
Paerel Funds

Société d'investissement à capital variable

Annual Report (audited)
at 31/12/10

R.C.S. Luxembourg B 132 950

Database Publishing System: CO-Reporter® by CO-Link, Belgium.

Paerel Funds

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Organisation

Registered Office

50, Avenue J. F. Kennedy, L - 2951 Luxembourg

Directors

Johannes Klufft, Paerel Groep B.V., Koog a/d Zaan

Anthonius Willibrordis van Dooijeweerd, Director, Paerel Groep B.V., Zwaanshoek

Michel Arjan Klaster, Director Paerel Leven N.V., Amersfoort

Investment Manager

Paerel Vermogensbeheer B.V.
Herengracht 201
NL-1016 BE Amsterdam
www.paerel.nl

Custodian Bank, Paying Agent and Listing Agent

BGL BNP Paribas
50, Avenue J.F. Kennedy
L - 2951 Luxembourg

Domiciliary Agent, Central Administrator, Registrar and Transfer Agent

BGL BNP Paribas
50, Avenue J.F. Kennedy
L - 2951 Luxembourg

Auditor

KPMG Audit S.à r.l.
9, Allée Scheffer
L - 2520 Luxembourg

Legal Adviser

Allen & Overy Luxembourg
33, Avenue J. F. Kennedy
L - 1855 Luxembourg

Paerel Funds

Information to Shareholders

Paerel Funds is offering shares of several separate sub-funds (individually a Sub-Fund and collectively the Sub-Funds) on the basis of the information contained in the Prospectus. No person is authorised to give any information or to make any representations concerning the Company other than as contained in the Prospectus and any purchase made by any person on the basis of statements or representations not contained in or inconsistent with the information and representations contained in the Prospectus will be solely at the risk of the purchaser.

The Company is subject to the provisions of the part II of the act of 20 December 2002 (the 2002 Act) relating to undertakings for collective investment.

The Shares to be issued hereunder will be issued in several separate Sub-Funds of the Company. A separate portfolio of assets is maintained for each Sub-Fund and is invested in accordance with the investment objective applicable to the relevant Sub-Fund. As a result, the Company is an "umbrella fund" enabling investors to choose between one or more investment objectives by investing in one or more Sub-Funds. Investors may choose which one or more Sub-Fund(s) may be most appropriate for their specific risk and return expectations as well as their diversification needs. Furthermore, in accordance with the articles of incorporation of the Company, the board of directors of the Company may resolve to issue Shares of different classes in each Sub-Fund; within each Sub-Fund, investors may then also choose the alternative Class features which are most suitable to their individual circumstances, given their qualification, the amount subscribed, the unit currency of the relevant Class and the fee structure of the relevant Class.

The distribution of the Prospectus and the offering of the Shares may be restricted in certain jurisdictions. The Prospectus does not constitute an offer or solicitation in a jurisdiction where to do so is unlawful or where the person making the offer or solicitation is not qualified to do so or where a person receiving the offer or solicitation may not lawfully do so. It is the responsibility of any person in possession of the Prospectus and of any person wishing to apply for Shares to inform themselves of and to observe all applicable laws and regulations of relevant jurisdictions.

The Company is an investment company governed by the laws of the Grand Duchy of Luxembourg. The registration of the Company does however not require any Luxembourg authority to approve or disapprove either the adequacy or accuracy of the Prospectus or the assets held in the various Sub-Funds. Any representations to the contrary are unauthorised and unlawful.

The value of the Shares may fall as well as rise and a shareholder on transfer or redemption of Shares may not get back the amount initially invested. Income from the Shares may fluctuate in money terms and changes in rates of exchange may cause the value of Shares to go up or down. The levels and bases of, and reliefs from, taxation may change.

Investors should inform themselves and should take appropriate advice on the legal requirements as to possible tax consequences, foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their citizenship, residence, or domicile and which might be relevant to the subscription, purchase, holding, redemption or disposal of the Shares of the Company.

Manager's Report

History of Paerel Fund's SICAV

Paerel Funds SICAV was launched under the name Borghols Funds SICAV on October 5, 2007 with the introduction of the sub-fund Sustainability Fund on November 5, 2007. On December 7, 2007 the sub-fund Alternative Fund was launched and on December 14, 2007 the sub-fund Equity Fund was launched. Both Alternative Fund and Equity Fund were started through a transfer in kind from respectively the Dutch funds Paerelfonds and Paerel Aandelenfonds. On September 16, 2008 the name Borghols Funds SICAV was changed to Paerel Funds SICAV to reflect the name change of the investment advisor from Borghols to Paerel Vermogensbeheer.

Economic and general financial developments

Nearly all asset classes ended the year 2010 in positive territory. As might be expected in an early economic recovery, the more risky asset classes reported the biggest gains.

Equity markets had a strong start of 2010. Underlying optimism with regards to the global economic recovery led to higher stock prices in the first quarter. In the second and third quarter nervousness reentered the markets. Macro economic data came in below expectations and the fear of a double-dip scenario resurfaced once more. Especially the weak housing market and high unemployment in the United States made investors uncomfortable. At the same time the severity of the European debt crisis was recognized to its full extent. There were, however, factors that supported the equity markets. Very accommodative government and central bank policies pushed prices higher across the board. Interest rates reached very low levels in the third quarter. Strong corporate earnings also helped to support equity markets. Indices were moving sideways but with significant volatility during this period. The fourth quarter saw a sharp rise in equity markets. As a result most markets ended the year at year their highs. Confidence amongst investors rose as the fear of a double-dip subsided.

The best performing asset class in 2010 was indirect real estate followed by commodities, equities and high yield bonds. Particularly emerging market equities had a very strong year. Hedge funds and bonds ended the year with single digit gains with corporate bonds outperforming sovereign bonds. Currency markets were very volatile during 2010. The euro lost ground against all major currencies. This added positively to the performance of Euro based investors.

The remainder of this report will cover the performance and investment policy of the three sub funds of Paerel Funds SICAV.

Paerel Funds - Alternative Fund

Paerel Alternative Fund (PC Class) reported a gain of 5.09% in the reporting period from January 1, 2010 up until December 31, 2010. The size of the sub fund increased from EUR 53.2 million to EUR 59.3 million. Both investments gains and net subscriptions contributed positively to the assets under management.

