

Prospectus

relating to Shares in

LUXEMBOURG MICROFINANCE AND DEVELOPMENT FUND

Société d'investissement à Capital Variable, Luxembourg

and its Sub-Fund

LUXEMBOURG MICROFINANCE AND DEVELOPMENT FUND

-SOCIAL VENTURE CAPITAL SUB-FUND

MAY 2014



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Important Information

This Prospectus comprises information relating to LUXEMBOURG MICROFINANCE AND DEVELOPMENT FUND (the “Fund”), which is registered under Part II of the Luxembourg law of 17 December 2010 relating to undertakings for collective investment. Such registration does not, however, imply approval by any Luxembourg authority of the contents of this prospectus (the “Prospectus”) or of the portfolio of assets held by the Fund. Any representation to the contrary is unauthorised and unlawful.

The directors of the Fund (the “Directors”) are the persons responsible for the information contained in the Prospectus. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in the Prospectus is at its date in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

Shareholders are informed that their personal data or information given in the Application Form, as well as details of their shareholding, will be stored in digital form and processed in compliance with the provisions of the Luxembourg law of 2 August 2002 (as amended) on data protection. Shareholders are also advised that their personal data will be held in the register of Shareholders maintained by the Administrative Agent. The latter will thus process the personal data relating to Investors as the processor acting on behalf of the Fund with responsibility for the processing of personal data. In accordance with the provisions of the law of 2 August 2002, Investors are entitled to request information about their personal data at any time as well as to correct it.

The Fund draws the Investors’ attention to the fact that any Investor will only be able to fully exercise his/her/its investor rights directly against the Fund, notably the right to participate in general meetings of Shareholders, if the Investor is registered himself/herself/itself and in his/her/its own name in the register of Shareholders. In case where an Investor invests in the Fund through an intermediary investing into the Fund in his/her/its own name but on behalf of the Investor, as it may not always be possible for the Investor to exercise certain Shareholder rights directly against the Fund, Investors are advised to take advice on their rights.

If you are in any doubt about the contents of the Prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.

The most recent annual report and semi-annual report, if any, of the Fund are available, once published, at the registered office of the Fund and will be sent to Investors upon request.

Such report or reports shall be deemed to form part of the Prospectus.

Statements made in the Prospectus are based on the law and practice currently in force in Luxembourg and are subject to changes therein.

No person has been authorised to give any information or to make any representations in connection with the offering of shares issued by the Fund (“Shares”) other than those contained in this Prospectus and the reports referred to above, and, if given or made, such information or representations must not be relied on as having been authorised by the Fund. The delivery of this Prospectus (whether or not accompanied by any report) or the issue of Shares shall not, under any circumstances, create any implication that the affairs of the Fund have not changed since the date hereof. An amended or updated Prospectus shall be provided, if necessary, to reflect changes to the information contained herein.

The distribution of this Prospectus and the offering of Shares in certain other jurisdictions may be restricted. Persons into whose possession this Prospectus comes are required by the Fund to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

This Prospectus may be translated into other languages. In the event of any inconsistency or ambiguity in relation to the meaning of any word or phrase in any translation, the English text prevails to the extent permitted by the applicable laws or regulations, and all disputes as to the terms thereof are governed by, and construed in accordance with, the laws of Luxembourg.

The typical investor in the Fund is an individual or institution who has an interest in microfinance as an instrument for the advancement of marginalized populations in developing countries. The typical investor is aware that the Fund seeks dual objectives, social impact and financial return, and is willing to invest for the long term and accepts a possibly lower return on investment than available from purely return-oriented investment vehicles.

Investment in the Fund should be regarded as a long-term investment. There can be no guarantee that the objective of the Fund will be achieved.

Your attention is drawn to the section 2.D. “Risk factors and their mitigation”.

In addition, the Fund's investments are subject to the risks inherent in all investments and there can be no assurances that appreciation will occur. It will be the policy of the Directors to maintain a diversified portfolio of investments so as to minimise risk.

Potential subscribers and purchasers of Shares in the Fund should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any 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 and disposal of Shares in the Fund.

