subscription fee not earned by the fund	NAV x number of units	None
Subscription fee earned by the fund	NAV x number of units	None
Redemption fee not earned by the fund	NAV x number of units	None
Redemption fee earned by the fund	NAV x number of units	None

- **Operating costs and management fees:**

These fees cover all expenses charged directly to the fund, except for transaction costs. The transaction fees include the cost of Brokerage, Stock Market taxes, etc and settlement commissions, if any that could be paid to the custodian and the management company.

Other fees that can be added to the operating costs and management fees:

- Performance fees: a commission is charged to the Fund when the fund has exceeded its goals;
- Transaction commissions charged to the Funds;
- A part of the securities lending commissions.

The operating costs and management fees are directly paid by the Fund.

Fees charged to the fund	Basis	Rate including V.A.T.
* Operating costs and management fees all taxes included** (including all expenses except for transaction fees, performance fees and commissions related to investments in mutual funds or other investment funds)	Net Assets	For A and USD Units: 2% all taxes included Maximum per year For the S Unit: 0.60% all taxes included maximum per year
Performance fees	Net Assets	For the A and USD Units 20% all taxes included above capitalized Eonia.
Providers receiving transaction commissions: - Management Company - Custodian	Debited from each transaction	None Between €15 and €150 depending on the market place

\* Operating costs and management fees include: Investment management costs, administrative costs, custodian costs, audit costs (external auditors and distribution costs).

\*\* The Management Company had not opted for VAT; these charges are billed without VAT.

- **Performance fees:**

The performance fee is equal to 20% of the fund performance above capitalized Eonia if the annual fund's performance is above capitalized Eonia for units quoted in Euro and above capitalized Fed Fund Effective Rate US for units quoted in Dollar.

We remind that the performance fee was equal to 20% from the 1st euro till May 12th 2010 (when the fund was Aria-el).

The performance fee respects a mechanism of High Water Mark. The High Water Mark is the highest Net Asset Value reached at the closing of the two previous periods.

A Performance fee can be only charged if the Net Asset Value at the closing of the period is higher than the High Water mark.

The period of reference is the annual period of the fund. As an exception, the first period started at the fund's inception and closed the last day of June 2010.

At each net asset value calculation the amount of performance fees will be calculated and will be subject to provision. In the case of a negative performance of the fund between two valuation dates, any prior provision will be re-adjusted. The reversal of a provision amount will be limited to the total amount of the former provisions.

The re-purchases which occurred during the financial year will be charged against an advance payment for their part of the variable management fees.

These costs will be directly charged to the income of the Fund.

#### **IV. MARKETING INFORMATION**

The types of documentation (annual reports, monthly letters) will cover the past operations.

- a. The financial results of these operations,
- b. Commitments, reported in the assets of the mutual funds at the end of the period,
- c. Developments in the use of financial instruments (strategies, impact on the outcome and the exposure of the portfolio).

In the annual report certified by the auditor, accounting will include the accounting principles and methods used in relation to handling of the financial instruments.

All information about the fund can be obtained directly from the Management Company:

#### **LAFFITTE CAPITAL MANAGEMENT SAS**

**Address:** 17, rue du 4 Septembre PARIS 75002

**Tel:** +33 (0)1 55 04 79 30

**Email:** contact@laffittecapital.com

All requests for subscriptions and redemptions concerning the fund are centralized with the custodian.

#### **RBC DEXIA BANK INVESTOR SERVICES France SA**

Head office and mailing address: 105, Rue Reaumur - 75002 Paris.

#### **V. INVESTMENT GUIDELINES**

##### **REGULATIONS RATIOS APPLICABLE TO THE FUND**

The fund complies with the ratios described in Articles R.214-1 and adheres to the French Monetary and Financial Code.

##### **INFORMATION ON THE GLOBAL RISK OF THE FCP**

The methodology used is the Value at Risk.

The indicative gross exposure level is 170%. It can be broken down as follows: 130% long and 40% short. However, the OPCVM may have a greater gross exposure.

## VI. RULES FOR THE ASSESSMENT AND THE ACCOUNTING OF ASSETS

The net asset value of the fund LAFFITTE RISK ARBITRAGE UCITS shall be dated and calculated by the administrator everyday or the day before if the Euronext markets are closed and / or if there is a holiday in France. LAFFITTE CAPITAL MANAGEMENT is responsible for calculating the net asset value.

The Net Asset Value information is available on the website of the Management Company.

The French and European values are assessed based on the latest prices. Other foreign values are evaluated on the basis of the closing price in their core markets and then converted to euros in accordance with the exchange rate on the valuation date.

The units or shares of mutual funds are valued based on the last known net asset value.

ETFs are valued based on last known quotes.

Futures and options contracts traded in regulated European markets are valued at the closing of the valuation date.

Futures and options contracts traded in other regulated markets are valued at the closing of the valuation date and then converted to euros in accordance with the exchange rate on the valuation date.

The net asset value of the share is calculated by dividing the net asset value of the mutual fund by the number of shares of the Fund. The net asset value takes into account the fees that are deducted from the assets of the Fund.