The primary objective of Paerel Alternative Fund is to achieve returns that are comparable to the *long run* returns of equities, but with less than half of the risk of equities. This objective is translated in a return target of 7.5% per year with an expected maximum risk (as measured by the standard deviation) of 10% per year. The secondary objective of the fund is to target returns that have a low correlation with the returns of fixed income and equity markets. The fund sets out to achieve this by investing in asset classes which have low a correlation with broad equity markets, such as hedge funds, real estate, niche and thematic equity funds, commodities and high yield bonds. Within these asset classes Paerel Alternative Fund seeks to invest in funds of specialized managers who employ sophisticated strategies to generate returns. The investment process is focused on reducing risk through diversification over numerous asset classes and strategies.

As of December 31, 2010 Paerel Alternative Fund was invested in 36 underlying funds with exposure to the following asset classes: hedge funds (52%), high yield bonds (13%), public and private equity (15%), commodities (10%), real estate (7%) and cash (3%). The five biggest positions in the portfolio were the Holland Hedge Fund Tracker (9%), Aethra Global Strategies (7%), Schroders AS Commodity (5%), Granada Europe (5%) and Imara African Opportunity (5%).

Paerel Funds

Manager's Report

Currently Paerel Alternative Fund holds two special asset class funds that were created as side pockets from their underlying main funds. These two side pockets were introduced in the portfolio in 2008. It concerns GLG Emerging Markets Special Asset Fund, which is a spin-off of the liquid assets in the GLG Emerging Markets Fund and GLG European Long Short Special Asset Fund, which is a spin-off of the liquid assets in the GLG European Long Short Fund. Proceeds from GLG European Long Short Special Asset Fund were partially distributed to shareholders during 2009 and 2010. The remaining assets of the two Special Asset Funds will gradually be paid out over time. The total weight of the two side pockets in Paerel Alternative Fund is small and amounts to only 0.7% of total assets under management.

Paerel Alternative Fund continued to benefit from the improved sentiment in financial markets. Most asset classes contributed to the gains. The best performing asset classes were equity & private equity followed by commodities. Real estate and high yield debt also showed double digit gains. The only asset class that contributed negatively to the performance of Paerel Alternative Fund was hedge funds. Since over fifty percent of Paerel Alternative Fund is invested in hedge funds this had a significant impact on the 2010 result. Due to rising equity markets and a declining euro the fund also lost on its equity and currency hedge.

Paerel Funds – Equity Fund

Paerel Equity Fund reported a gain of 17.51% in the reporting period from January 1, 2010 up until December 31, 2010. The size of the sub fund increased from EUR 23.2 million to EUR 24.4 million. The increase in fund size from investment gains was partly offset by net outflows. The benchmark of the funds, the MSCI AC World (Net EUR) Index gained 20.5% in the same reporting period, which means the fund underperformed the benchmark by 2.99%

The objective of Paerel Equity Fund is to exceed the return of the benchmark over the long run with a lower or compatible risk. The long term expected return for this equity benchmark is 8.5% per year. The investment policy is not constrained by the composition of the benchmark. Therefore, the return of Paerel Equity Fund can differ significantly from the return of the benchmark. The fund will invest in specialized funds, which are expected to generate above average returns over the long run.

As of December 31, 2010 Paerel Equity Fund was invested in 18 underlying funds. The broad regional focus of these managers was as follows: Emerging Markets (35%), North America (20%), Europe (16%), Australia (5%) and Global (24%). The five biggest positions in the fund were Vanguard US 500 Stock Index (11%), Aethra Global Strategies (9%), Aberdeen Global Asia Pacific (9%), Comgest Growth Emerging Markets (9%) and Value Invest Global (8%).

The best performing funds in Paerel Equity Fund on an absolute basis were funds with high emerging market exposure. Although positive, our European managers showed the lowest returns in 2010. Relative to the benchmark MSCI AC World Index, Paerel Equity Fund gained most from its overweight in emerging markets. Losses relative to the benchmark were mainly the result of the underweight in the United Kingdom. Due to a declining euro the fund also lost on its currency hedge.

Paerel Funds – Paerel Sustainability Fund

Paerel Sustainability Fund reported a gain of 13.16% in the reporting period from January 1, 2010 up until December 31, 2010. The size of the sub fund increased from EUR 11.0 million to EUR 11.6 million. The increase in fund size from investment gains was partly offset by net outflows.

The main objective of Paerel Sustainability Fund is to realize an attractive performance by investing in sustainable investments. The fund aims to realize the highest possible return and to offer diversification benefits to investors. The annualized target return is 8% with a targeted risk that is lower than a 100% equities portfolio. The fund invests in sustainable long-only investments and alternative sustainable investments. Examples of alternatives include commodity related funds, real estate, private equity, high yield and hedge funds. The fund is not constrained by any benchmark and invests in specialized fund that are expected to achieve above average return.

Paerel Funds

Manager's Report

As of December 31, 2010 Paerel Sustainability Fund was invested in 19 underlying funds with exposure to the following asset classes: equity (43%), commodity related equity (26%), private equity (10%), high yield (10%), real estate (5%) and cash (6%). The five biggest positions in the fund were Sparinvest High Yield Value (10%), First State Asia Pacific Sustainability (9%), Henderson Global Care Growth (7 %), Goodwell Microfinance (7%) and SAM Smart Materials (7%).

Most investments in Paerel Sustainability Fund increased in value in 2010. The best performing asset class was private equity. A private equity fund that invests in microfinance institutions in India rose over 50% in value. Equity, commodity related equity and high yield also showed decent gains. The only asset class that saw a decline in its value was direct real estate.