AIFM Law

The AIFMD 2011/61/EU of 8 June 2011 entered into force on 21 July 2011 and has been implemented into Luxembourg law by the law of 12 July 2013 ("AIFM Law"). The AIFM Directive seeks to regulate alternative investment fund managers (in this paragraph, "AIFM") based in the EU or, under certain circumstances outside of the EU, and prohibits such managers from managing any alternative investment fund (in this paragraph, "AIF") or marketing shares in such funds to EU investors unless authorization is granted to the AIFM. The AIFM Directive shall however not entirely apply to AIFMs, whether internally or externally managed within the meaning of the AIFM Directive, in so far as they manage portfolios of one or more AIFs whose assets under management, including any assets acquired through use of leverage, in total do not exceed a threshold of EUR 100 million. These AIFM shall be subject to the regime of the registration with the CSSF and will mainly have to provide information on the different strategies of the AIFs that they manage and regularly provide the CSSF with information on the main instruments in which they are trading, the principal exposures and most important concentrations of the AIFs that they manage.

The Fund is governed by part II of the Luxembourg law of 17 December 2010 relating to undertakings for collective investment and, as such, it automatically qualifies as an AIF.

The Fund is internally managed and will also be referred to as the AIFM in this document, where appropriate.

Considering the amount of assets under management, the Board of Directors has resolved to avail the AIFM of the above regime.

Therefore and pursuant to articles 3 (2) a) and 3 (3) of the AIFM Law, the AIFM is registered with the CSSF and does not need to be authorized by the CSSF as an AIFM.

It will be the responsibility of the Board of Directors to ensure that when the conditions set out above are no longer met, the Board of Directors will apply for authorization.

1933 Act and 1940 Act

None of the Shares have been or will be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or registered or qualified under applicable state statutes and (except in a transaction which is exempt from registration under the 1933 Act and such applicable state statutes) none of the Shares may be offered or sold, directly or indirectly, in the United States of America or in any of its territories or possessions (the "United States"), or to any US Person or US taxable person regardless of location. In addition, the Fund has not been and will not be registered under the United States Investment Fund Act of 1940, as amended (the "1940 Act") and Investors will not be entitled to the benefit of the 1940 Act.

The Fund will not knowingly offer or sell Shares to any Investor to whom such offer or sale would be unlawful, or might result in the Fund incurring any liability to taxation or suffering any other pecuniary disadvantages which the Fund might not otherwise incur or suffer or would result in the Fund being required to register under the 1940 Act. Shares may not be held by any person in breach of the law or requirements of any country or governmental authority including, without limitation, exchange control regulations. Each Investor must represent and warrant to the Fund that, among other things, he/she/it is able to acquire Shares without violating applicable laws. Power is reserved in the articles of association of the Fund (the "Articles"), to compulsorily redeem any Shares held directly or beneficially in contravention of these prohibitions.

FATCA

The Foreign Account Tax Compliance Act ("FATCA"), a portion of the 2010 Hiring Incentives to Restore Employment Act, became law in the United States in 2010. It requires financial institutions outside the US ("foreign financial institutions" or "FFIs") to pass information about "Financial Accounts" held by "Specified US Persons", directly or indirectly, to the US tax authorities, the Internal Revenue Service ("IRS") on an annual basis.

Shareholders, and intermediaries acting for shareholders, should note that under the FATCA legislation, the definition of "Specified US Persons" will include a wider range of investors than the current US Person definition.

A 30% withholding tax is imposed on certain US source income of any FFI that fails to comply with this requirement. On 28 March 2014, the Grand-Duchy of Luxembourg

entered into a Model 1 Intergovernmental Agreement (“IGA”) with the United States of America and a memorandum of understanding in respect thereof.

The Fund will hence have to comply with such Luxembourg IGA, once the IGA has been implemented into Luxembourg law in order to comply with the provisions of FATCA rather than directly complying with the US Treasury Regulations implementing FATCA.

Under the IGA, the Fund may be required to collect information aiming to identify its direct and indirect shareholders that are Specified US Persons for FATCA purposes (“reportable accounts”). Any such information on reportable accounts provided to the Fund will be shared with the Luxembourg tax authorities which will exchange that information on an automatic basis with the Government of the United States of America pursuant to Article 28 of the convention between the Government of the United States of America and the Government of the Grand-Duchy of Luxembourg for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, entered into in Luxembourg on 3 April 1996.

The Fund intends to comply with the provisions of the Luxembourg IGA to be deemed compliant with FATCA and will thus not be subject to the 30% withholding tax with respect to its share of any such payments attributable to actual and deemed U.S. investments of the Fund. The Fund will continually assess the extent of the requirements that FATCA and notably the Luxembourg IGA places upon it. As from the date of signature of the Luxembourg IGA and until the Grand Duchy of Luxembourg has implemented the national procedure necessary for the entry into force of the IGA, the United States Department of the Treasury will treat the Fund as complying with and not subject to the FATCA Withholding.

