

MEMORANDUM ON THE JERSEY EXPERT FUND REGIME IN JERSEY, CHANNEL ISLANDS

R&H Fund Services (Jersey) Limited

R&H Fund Services (Jersey) Limited was incorporated in Jersey in 1988 and has a staff of more than thirty-five, many of whom are qualified accountants and have been with the firm for many years. It is owned by the Partners of Rawlinson & Hunter Jersey. Further details can be found on the R&H Fund Services website: www.fundadministrators.com or on the Rawlinson & Hunter website: www.rawlinson-hunter.com.

Government and Legal Structure

The Bailiwick of Jersey is a dependent territory of the English Crown; it has its own elected assembly, The States, and therefore has no direct link with the United Kingdom parliament. Accordingly the Island enjoys complete autonomy in domestic and fiscal matters. The Island is not part of the European Union. The legal system is based on Norman Law and is practised by qualified advocates before the Royal Court.

Expert Funds - Key Features

The Jersey Expert Fund has been designed to provide a flexible vehicle for expert and institutional investors. Such funds can be established in a matter of days, taking full advantage of the expertise of regulated Jersey functionaries and a new, streamlined authorisation process.

Investor protection is maintained through the requirements that full disclosure be set out in any offering document issued by the fund, that any Jersey entity that provides services to the fund be licensed to do so by the Jersey Financial Services Commission (the "Commission"), and that prospective investors sign an agreed form of investment warning before their investment is accepted.

Structure

Expert Funds can take any form recognised under the laws of Jersey. Such funds may be open-ended or closed. A key feature of such funds is that the fund board, general partner, manager or trustee (which will have at least two Jersey directors) is ultimately responsible for the management and control of the fund in accordance with and subject to the applicable law.

Investor Requirements

All investors must qualify as expert investors and must sign an investment warning prior to investing in the fund. There is no limit on the number of investors.

For these purposes, expert investors include:

- ♦ Professional and institutional investors;
- ♦ Investors with a net worth, or joint net worth with that person's spouse, above \$1m (excluding the principal place of residence); or
- ♦ Investors making a minimum investment of \$100,000.

In addition, the Commission believes that those involved in establishing and providing services to an Expert Fund should be able to invest in the fund, and will adopt a flexible approach in relation to 'carried interest' investments to be made by or on behalf of those connected with the fund.

Offering Documents

The overriding principle of the Expert Fund regime is that any offering document sets out clearly and fully all material information that a prospective investor requires in respect of the fund, and that all investors sign an acknowledgement that they fully understand and accept the risks of investing in that fund.

Jersey Expert Fund Regime

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Regulated by the Jersey Financial Services Commission under the Collective Investment Funds (Jersey) Law 1988) and the Financial Services (Jersey) Law 1998.

Investment Manager

Investment managers (which term includes investment advisors) that have relevant experience, are solvent, without criminal or regulatory breaches and which are regulated in an OECD member state may establish Expert Funds without being required to seek the specific approval of the Commission to act as an investment manager to an Expert Fund. Other investment managers may approach the Commission on a case by case basis, with the Commission taking a flexible approach, commensurate with offering adequate protection to the Expert Fund's investors and the Island's reputation.

The investment manager will be required to satisfy the Commission's general principles of corporate governance in relation to the span of control over a business, meeting the four-eyes principle if it cannot handle client monies, and the six-eyes principle if it can handle such monies.

If a distributor is the 'prime mover' behind the fund, then that distributor will be required to meet similar tests to those imposed upon the investment manager.

Administration and Monitoring of the Investment Manager

There must be a regulated Jersey manager or administrator with staff and a physical presence in the Island appointed to provide services to the fund. For a closed ended unit trust, the trustee may fulfil this role.

The responsibility of the administrator, manager or trustee (as applicable) shall include taking reasonable measures to satisfy itself that the actions of the investment manager do not breach the investment and borrowing restrictions applicable to the Expert Fund as set out in the fund prospectus, and to promptly notify the entity that appointed the investment manager of any concerns it has in that regard so that appropriate action may be taken.

The 'reasonable measures' that the administrator, manager or trustee takes to fulfil their responsibility may be outsourced in accordance with the Commission's policy, though the responsibility itself cannot be outsourced.

The functionary will be required to maintain in Jersey sufficient records in relation to the fund in order to fulfil its obligations.

Safe Custody Arrangements

An Expert Fund must have adequate safe custody or prime brokerage arrangements in place in respect of the fund assets. An open-ended Expert Fund will be required to source its custody arrangements from a Jersey custodian or, if it is a hedge fund, it may appoint a prime broker that is part of a group with a credit rating of A1/P1 or better.

Investment Restrictions

Full details of the investment and borrowing strategy of the fund must be set out in the prospectus. No investment or gearing restrictions will be prescribed by the Commission in relation to Expert Funds, though the approach to borrowing and gearing must be clearly disclosed to investors.

Application Process

In order to establish an Expert Fund, an application form, completed by the regulated Jersey administrator, manager or trustee and countersigned by the directors of the fund or the general partner of a limited partnership or the manager or trustee of a unit trust, must be lodged with the Commission. Provided the form confirms that the fund meets the Commission's published guidelines and all regulatory checks are satisfied, necessary consents and permits will be issued on an expedited basis.

Provision of Services to Non-Domiciled Funds

Regulated Jersey functionaries will be able to provide services to non-domiciled funds that are materially equivalent to Jersey Expert Funds. A guide setting out the Commission's policy is available on request. There is a guide on the Jersey Financial Services Commission website.

Further Information

The above is a simplified summary of the regime applicable to Jersey Expert Funds, and is intended for information purposes only.

Further details in relation to Expert Funds can be found in the Expert Fund Guide published by the Commission, and only the Guide itself should be relied upon for definitive guidance in relation to Expert Funds.