Paerel Funds

To the Shareholders of
Paerel Funds
50, avenue J.F. Kennedy
L-2951 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Following our appointment by the annual general meeting of the Shareholders of July 9, 2010, we have audited the accompanying financial statements of Paerel Funds (“the SICAV”) and each of its sub-funds, which comprise the statement of net assets and the securities portfolio as at December 31, 2010 and the statement of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors of the SICAV responsibility for the financial statements

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements, and for such internal control as the Board of Directors of the SICAV determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Paerel Funds

Basis for Qualified Opinion

As described in note 14 of the financial statements, 7 underlying hedge funds in which the Alternative sub-fund is invested in, amounting to EUR 3,068,816.68 (representing 5.18% and 3.22% of the Alternative sub-fund and of the combined net assets respectively), faced gate activation and side-pocket issues. Additionally, the fair value of these underlying hedge funds referred to above, amounting to EUR 3,068,816.68 (representing 5.18% and 3.22% of the Alternative sub-fund and of the combined net assets respectively), has been derived from unaudited net assets values provided by their agents in accordance with the prospectus. The values attributed to these underlying hedge funds may differ from the values that would have been used had the financial statements of these investments been available and these differences could be material.

We were unable to satisfy ourselves as to the valuation of these underlying funds by other audit procedures. Consequently, we were unable to determine whether any adjustments to the amounts shown in the statements of net assets and statement of operations and changes in net assets were necessary.

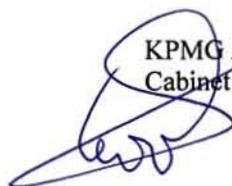
Qualified Opinion

In our opinion, except for possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of Paerel Funds and each of its sub-funds as of December 31, 2010, and of the results of their operations and changes in their net assets for the year then ended, in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

Other matter

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the financial statements taken as a whole.

Luxembourg, June 8, 2011


Walter Koob
Partner


KPMG Audit S.à.r.l.
Cabinet de révision agréé
Patrice Perichon
Director

Paerel Funds

Financial Statements at 31/12/10

| | | EQUITY FUND | ALTERNATIVE FUND | SUSTAINABILITY FUND | Combined |
|--|---------------------|-----------------------|-----------------------|----------------------|-----------------------|
| | <i>Expressed in</i> | EUR | EUR | EUR | EUR |
| | Notes | | | | |
| Statement of net assets | | | | | |
| Assets | | 24,643,655.80 | 59,711,541.37 | 11,739,349.06 | 96,094,546.23 |
| <i>Securities portfolio at cost</i> | | 20,870,108.85 | 61,269,468.90 | 9,934,686.94 | 92,074,264.69 |
| <i>Unrealised profit (loss) on portfolio</i> | 2 | 3,773,509.09 | (3,363,037.26) | 1,018,418.36 | 1,428,890.19 |
| Securities portfolio at market value | | 24,643,617.94 | 57,906,431.64 | 10,953,105.30 | 93,503,154.88 |
| Cash at banks and time deposits | | 37.86 | 1,512,987.70 | 777,143.36 | 2,290,168.92 |
| Other assets | 10 | 0.00 | 292,122.03 | 9,100.40 | 301,222.43 |
| Liabilities | | 265,313.66 | 412,404.11 | 123,378.75 | 801,096.52 |
| Bank overdrafts | | 16,236.52 | 25,564.53 | 0.00 | 41,801.05 |
| Unrealised loss on financial instruments | 8,9 | 162,215.02 | 99,863.66 | 76,990.59 | 339,069.27 |
| Other liabilities | 10 | 86,862.12 | 286,975.92 | 46,388.16 | 420,226.20 |
| Net asset value | | 24,378,342.14 | 59,299,137.26 | 11,615,970.31 | 95,293,449.71 |
| Statement of operations and changes in net assets | | | | | |
| Income on investments and assets | | 46,596.68 | 458,578.81 | 200,910.58 | 706,086.07 |
| Management fees | 5 | 259,826.75 | 927,404.52 | 130,304.85 | 1,317,536.12 |
| Custodian & sub-custodian fees | 6 | 9,181.28 | 24,069.21 | 4,620.53 | 37,871.02 |
| Bank interest | | 3,869.04 | 6,142.57 | 10.80 | 10,022.41 |
| General expenses | 10 | 82,370.77 | 202,088.30 | 65,372.88 | 349,831.95 |
| Taxe d'abonnement | 4 | 1,351.84 | 15,399.20 | 727.31 | 17,478.35 |
| Total expenses | | 356,599.68 | 1,175,103.80 | 201,036.37 | 1,732,739.85 |
| Net result from investments | | (310,003.00) | (716,524.99) | (125.79) | (1,026,653.78) |
| Net realised result on investment securities | 2 | (529,543.72) | (2,502,900.67) | (386,139.09) | (3,418,583.48) |
| Other realised results | 10 | (16,215.96) | 494,478.73 | (165,265.90) | 312,996.87 |
| Net realised result | | (855,762.68) | (2,724,946.93) | (551,530.78) | (4,132,240.39) |
| Movement on net unrealised loss/gain on : | | | | | |
| Investments securities | | 4,804,730.63 | 5,895,585.86 | 2,066,079.72 | 12,766,396.21 |
| Financial instruments | | (25,453.53) | 18,231.51 | (30,426.69) | (37,648.71) |
| Change in net assets due to operations | | 3,923,514.42 | 3,188,870.44 | 1,484,122.25 | 8,596,507.11 |
| Net subscriptions (redemptions) | 10 | (2,754,672.16) | 2,887,723.60 | (800,170.32) | (667,118.88) |
| Increase/Decrease of net assets during the year | | 1,168,842.26 | 6,076,594.04 | 683,951.93 | 7,929,388.23 |
| Net assets at the beginning of the year | | 23,209,499.88 | 53,222,543.22 | 10,932,018.38 | 87,364,061.48 |
| Net assets at the end of the year | | 24,378,342.14 | 59,299,137.26 | 11,615,970.31 | 95,293,449.71 |