To ensure the Fund’s compliance with FATCA and the Luxembourg IGA in accordance with the foregoing, the Fund may:

- a) request information or documentation, including W-8 tax forms, a Global Intermediary Identification Number, if applicable, or any other valid evidence of a shareholder’s FATCA registration with the IRS or a corresponding exemption, in order to ascertain such shareholder’s FATCA status;
- b) report information concerning a shareholder and his/her/its account holding in the Fund to the Luxembourg tax authorities if such account is deemed a US reportable account under the Luxembourg IGA; and

- c) deduct applicable US withholding taxes from certain payments made to a shareholder by or on behalf of the Fund in accordance with FATCA and the Luxembourg IGA.

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DIRECTORY

Registered Office

2, place de Metz
L-1930 Luxembourg

Board of Directors

Chairman:

- Mr Kenneth Hay, independent

Vice-Chairmen:

- Mr Marc Elvinger, independent
- Mr. Robert Wagener, Appui au Développement
Autonome (ADA)

Other members:

- Mr Nima Ahmadzadeh, Ministry of Finance
- Mme Vivianne Clauss, Banque de Luxembourg
- Mme Hedda Pahlson-Moller, independent
- Mr Richard Philippart, Directorate of Development
Cooperation, Ministry of Foreign Affairs and
Immigration
- Mr Luc Vandeweerd, Appui au Développement
Autonome (ADA)
- Mr Paolo Vinciarelli, Banque et Caisse d'Epargne
de l'Etat (BCEE)
- Mr Kaspar Wansleben, Executive Director

Custodian and Paying Agent

Banque et Caisse d'Epargne de l'Etat, Luxembourg
1, place de Metz
L-2954 Luxembourg

Administrative Agent and Registrar and Transfer Agent

European Fund Administration S.A.
2, rue d'Alsace
L-1017 Luxembourg

Distributors

Banque et Caisse d'Epargne de l'Etat, Luxembourg
1, place de Metz
L-2954 Luxembourg

Banque de Luxembourg S.A., Luxembourg
14, boulevard Royal
L-2449 Luxembourg

BGL BNP Paribas S.A., Luxembourg
50, avenue J.F. Kennedy
L-2951 Luxembourg

Fortuna Banque s.c., Luxembourg
130, boulevard de la Pétrusse
L-2330 Luxembourg

Other distributors as may be determined at a later stage.

Approved Statutory Auditor

BDO Audit S.A.
«Le Dôme» Espace Pétrusse
2, avenue Charles de Gaulle
B.P. 351,
L-2013 Luxembourg

Investment Advisor

ADA a.s.b.l.
39, rue Glesener
L-1631 Luxembourg

Legal Advisors

Elvinger, Hoss & Prussen
2, Place Winston Churchill
L-2014 Luxembourg

GLOSSARY OF TERMS

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

“ADA”	Appui au Développement Autonome a.s.b.l.
“Administrative Agent”	European Fund Administration S.A. (EFA).
“Application Form”	Document signed or to be signed by an Investor who desires to subscribe to Shares.
“Approved Statutory Auditor”	BDO Audit.
“Articles”	The articles of association of the Fund as amended from time to time.
“BCEE”	Banque et Caisse d'Epargne de l'Etat, Luxembourg.
“BDO”	BDO Audit
“Board of Directors”	The board of directors of the Fund.
“Business Day”	A week day on which banks are normally open for business in Luxembourg.
“Class”	Each class of Shares within any sub-fund of the Fund.
“Custodian”	Banque et Caisse d'Epargne de l'Etat, Luxembourg (BCEE).
“Director”	Any director for the time being of the Fund.
“DCF”	Discounted cash flow.
“EFA”	European Fund Administration S.A.
“EU”	European Union.
“Euro” or “EUR” or “€”	The legal currency of the European Monetary Union.
“Fund”	Luxembourg Microfinance and Development Fund.
“Investor”	An investor who desires to subscribe or has subscribed to Shares.
“Law”	The Luxembourg law of 17 December 2010 relating to undertakings for collective investment, as may be amended from time to time.
“LUXMINT”	Luxembourg Microbank Intermediary Scheme.
“Management”	Director or committee composed of persons (who are not necessarily Directors) in charge of the day-to-day management of the Fund.
“Mémorial”	The Mémorial C, Recueil des Sociétés et Associations.
“MFIs”	Microfinance institutions.
“MIVs”	Microfinance investment vehicles.
“Net Asset Value” or “NAV”	The net asset value of the Fund, a Sub-Fund, a Class or per Share as determined pursuant to section 5 “Net Asset Value”.
“Shares”	Any shares in the Fund subscribed by any Shareholder, having the features disclosed under section 3 “Shares”.
“Shareholder(s)”	All or any of the shareholders of the Fund.
“Sub-Fund”	Luxembourg Microfinance and Development Fund – Social Venture Capital Sub-Fund.
“UCI”	Undertaking for collective investment, i.e. undertaking the sole objective of which is the collective investment in securities, financial instruments or other assets.
“US”	United States of America.
“USD”	United States dollars, the legal currency of the United States of America.
“Valuation Day”	The last calendar day of March, June, September and December.