In the cases where the closing price was not found for a financial instrument on the valuation date or if the price has been modified, the calculation will be based on their probable value of negotiation under the responsibility of the management company. These assessments and the reasons will be communicated to the auditors during the audits.

The repos and stock loans (or borrowing) are valued at cost plus interest.

The financial statements are prepared in accordance with the currently used accounting rules and regulations.

The securities in the portfolio are listed in the balance sheet along with their current values.

The accounting data is not subject to any reinstatement or correction of the annual report statement. This method is therefore consistent with that which is used for calculating the net asset value (the principle of permanent methods of calculating the net asset value).

This document has been updated on: **April 10<sup>th</sup>, 2012.**

## FUND RULES

**LAFFITTE CAPITAL MANAGEMENT SAS**  
**17, rue du 4 Septembre 75002 PARIS**

### PART I

#### ASSET AND UNITS

##### ARTICLE I – CO-OWNER UNITS

The rights of owners are expressed in units, each corresponding to a fraction of the assets of the fund or, where applicable, the unit class. Each shareholder has a right of ownership on the assets of the funds proportional to the number of units owned.

The duration of the fund is 99 years from its inception except in the case of dissolution or extension under this Regulation.

Where the Fund has different unit classes, and each class consists of categories of shares representing the assets of the fund allocated to it. In this case, the provisions of this regulation, which are applicable to the units of the fund, are applicable to classes of units issued in representation of the asset classes

The units will be divided, merged or split based on the decision of the Board of directors of the Management Company in tenths, hundredths, thousandths, or ten-thousandths called fractions of units.

The provisions of the regulation governing the issuance and redemption of shares apply to fractions of shares and this value is always proportional to the part they represent. The rules relating to the application of the fraction of shares do not need to be specified, except as may otherwise be stipulated.

Finally, the Board of Directors of the Management Company may, at its sole discretion, decide on the division of units by the creation of new shares to be allocated to the holders in exchange for the old units.

##### ARTICLE II - MINIMAL AMOUNT OF ASSETS

Unit redemption cannot take place if the fund's assets become lower than the fixed amount set forth by the regulation, in which case, unless the asset in the meantime has a higher value than this, the Management Company will arrange to take the necessary steps within thirty days after the merger or dissolution of the fund.

##### ARTICLE III - NEW SHARES ISSUING AND REDEMPTION

The units can be issued at any time upon the request of the holders on the basis of the increased net asset value, and if the case arises, subscription commissions.

Subscriptions and redemptions are made in accordance with the conditions and procedures specified in the offering memorandum.

The units of the fund may be subject to a stock exchange listing in accordance with existing regulations.

Subscriptions must be fully paid on the day of the net asset value calculation. They can be made in cash and / or by a provision of securities. The Management Company has the right to refuse the proposed securities and has a period of seven days from the date of filing to inform the subscriber of their decision. In case of acceptance, the values given are assessed according to the rules set forth in Article IV, and the subscription can be made based on the first net asset value after the acceptance of the relevant securities.

The redemptions are made exclusively in cash, except in cases of the liquidation of the fund if the unit holders have specified their agreement to be repaid in securities. They are paid by the depository within a maximum of five days after the evaluation of the unit.

In accordance with the provisions of Article L. 214-30 of the Code Monétaire et Financier, the redemption of units in the fund as well as the issuance of new units can be suspended on a provisional basis by the Management Company in the case

of exceptional circumstances, such as, if the transaction could be considered contrary to interest of the holders of the order and especially if the redemption requires the selling of some assets of the Fund. The period of suspension of unit redemptions and the issuance of new shares may be extended for a period not exceeding 30 days.

When the net assets of the fund are lower than the amount set forth by the regulations, no repurchase of units can be made.

Except in the case of inheritance or donation-sharing, the sale or transfer of units between holders, or to a third party holder is treated as a redemption followed by a subscription; in the event of a third party, the amount of the sale or transfer shall be, if necessary, supplemented by the beneficiary in order to achieve at least the minimum subscription amount required and stated in the offering memorandum.

The fund may cease to issue units pursuant to Article L. 214-30 in the second paragraph of the Code Monétaire et Financier in the following cases:

- In the situations involving the closure of subscriptions such as a maximum number of units issued, a maximum amount of assets reached or the expiration of a determined subscription period.
- In the event of exceptional circumstances affecting the activity.

These situations are set out in the offering memorandum of the fund.

#### **ARTICLE IV – CALCULATION OF THE NET ASSET VALUE**

The calculation of the net asset value of the share is carried out by taking into account the valuation rules contained in the offering memorandum of the fund.

### **PART II**

#### **FUND OPERATIONS**

#### **ARTICLE V – THE MANAGEMENT COMPANY**

The management of the fund is carried out by the Management Company in accordance with the guidelines set up for the fund.

The Management Company acts in all circumstances, on behalf of the holders of units and is the only one who can exercise the voting rights attached to securities in the fund.