Paerel Funds

Key figures relating to the last 3 years

| | EQUITY FUND | ALTERNATIVE FUND | SUSTAINABILITY FUND |
|---------------------------|--------------------|-------------------------|----------------------------|
| | EUR | EUR | EUR |
| 31/12/10 | | | |
| Net assets | 24,378,342.14 | 59,299,137.26 | 11,615,970.31 |
| Capitalisation shares | | | |
| Number of shares | | | |
| Shares IC | 268,114 | 272,510 | 128,261 |
| Shares PC | - | 507,818 | - |
| Net asset value per share | | | |
| Shares IC | 90.93 | 77.19 | 90.57 |
| Shares PC | - | 75.35 | - |
| | EUR | EUR | EUR |
| 31/12/09 | | | |
| Net assets | 23,209,499.88 | 53,222,543.22 | 10,932,018.38 |
| Capitalisation shares | | | |
| Number of shares | | | |
| Shares IC | 299,956 | 213,799 | 136,587 |
| Shares PC | - | 524,939 | - |
| Net asset value per share | | | |
| Shares IC | 77.38 | 72.88 | 80.04 |
| Shares PC | - | 71.70 | - |
| | EUR | EUR | EUR |
| 31/12/08 | | | |
| Net assets | 16,505,267.63 | 47,044,396.53 | 8,943,123.34 |
| Capitalisation shares | | | |
| Number of shares | | | |
| Shares IC | 318,084 | 190,898 | 142,704 |
| Shares PC | - | 521,904 | - |
| Net asset value per share | | | |
| Shares IC | 51.89 | 66.41 | 62.67 |
| Shares PC | - | 65.85 | - |

Paerel Funds EQUITY FUND

Securities portfolio at 31/12/10

Expressed in EUR

| Quantity | Denomination | Quotation currency | Market value % of net assets | |
|-----------------------------------|---|-----------------------|------------------------------|---------------|
| Shares/Units in investment funds | | | 24,643,617.94 | 101.09 |
| British Virgin Islands | | | | |
| 128,682.180 | IMARA AFRICAN OPPORTUNITIES FD RED PREF | USD | 1,354,397.81 | 5.56 |
| | | | 1,354,397.81 | 5.56 |
| Cayman Islands | | | | |
| 2,168.187 | PROSPERITY QUEST DIVERSIFIED SUB FUND | USD | 951,801.04 | 3.90 |
| | | | 951,801.04 | 3.90 |
| France | | | | |
| 94,200.000 | LYXOR ETF EURO STOXX 50 BUYWRITE | EUR | 1,232,136.00 | 5.05 |
| | | | 1,232,136.00 | 5.05 |
| Ireland | | | | |
| 80,813.775 | COMGEST GROWTH PLC EMERGING MARKETS FUND | USD | 5,438,672.30 | 22.31 |
| 276,782.500 | VANGUARD INV SERIES PLC US 500 STOCK IDX | EUR | 2,081,261.18 | 8.54 |
| 2,848.470 | VANGUARD INV SR PLC US OPP FD -INVR- EUR | EUR | 2,666,577.96 | 10.94 |
| | | | 690,833.16 | 2.83 |
| Luxembourg | | | | |
| 40,568.394 | ABERDEEN GLOBAL ASIA PCF EQ FD -A2- CAP | USD | 10,914,210.14 | 44.77 |
| 11,587.230 | BRGF WORLD MINING FUND -A2- EUR CAP | EUR | 2,091,091.98 | 8.57 |
| 770.665 | CARMIGNAC PTF SICAV EMERGING DISCOVERY | EUR | 750,041.40 | 3.08 |
| 15,710.000 | DB X TRACKERS DJ EURO STOXX 50 -IC- CAP | EUR | 904,190.42 | 3.71 |
| 2,156.888 | DEXIA EQUITIES L SICAV AUSTRALIA -I- CAP | EUR | 480,097.60 | 1.97 |
| 5,376.298 | DEXIA EQUITIES L VAR EU ENERGY SECTOR -I- CAP | AUD | 1,335,169.29 | 5.48 |
| 8,624.951 | DWS INVEST GLOBAL AGRIBUSINESS -FC- CAP | EUR | 901,121.31 | 3.70 |
| 10,517.885 | DWS INVEST VAR ASIAN SMALL/MID CAP -E2- CAP | EUR | 1,112,446.23 | 4.56 |
| 12,356.909 | VALUE INVEST LUX SICAV GLOBAL -I1- CAP | USD | 1,332,424.90 | 5.47 |
| | | EUR | 2,007,627.01 | 8.23 |
| The Netherlands | | | | |
| 11,304.170 | AETHRA EUROPE STAR FUND | EUR | 3,485,499.23 | 14.30 |
| 21,056.000 | AETHRA GLOBAL STRATEGIES FUND NV | EUR | 1,358,422.11 | 5.57 |
| | | | 2,127,077.12 | 8.73 |
| United Kingdom | | | | |
| 933,442.224 | THREADNEEDLE INV AMERICAN FD -2- USD CAP | USD | 1,266,901.42 | 5.20 |
| | | | 1,266,901.42 | 5.20 |
| Total securities portfolio | | | 24,643,617.94 | 101.09 |