Words importing the singular shall, where the context permits, include the plural and vice versa.

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1.- STRUCTURE OF THE FUND

The Fund is an open-ended investment company organised as a public limited company (*société anonyme*) under the laws of the Grand Duchy of Luxembourg and qualifies as a *société d'investissement à capital variable* (SICAV). The Fund is authorised as an undertaking for collective investment (“UCI”) under Part II of the Law.

The Fund was incorporated in Luxembourg on 7 October 2009 with an initial capital of Euro 31,000 divided into 1,240 fully paid up Class A Shares with no par value. The capital of the Fund shall be equal at all times to the net assets of the Fund. The minimum capital of the Fund, as prescribed by law, is Euro 1,250,000. This minimum must be reached within a period of 6 months following the authorisation of the Fund as a UCI under the Law. The Articles were deposited with the *Registre de Commerce et des Sociétés, Luxembourg* and were published in the Mémorial on 2 November 2009. The Fund is incorporated for an unlimited period.

The Fund is registered with the *Registre de Commerce et des Sociétés, Luxembourg* under number R.C.S. B 148826.

The Fund is an umbrella fund and as such may operate separate sub-funds, each of which is represented by one or more classes of Shares (each, a “Class”). The sub-funds are distinguished by their specific investment policy or any other specific features.

The Fund constitutes a single legal entity. However, the assets of each sub-fund shall be invested for the exclusive benefit of the Shareholders of the corresponding sub-fund and the assets of a specific sub-fund are solely accountable for the liabilities, commitments and obligations of that sub-fund.

The Board of Directors may at any time resolve to set up new sub-funds and/or create within each sub-fund one or more Classes, in which case the Prospectus will be updated accordingly. The Board of Directors may also at any time resolve to close, temporarily or permanently, a sub-fund, or one or more Classes within a sub-fund to further subscriptions.

At the date of this Prospectus, the Fund is offering Shares for subscription in the Luxembourg Microfinance and Development Fund – Social Venture Capital Sub-Fund (the “Sub-Fund”). If further sub-funds are created, the Prospectus will be updated accordingly.

Three Classes of Shares are currently offered in Luxembourg Microfinance and Development Fund - Social Venture Capital Sub-Fund, namely Class A Shares, Class B Shares and

Class C Shares, each targeting different types of Investors, evidencing a different level of risk, offering a different target return and evidencing a different level of involvement in the Fund’s governance. The three Classes of Shares form one single portfolio for investment.

The Shares of the Fund are currently not listed on a stock exchange. The Board of Directors reserves the right to list the Shares of one or several sub-funds or Classes in the future. In such event, the Prospectus will be amended accordingly.

Under Luxembourg law and its Articles, the Fund is authorised to issue an unlimited number of Shares, all of which are without par value.

The base currency of the Fund is the EUR and all the financial statements of the Fund will be presented in EUR.

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2.- INVESTMENT OBJECTIVES AND POLICIES

A. Investment Objectives of the Fund

LUXEMBOURG MICROFINANCE AND DEVELOPMENT FUND aims at contributing to the alleviation of poverty in developing countries through the provision of permanent and adapted financial services to marginalised communities and individuals. The Fund invests in promising microfinance institutions (“MFIs”) that have a positive social impact so that these institutions reach financial autonomy. In pursuance of its objectives, the Fund may invest in MFIs, in networks or associations of MFIs, in regional funds, in microfinance investment vehicles (“MIVs”) and in other microfinance-related products.