#### **ARTICLE V BIS – OPERATING RULES**

Financial Instruments and eligible asset deposits for the fund as well as the investment rules are described in the offering memorandum of the fund.

#### **ARTICLE VI – THE CUSTODIAN**

The custodian takes charge of the assets in the fund, goes through the orders of the Management Company concerning the purchases and sales of securities, as well as those relating to the execution of subscription rights and the allocation of the values which are in the fund. The custodian is equally in charge of receiving and making payments.

They must also ensure the consistency of the decisions made by the Management Company and if necessary take any measures they deem appropriate.

The custodian will inform the Autorité des Marchés Financiers if there is a dispute with the Management Company,

#### **ARTICLE VII – THE EXTERNAL AUDITOR**

An External Auditor is appointed for six years by the Board of Directors of the Management Company after having received the approval from the Financial Market Authority.

The auditor performs all the procedures and controls established by law and notably certifies each time the sincerity and propriety of the accounts and the nature of the accounting principles contained in the management report. The auditor's job assignment may be renewed.

The auditor brings to the attention of the Financial Markets Authority, and the Management Company any irregularities and inaccuracies which were discovered during the mission.

Evaluations of assets and the determination of exchange parities in case of mergers or spin off are performed under the supervision of the auditor.

The auditor considers any contributions made and establishes under his or her responsibility an assessment report relating to the operations and his or her remuneration.

The auditor confirms the accuracy of the composition of assets and other elements prior to publication.

The fees of the External Auditor are fixed by mutual agreement between the auditor and the Board of Directors of the Management Company and on the basis of an established work programme which sets out the steps which are deemed as necessary.

The fees are charged to the Management Company.

In the event of liquidation, the auditor carries out an assessment of the amount of assets and issues a report on the conditions of the liquidation.

The auditor confirms situations which serve as a basis for the distribution of payments.

#### **ARTICLE VIII – ACCOUNTS AND MANGEMENT REPORT**

At the close of each fiscal year, the Management Company prepares a background document, and issues a report on the management of the fund during the past financial year.

The inventory is certified by the custodian and all of the above documents are controlled by the auditor.

The Management Company makes these documents available to unit holders within four months following the close of the year and informs the holders of the amount of income to which they are entitled: These documents are either sent by mail, at the express request of the unit holders, or made available to them at the Management Company or the custodian.

### **PART III**

#### **RULES FOR THE ALLOTMENT OF REVENUES**

##### **ARTICLE IX - ALLOTMENT OF REVENUES**

The net income for the financial year shall be equal to the amount of interest, arrears, dividends, premiums and lots, directors' fees and all other income from the securities comprised in the Fund's portfolio, plus income from sums temporarily available, less management fees and the cost of debt servicing.

The distributable income shall be equal to the net income for the year plus retained earnings and plus or minus the balance of the regularisation accounts for revenues relating to the last financial year.

For each class of units and in the case of necessity the fund has opted for the following formula:

- Capitalization pure: distributable amounts are fully capitalized with the exception of those subject to mandatory distribution under the law.

### **PART IV**

#### **MERGER – SPIN-OFF - DISSOLUTION - LIQUIDATION**

##### **ARTICLE X - MERGER – SPIN-OFF**

The Management Company may either transfer, in full or in part, assets held by the Fund to another fund that it manages, or split the Fund into two or more other mutual funds that it shall manage.

These mergers or spin-offs may only take place one month after the holders have been informed.

They will result in the delivery of a new certificate specifying the number of shares owned by each holder.

#### **ARTICLE XI - DISSOLUTION - EXTENSION**

If the value of the Fund's assets remains below the amount stipulated in Article 2 above for a period of thirty days, the Management Company shall inform the Autorité des Marchés Financiers and, barring a merger with another fund, shall proceed with the dissolution of the Fund.

The Management Company shall also proceed with the dissolution of the Fund in the event of a redemption request covering all the shares, or if the custodian ceases to operate and no other custodian has been appointed, or upon expiry of the Fund's term, if this term has not been extended.

The Management Company shall inform the Autorité des Marchés Financiers by mail of the date and procedure for the dissolution. It will then send to the Autorité des Marchés Financiers the statutory auditor's report.

The decision to extend the Fund may be taken by the Management Company in agreement with the custodian. This decision must be taken at least three months prior to the Fund's intended expiry date and brought to the attention of the shareholders and the Autorité des Marchés Financiers.

#### **ARTICLE XII - LIQUIDATION**

In the event of dissolution, the custodian or, if applicable, the Management Company shall be responsible for the liquidation operations. They shall thus have the broadest powers to dispose of the assets, pay any creditors and divide the balance left over among the shareholders in cash or in securities.

The statutory auditor and the custodian shall continue to exercise their functions until completion of the liquidation operations.

### **TITLE V**

#### **DISPUTES**

#### **ARTICLE XIII - JURISDICTION - ELECTION OF DOMICILE**

Any disputes related to the Fund that may arise during the term in which it operates, or during its liquidation, either between the shareholders or between the shareholders and the Management Company or custodian, shall be subject to the jurisdiction of the appropriate courts.