Paerel Funds ALTERNATIVE FUND

Securities portfolio at 31/12/10

Expressed in EUR

| Quantity | Denomination | Quotation currency | Market value % of net assets | |
|--------------------------------------|---|-----------------------|------------------------------|--------------|
| Mortgage and asset backed securities | | | 141,200.00 | 0.24 |
| The Netherlands | | | 141,200.00 | 0.24 |
| 1,000,000.000 | HIAX BV 2006-1 0.00 06-16 29/08U | EUR | 141,200.00 | 0.24 |
| Shares | | | 3,308,862.00 | 5.58 |
| Jersey Island | | | 1,357,092.00 | 2.29 |
| 13,200.000 | GOLD BULLION SECURT NOTES | EUR | 1,357,092.00 | 2.29 |
| The Netherlands | | | 1,951,770.00 | 3.29 |
| 10,000.000 | EUROCOMMERCIAL | EUR | 344,450.00 | 0.58 |
| 22,000.000 | WERELDHAVE NV | EUR | 1,607,320.00 | 2.71 |
| Shares/Units in investment funds | | | 54,456,369.64 | 91.83 |
| Bermuda | | | 4,057,153.76 | 6.84 |
| 18,993.024 | DENHOLM HALL RUSSIA ARBITRAGE FD -E- | EUR | 629,808.68 | 1.06 |
| 42,612.862 | GLC DIVERSIFIED FUND LTD -B- S.B1 LEAD | EUR | 2,149,509.08 | 3.63 |
| 13,594.000 | HAL TRUST - UNITS | EUR | 1,277,836.00 | 2.15 |
| British Virgin Islands | | | 5,016,440.98 | 8.46 |
| 249,262.000 | IMARA AFRICAN OPPORTUNITIES FD RED PREF | USD | 2,643,955.32 | 4.46 |
| 10,555.051 | WINTON FUTURES FD LTD -C- EURO LEAD S. | EUR | 2,372,485.66 | 4.00 |
| Cayman Islands | | | 6,265,393.00 | 10.57 |
| 3,498.888 | GLG EMERGING MARKETS SPECIAL ASSETS -D- EUR | EUR | 252,024.89 | 0.43 |
| 12,203.000 | GLG EMERGING MARKETS SPECIAL SITUATIONS -D- UNRES | EUR | 482,872.71 | 0.81 |
| 12,363.744 | GLG EUROPEAN LONG SHORT FUND -I- NRES | EUR | 2,550,578.57 | 4.30 |
| 3,165.741 | GLG EUROPEAN LONG SHORT SPE AS FD -A- | EUR | 179,370.89 | 0.30 |
| 1,705.570 | GRANADA EUROPE FD RED.PTG.SHS EUR CLASS | EUR | 2,800,545.94 | 4.73 |
| France | | | 1,776,566.00 | 3.00 |
| 2,200.000 | RIVOLI INTERNATIONAL FUND 4 DECIMALES | EUR | 1,776,566.00 | 3.00 |
| Guernsey Island | | | 3,618,709.25 | 6.10 |
| 272,637.055 | AVIVA INV ALT FD PCC GLO MACRO -2- S.1 | EUR | 2,502,808.16 | 4.22 |
| 866.559 | MANAGED INV PCC LTD IRIS ENH CELL -EUR- | EUR | 1,115,901.09 | 1.88 |
| Ireland | | | 2,510,378.59 | 4.23 |
| 24,187.095 | GLG INV VI THE GLG ALP SEL UCIT III -C | EUR | 2,510,378.59 | 4.23 |
| Isle of Man | | | 111,016.31 | 0.19 |
| 19,597.040 | RAB MULTI STRATEGY FD PLC -C- USD | USD | 111,016.31 | 0.19 |
| Jersey Island | | | 1,395,756.47 | 2.35 |
| 1,000.000 | GREATER EUROPE DEEP VALUE 2 LTD NEW PTG | USD | 383,937.68 | 0.65 |
| 3,000.000 | GREATER EUROPE DEEP VALUE 2 LTD PTG | USD | 1,011,818.79 | 1.70 |
| Luxembourg | | | 12,877,360.06 | 21.72 |
| 11,704.551 | BLUEBAY STR VAR SIF HY ENH -BASE PERF I- | EUR | 1,629,070.87 | 2.75 |
| 11,904.426 | DB PLATINUM SICAV CUR RET + -IIC- CAP | EUR | 1,206,989.75 | 2.04 |
| 16,282.133 | DWS INVEST GLOBAL AGRIBUSINESS -FC- CAP | EUR | 2,100,069.48 | 3.54 |
| 74,183.970 | INVESTEC GLB STR FD EME MKT LCC DEBT -I- | EUR | 2,048,961.25 | 3.46 |
| 14,684.834 | JPMORGAN FD INV INCOME OPP -C- EUR HDG | EUR | 1,819,450.93 | 3.07 |
| 22,227.750 | SCHRODER ALT SOLT CO FD-C EUR HDG- CAP | EUR | 2,994,300.20 | 5.04 |
| 125,628.140 | TRAFALGAR CAPITAL SPE INV FD SICAV-SIF | EUR | 1,078,517.58 | 1.82 |
| The Netherlands | | | 13,477,849.53 | 22.72 |
| 37,866.000 | AETHRA GLOBAL STRATEGIES FUND NV | EUR | 3,823,330.02 | 6.45 |
| 26,146.654 | DEMINOR ACTIVE GOVERNANCE FUND | EUR | 2,275,281.79 | 3.84 |
| 94,059.979 | FAXTOR CREDIT VALUE FUND I | EUR | 723,321.23 | 1.22 |
| 50,885.033 | HOLLANDSE HEDGE FUND TRACKER | EUR | 5,119,543.16 | 8.62 |
| 50,000.000 | MIDDLE EUROPE OPPORTUNITY FUND II NV REG | EUR | 847,000.00 | 1.43 |
| 1,500.000 | MIDDLE EUROPE OPPORTUNITY FUND NV | EUR | 12,495.00 | 0.02 |
| 6,901.992 | SINANO LOW VOLATILITY FD -Z- | EUR | 676,878.33 | 1.14 |
| United Kingdom | | | 2,002,796.27 | 3.38 |
| 1,076,482.813 | THREADNEEDLE INV EUE HY BD -INS GROSS- | EUR | 2,002,796.27 | 3.38 |
| United States of America | | | 1,346,949.42 | 2.27 |
| 130,000.000 | ISHARES COMEX GOLD TRUST | USD | 1,346,949.42 | 2.27 |

Paerel Funds ALTERNATIVE FUND

Securities portfolio at 31/12/10

Expressed in EUR

| Quantity | Denomination | Quotation currency | Market value% of net assets | |
|-----------------------------------|--------------|-----------------------|-----------------------------|--------------|
| Total securities portfolio | | | 57,906,431.64 | 97.65 |