The Fund has two principal objectives, social and financial: help socially-oriented MFIs to become long term viable enterprises that reach more poor people and offer better services, and generate sufficient income to sustain its own operations and give its Shareholders a financial return that at least compensates for inflation.

The Fund will strive to provide tailor-made and innovative solutions to needy MFIs, coupling its own financial assistance with technical support from external consultants. It will deliberately focus on niche activities, activities where potential needs of MFIs are large, but current supply is scarce.

B. Background

Microfinance and financial inclusion

About half of all adults worldwide have no bank account. This exclusion from formal financial services is most prevalent among the world’s poor, women, youth, people living in rural areas and geographically in Sub-Saharan Africa.

Microfinance is a term describing the provision of financial services to the poor. Microfinance is intended to cater to the needs of poor people by giving sustainable and formalized access to credit, savings, money transfer services and micro-insurance. The term “micro” in microfinance is derived from the fact that transaction amounts are small compared to amounts found in traditional financial intermediation. The process of catering mostly to the part of humanity not having access to formal financial service providers (banks, insurance companies etc) is often described under the term “financial inclusion”.

Ultimately microfinance, as understood by LMDF, aims at contributing to the alleviation of poverty by reducing the exclusion and uncertainty poor people face in their daily lives and enabling economic development of micro-entrepreneurs.

Microfinance institutions

Microfinance has long been perceived as essentially a charity activity. Only in the 1980s did microfinance start to come to prominence, when insistence on repayment, cost-covering interest rate levels and a better selection of clients fostered the building up of MFIs.

MFIs provide financial services to clients who are poorer and more vulnerable than traditional bank clients. The main product of most MFIs is the provision of micro-credits for productive activities for amounts ranging from as low as EUR 100 up to several thousand Euros. Increasingly MFIs are developing a wider product range including housing, agriculture and education loans and - where the local regulation allows such products - short and long term savings products. The product range may also include money transfer services and receipt of remittances as well as life and non-life micro-insurance.

MFIs include a wide range of providers that vary in their legal structure, mission and product methodology. Often MFIs start as not-for-profit organizations and later convert into commercial companies or even commercial banks. Alongside not-for-profit and commercial structures MFIs often operate as credit and savings cooperatives. The increasing diversity and sophistication of products catering to specific financial needs of the poor is creating new forms of microfinance entities, such as specialized money transfer or micro-insurance companies.

In recent years, MFIs have been growing rapidly in terms of clients reached and micro-credit portfolio. Although no global comprehensive figures exist, available data all point to strong double-digit growth in the sector. It is estimated that around 10,000 MFIs exist today, serving well over 100 million clients worldwide. Notwithstanding this impressive growth, microfinance services today still cover only a fraction of the potential clientele.

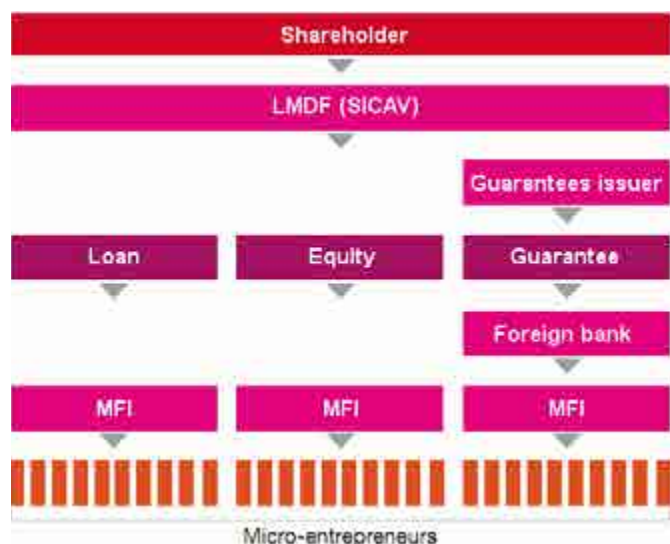
Financing of microfinance institutions

As expected in a relatively young sector, most MFIs are still in an early phase of development and may depend on grant funding to build their operations. But an increasing number of MFIs have reached a mature business model leading ultimately to financial sustainability.

Accordingly the funding of microfinance institutions comprises a large variety of actors, from organizations providing grant funding to purely commercial investors. Funding relationships with local banks and savings mobilization play an important role in financing mature MFIs. Foreign funders include microfinance investment

funds, development banks and foundations. Given the large untapped demand for financial services for the poor, only financial markets (both domestic and foreign) dispose of the necessary resources to finance the future funding needs of MFIs.