Paerel Funds SUSTAINABILITY FUND

Securities portfolio at 31/12/10

Expressed in EUR

| Quantity | Denomination | Quotation currency | Market value % of net assets | |
|-----------------------------------|---|-----------------------|------------------------------|--------------|
| Shares/Units in investment funds | | | 10,953,105.30 | 94.29 |
| Belgium | | | 1,086,142.26 | 9.35 |
| 15,357.742 | DEXIA SUSTAINABLE PACIFIC NOM. -C- CAP | JPY | 300,785.14 | 2.59 |
| 787.000 | KBC ECO ALTERNATIVE ENERGY CAP | EUR | 195,931.52 | 1.69 |
| 912.000 | KBC ECO WATER CAPITALISATION | EUR | 589,425.60 | 5.07 |
| Luxembourg | | | 4,321,601.49 | 37.20 |
| 85,486.441 | ABERDEEN GLOBAL SICAV RESP WLD EQ -A2- CAP | USD | 570,950.40 | 4.92 |
| 2,931.101 | BNPP L1 FD GREEN TIGERS -CLC- CAP | EUR | 466,514.04 | 4.02 |
| 44,682.541 | F&C PTF FD STEWARDSHIP INT -A- DIS | EUR | 416,888.11 | 3.59 |
| 5,200.450 | JB MULTIPARTN SAM SMART MATERIALS -C- CAP | EUR | 809,814.07 | 6.97 |
| 6,539.854 | JB MULTIPARTN SAM SUSTAINABLE CLIMATE-C-CAP | EUR | 609,122.00 | 5.24 |
| 7,909.381 | SPARINVEST HIGH YIELD VALUE BD -R- CAP | EUR | 1,144,012.87 | 9.84 |
| 10,000.000 | TRIODOS SICAV II RENEWABLES EU -I- CAP | EUR | 304,300.00 | 2.62 |
| The Netherlands | | | 3,668,239.87 | 31.58 |
| 5,725.000 | ASN BELEGGINGSFONDSEN AANDELENFONDS FD 3 | EUR | 335,198.75 | 2.89 |
| 22,265.000 | ASN MILIEU & WATERFONDS (FONDS 2) | EUR | 396,317.00 | 3.41 |
| 17,513.000 | ASN SMALL & MIDCAP FONDS 5 | EUR | 480,906.98 | 4.14 |
| 1.000 | GOODWELL MICROFINANCE DEV COMPANY B.V. | EUR | 819,103.00 | 7.06 |
| 4,351.028 | SUSTAINABLE NORTH AMERICA INDEX FD | EUR | 581,365.65 | 5.00 |
| 5,028.027 | TG FUND MGT BV SUSTAINABLE EUE IDX | EUR | 443,073.26 | 3.81 |
| 105,383.000 | TRIODOS VASTGOEDFONDS NV | EUR | 612,275.23 | 5.27 |
| United Kingdom | | | 1,877,121.68 | 16.16 |
| 355,303.032 | FIRST STATE INV.ASIA PACIFIC SUSTAIN.B | GBP | 1,020,565.82 | 8.79 |
| 498,939.420 | HENDERSON GLOBAL CARE FUND -I- | GBP | 856,555.86 | 7.37 |
| Total securities portfolio | | | 10,953,105.30 | 94.29 |

Notes to the financial statements

Paerel Funds

Notes to the Financial Statements as at 31/12/10

Note 1 - General

The Company was incorporated on October 5, 2007 under the name Borghols Funds for an unlimited period of time. The extraordinary shareholder meeting of September 16, 2008 changed the name of the Company into Paerel Funds.

The Company is governed by the 1915 Act and the 2002 Act.

The registered office of the Company is established at 50, Avenue J. F. Kennedy, L-2951 Luxembourg. The Company is registered at the "*Registre de Commerce et des Sociétés*" of Luxembourg under the number B 132 950.

The Articles have been filed with the "*Registre de Commerce et des Sociétés*" of Luxembourg and are published in the *Mémorial, Recueil des Sociétés et Associations C* (the *Mémorial C*) of November 15, 2007.

The minimum subscribed capital of the Company which must be achieved within six months after the date on which the Company has been authorised as a undertaking for collective investments under Luxembourg law, is EUR 1,250,000. The initial capital of the Company has been set at EUR 31,000 divided into 310 fully paid-up Shares of no par value.

The Company is constituted under the form of an investment company with different Sub-Funds. A separate portfolio of assets is maintained for each Sub-Fund and is invested in accordance with the investment objective applicable to the relevant Sub-Fund as disclosed in Part B of the Prospectus. As a result, the Company is an "umbrella fund" enabling investors to choose between one or more investment objectives by investing in one or more Sub-Funds.

The Board of Directors may from time to time decide to create further Sub-Funds; in that event, the Prospectus will be updated and amended so as to include detailed information on the new Sub-Funds. The Board of Directors may also decide to create further Classes of Shares; in that event the Prospectus will be updated and amended as to include detailed information on such new Classes.

The share capital of the Company will be equal, at any time, to the total value of the net assets of all the Sub-Funds.

The SICAV comprises the following three sub-funds :

Paerel Funds - EQUITY FUND
Paerel Funds - ALTERNATIVE FUND
Paerel Funds - SUSTAINABILITY FUND

Classes of shares

Shares of the Sub-Funds are issued within two different Classes. Shares issued within the PC Class are capitalisation Shares which may be subscribed by any type of investors including private persons. Shares issued within IC Class are capitalisation Shares which may be subscribed by Institutional Investors only.

Note 2 - Significant accounting policies

a) Presentation of accounts

The financial statements of the SICAV are prepared in accordance with Luxembourg regulations relating to investment funds. The last official net asset value used to prepare these accounts is the net asset value dated December 31, 2010.

b) Investments in securities

The valuation of any security listed or traded on an official stock exchange or on any other regulated market, operating regularly, recognised and open to the public, is based on the last available price on the valuation date and, if this security is traded on several markets, on the basis of the last price known on the market considered to be the main market for trading this security.

Notes to the Financial Statements as at 31/12/10

If the last known price is not representative, the valuation will be based on the probable realisation value estimated by the Board of Directors with prudence and in good faith.

Securities not listed or traded on a stock exchange or on any other regulated market, operating regularly, recognised and open to the public, are valued on the basis of the probable realisation value estimated with prudence and in good faith.

The value of shares or units in open-ended undertakings for collective investment is based on the last net asset value available for those shares or units provided to or made available by the administrators or operators of such entities.

c) Net realised profit or loss on investments

The net realised profit or loss on sales of investments is the difference between the historical average cost of the investment and the sales proceeds.

d) Conversion of foreign currencies

Securities expressed in a currency other than the currency of the sub-fund concerned are converted on the basis of exchange rates prevailing in Luxembourg on the relevant valuation date.

The financial statements of the SICAV are expressed in Euro (EUR). Assets and liabilities expressed in currencies other than EUR are translated into EUR at the year-end exchange rates.

Income and expenses in currencies other than EUR are translated at the appropriate exchange rates prevailing at the payment date.

e) Valuation of futures contracts

Unexpired futures contracts are valued on the basis of the last available prices on the valuation date or the closing date, and the resulting unrealised profits or losses are accounted for.

f) Forward foreign exchange contracts

Unexpired forward foreign exchange contracts are valued at the forward exchange rates applicable on the valuation date or on the closing date, and the resulting unrealised profits or losses are accounted for.

Note 3 - Calculation and Publication

The Net Asset Value per Share of each Class within the relevant Sub-Fund will be expressed in the currency of such Class or in the Reference Currency and will be determined as of any Valuation Day by dividing the net assets of the Company attributable to the relevant Sub-Fund, being the value of the portion of assets less the portion of liabilities attributable to such Class within such Sub-Fund, on any Valuation Day, by the number of Shares then outstanding, in accordance with the valuation rules set forth below. The Net Asset Value per Share may be rounded up or down to the nearest unit of the relevant currency as the Company will determine. If since the time of determination of the Net Asset Value there has been a material change in the quotations in the markets on which a substantial portion of the investments attributable to the relevant Sub-Fund are dealt in or quoted, the Company may, in order to safeguard the interests of the shareholders and the Fund, cancel the first valuation and carry out a second valuation for all applications received on the relevant Valuation Day.

The Net Asset Value per Share of Paerel Funds - EQUITY FUND and of Paerel Funds - SUSTAINABILITY FUND is calculated, under the overall responsibility of the Board of Directors, at each Business Day (Valuation Day) and for the first time on 14 December 2007 for Paerel Funds - EQUITY FUND and on 5 November 2007 for Paerel Funds - SUSTAINABILITY FUND.

Paerel Funds

Notes to the Financial Statements as at 31/12/10

The Net Asset Value per Share issued within the PC and the IC Classes of Paerel Funds - ALTERNATIVE FUND is calculated, under the overall responsibility of the Board of Directors, each Friday (Valuation Day) and is published each Wednesday following the Valuation Day. If this Day is not a Business Day, then the Net Asset Value will be calculated on the following Business Day.

Note 4 - Subscription Tax

Shares issued within the IC Class will be subject to subscription tax (taxe d'abonnement) in Luxembourg at an annual rate of 0.01% payable quarterly on the basis of the Net Asset Value of the Shares issued within this Class at the end of the quarter.

Shares issued within the PC Class will be subject to subscription tax (taxe d'abonnement) in Luxembourg at an annual rate of 0.05% payable quarterly on the basis of the Net Asset Value of the Shares issued within this Class at the end of the quarter.

Note 5 - Management fees

The Investment Manager will receive on a quarterly basis an annual management fee at a rate of 1.75% of the Net Asset Value of the Shares issued by the PC Class of the Sub-Fund.

The Investment Manager will receive on quarterly basis an annual management fee at a rate of 1.00% of the Net Asset Value of the Shares issued by the IC Class of the Sub-Fund.

The Investment Manager will receive a performance fee (the Performance Fee) in respect of each period of three months ending on the last Business Day of each quarter. The Performance Fee will be deemed to accrue as at each Valuation Day. For each calculation period, the Performance Fee will be 10% of the appreciation of the Net Asset Value of the Sub-Fund above MSCI ACWI for Paerel EQUITY FUND, above 3 months Euribor interest rate for Paerel ALTERNATIVE FUND and Paerel SUSTAINABILITY FUND. A high watermark will be applied. The High Water Mark is defined as the highest end of period Net Asset Value of the preceding three years.

For this period, there is no performance fee.

Note 6 - Fees of the Custodian and the Administrator

The Custodian is entitled to receive out of the assets of each Sub-Fund a fee calculated in accordance with customary banking practice in Luxembourg, payable quarterly in arrears and which cannot exceed 0.10% of the Net Asset Value of each Sub-Fund.

The Administrator is entitled to receive out of the assets of each Sub-Fund a fee calculated in accordance with customary banking practice in Luxembourg, payable quarterly in arrears and which cannot exceed 0.10% of the Net Asset Value of each Sub-Fund.

In addition, the Custodian and the Administrator are entitled to be reimbursed by the Company for their reasonable out-of-pocket expenses and disbursements and for the charges of any correspondents.

Paerel Funds

Notes to the Financial Statements as at 31/12/10

Note 7 - Subscription, Redemption and Conversion Charges

Subscription of Shares may be subject to a subscription fee of up to 4% of the amount to be subscribed. The Board of Directors is entitled to reduce or to waive the subscription fee.

Conversion of Shares from the Sub-Fund into Shares from another Class and/or another Sub-fund may be subject to a conversion fee of up to 2% of the amount to be converted. The Board of Directors is entitled to reduce or to waive the conversion fee.

Redemption of Shares may be subject to a redemption fee of up to 4% of the amount to be redeemed. The Board of Directors is entitled to reduce or to waive the redemption fee.

Note 8 - Forward foreign exchange contracts

As at December 31, 2010, the following sub-funds had open forward foreign exchange contracts :

EQUITY FUND

| Purchase | | Sale | | Maturity Date | Unrealised loss in EUR |
|---------------|--------------|------|--------------|---------------|------------------------|
| USD | 1,400,000.00 | EUR | 1,077,005.92 | 13/01/2011 | (33,423.36) |
| EUR | 3,598,287.22 | USD | 5,000,000.00 | 13/01/2011 | (128,791.66) |
| TOTAL: | | | | | (162,215.02) |

ALTERNATIVE FUND

| Purchase | | Sale | | Maturity Date | Unrealised loss in EUR |
|---------------|--------------|------|--------------|---------------|------------------------|
| EUR | 3,382,389.98 | USD | 4,700,000.00 | 13/01/2011 | (125,363.66) |
| TOTAL: | | | | | (125,363.66) |

SUSTAINABILITY FUND

| Purchase | | Sale | | Maturity Date | Unrealised loss in EUR |
|---------------|--------------|------|---------------|---------------|------------------------|
| USD | 500,000.00 | EUR | 384,644.97 | 13/01/2011 | (11,936.91) |
| EUR | 377,107.36 | JPY | 42,500,000.00 | 13/01/2011 | (13,537.01) |
| EUR | 1,439,314.89 | USD | 2,000,000.00 | 13/01/2011 | (51,516.67) |
| TOTAL: | | | | | (76,990.59) |

Note 9 - Futures contracts

As at December 31, 2010, the sub-fund ALTERNATIVE FUND had open futures contracts :

| Currency | Quantity | Purchase / Sale | Name | Commitments (EUR) | +/- Unrealised value (EUR) |
|----------------|----------|-----------------|------------------|-------------------|----------------------------|
| EUR | 75 | S | DJ EURO STOXX 50 | 2,095,500.00 | 25,500.00 |
| TOTAL : | | | | | 25,500.00 |

Note 10 - Details of the financial statements

Other assets

| | EQUITY FUND | ALTERNATIVE FUND | SUSTAINABILITY FUND |
|--------------------------|-------------|-------------------|---------------------|
| Formation expenses | - | 21,446.17 | 1,899.54 |
| Receivable on securities | - | 270,675.86 | 7,200.86 |
| TOTAL : | - | 292,122.03 | 9,100.40 |

Other liabilities

| | EQUITY FUND | ALTERNATIVE FUND | SUSTAINABILITY FUND |
|-----------------|--------------------|---------------------|---------------------|
| Management fees | (59,987.50) | (236,700.47) | (28,768.57) |
| Other fees | (26,874.62) | (50,275.45) | (17,619.59) |
| TOTAL : | (86,862.12) | (286,975.92) | (46,388.16) |

Paerel Funds

Notes to the Financial Statements as at 31/12/10

General expenses

| | EQUITY FUND | ALTERNATIVE FUND | SUSTAINABILITY FUND |
|------------------------------|--------------------|---------------------|---------------------|
| Other incorporation expenses | - | (10,963.10) | (985.50) |
| Nav calculation fees | (35,000.01) | (25,000.00) | (35,000.01) |
| Domiciliary fees | (1,666.67) | (1,666.67) | (1,666.67) |
| Publication fees | (8,547.18) | (22,833.53) | (7,109.76) |
| Trustee fees | (635.74) | (1,617.49) | (311.20) |
| Audit fees | (4,633.72) | (24,057.92) | 335.93 |
| CSSF fees | (1,666.68) | (1,666.66) | (1,666.66) |
| Others legal fees | (4,940.57) | (14,427.27) | (2,544.33) |
| Correspondant fees | - | (41.26) | - |
| Other fees | (82.49) | (139.26) | (114.99) |
| Other operating fees | (12,262.33) | (48,319.95) | (5,513.98) |
| Other professional fees | - | (9,597.93) | - |
| CMP fees | - | (50.00) | - |
| Banking fees | - | (13.54) | - |
| Stock exchange fees | (12,935.38) | (30,370.49) | (10,745.71) |
| AKG - Stock exchange fees | - | (13,322.32) | - |
| Handling charges | - | (910.00) | (50.00) |
| Other Stock exchange fees | - | 3,119.09 | - |
| Other handling charges | - | (210.00) | - |
| TOTAL : | (82,370.77) | (202,088.30) | (65,372.88) |

Other realised results

| | EQUITY FUND | ALTERNATIVE FUND | SUSTAINABILITY FUND |
|---------------------|--------------------|-------------------|---------------------|
| On forward exchange | (365,379.32) | (271,526.86) | (195,862.35) |
| On shares | 396,722.18 | 1,019,350.47 | 57,751.59 |
| On futures | - | (282,869.56) | - |
| Others | (47,558.82) | 29,524.68 | (27,155.14) |
| TOTAL : | (16,215.96) | 494,478.73 | (165,265.90) |

Subscriptions / redemptions

| | Subscriptions | Redemptions | Net subscriptions / (redemptions) |
|------------------------------|---------------|--------------|--------------------------------------|
| EQUITY FUND - IC | 5,518,528.48 | 8,273,200.64 | (2,754,672.16) |
| ALTERNATIVE FUND - IC | 12,663,786.80 | 8,511,578.62 | 4,152,208.18 |
| ALTERNATIVE FUND - PC | 2,310,771.73 | 3,575,256.31 | (1,264,484.58) |
| SUSTAINABILITY- IC | 4,402,209.75 | 5,202,380.07 | (800,170.32) |

Note 11 - Exchange rates

The financial statements of the Fund are expressed in Euro (EUR). Assets and liabilities expressed in currencies other than EUR are translated into EUR at the year-end exchange rates.

As at December 31, 2010, the used exchange rates were as follow:

| | | | |
|-------|---|----------|-----|
| 1 EUR | = | 0.85685 | GBP |
| | = | 108.8064 | JPY |
| | = | 1.34155 | USD |
| | = | 1.30875 | AUD |

Paerel Funds

Notes to the Financial Statements as at 31/12/10

Note 12 - Commitment

The Paerel Funds - SUSTAINABILITY FUND committed to provide EUR 500,000 as capital to Goodwell Microfinance DEV Company N.V..

As at December 31, 2010, EUR 405,000 out of the commitment was already paid.

Note 13 - Change in the structure of the securities portfolio

The list of changes in the composition of the securities portfolio is available free of charge at the Company's registered office.

Note 14 - Funds with gate activation or side pocketing

At December 31, 2010 the following underlying funds in which Paerel Funds - Alternative Fund invests are facing gate activation or side pocketing issues :

| Name of funds | % NAV | Gate activation | Side pocket |
|--------------------------------------|--------------|------------------------|--------------------|
| Trafalgar Capital SPE Inv Fund SICAV | 1.82% | yes | - |
| RAB Multistrategy | 0.19% | yes | - |
| GLG Emerging MKT Special Assets | 0.43% | yes | yes |
| Denholm Hall Russia Arbitrage | 1.06% | yes | - |
| GLG European L/S Special assets | 0.30% | yes | yes |
| HIAX BV 2006-1 | 0.24% | yes | - |
| Sinano Low Volatility Fd -Z- | 1.14% | yes | - |