The chart below illustrates the financial intermediation applied by LMDF to finance MFIs:



Origin of the Social Venture Capital Sub-Fund, the Luxembourg Microbank Intermediary Scheme (LUXMINT)

The Sub-Fund builds on the experience gained through the Luxembourg Microbank Intermediary Scheme (“LUXMINT”), a programme launched in 2000 and managed by ADA with funding provided by the Directorate for Development Cooperation of the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg.

Over the following nine years, LUXMINT invested in 15 MFIs which served over 812,000 end clients. In many cases, LUXMINT’s support has been perceived as recognition of the creditworthiness of the MFI, preparing the latter for subsequent mobilization of other investors. LUXMINT used a range of financial instruments and operated in various geographies. At the end of 2008, its investment portfolio was composed of 68% loans, 22% guarantees and 10% capital participations. In terms of geographical distribution, 40% of its investments were in Latin America, 37% in Africa and 23% in Asia.

A portfolio of loans granted by LUXMINT to seven MFIs has been contributed in kind to LMDF against issuance of Class A shares in December 2009.

C. Investment Policy and Strategies

Focus on promising MFIs

The Sub-Fund’s investment focus is on promising MFIs with positive social impact. Promising MFIs are institutions which have a proven business model, have reached or are close to reaching financial sustainability and have a strong social vision and mission focused on positive impact for the ultimate clients.

The Sub-Fund has adopted a segmentation of microfinance institutions globally by their relative maturity into Tier 1 (most mature), Tier 2 (intermediate) and Tier 3 (least mature) MFIs. The underlying definition of Tiers has been developed by an Action Group of the European Microfinance Platform, a multi-stakeholder network, and MicroRate, a microfinance information service provider. The definition classifies MFIs according to three criteria (an MFI has to meet all three criteria in order to qualify for the respective tier category):

	Tier 1 MFI	Tier 2 MFI	Tier 3 MFI
Size	> USD 50 million in Assets	USD 5 – USD 50 million in assets	No requirement
Sustainability	Return on Assets (“RoA”) > 0 during 2 years out of 3 last years and all RoA > -5%	Positive RoA in 1 out of last three years and other > -5% or positive trend in RoA and all > -5%	No requirement
Transparency	Regulated financial institution or rated financial institution	Audited financial statements for at least 3 years	No requirement

Global data (from the MixMarket information platform) suggests that ca. 15% of all MFIs are Tier 1 MFIs, ca. 25% are Tier 2 MFIs and the remaining 60% are Tier 3 MFIs. The data also suggest that Tier 2 MFIs are much more likely to correspond to the Sub-Fund’s requirements in terms of portfolio quality, sustainability and efficiency (compared to Tier 3s), that Tier 2 MFIs reach deeper into poorer segments of clients by targeting populations with lower loan amounts (less than half of Tier 1 loan average) and finally that Tier 2 MFIs are likely to be found in regions and context less developed in terms of financial inclusion.

LMDF’s investment focus is in principle limited to Tier 2 MFIs with strong social visions and missions focused on positive impact for the ultimate clients. The Sub-Fund may as well finance Tier 3 MFIs if these MFIs are likely to quickly graduate to become Tier 2s. The Sub-Fund may, in exceptional circumstances and for the purpose of efficient portfolio management, invest in Tier 1 MFIs.

Geographical Scope

The Sub-Fund will invest in the developing countries of Africa, Asia and Latin America.

The decision to invest will be based less on the overall level of development of the country in question, but rather more on the merits of the individual cases, i.e. the potential benefit for the local population and the prospects of autonomy for the MFI.

Investment strategy

The Sub-Fund is a social venture capital fund, which will invest in promising MFIs, including networks of MFIs and other investment vehicles similar to itself (e.g. regional funds). The Sub-Fund will not directly engage with the end-clients of the MFIs (micro-entrepreneurs, small savers and insurance policy holders). This activity requires local presence and local knowledge and is best done by locally implanted MFIs.

The Sub-Fund will remain a flexible and attentive partner that can offer tailor-made and innovative solutions to MFIs' financial needs.

The Sub-Fund moreover strives to create linkages with actors providing technical assistance to MFIs. Given the Sub-Fund's focus on promising Tier 2 MFIs, significant synergies may be derived from the combination of financing with non-financial assistance. The Sub-Fund itself does not provide nor finance technical assistance to MFIs.

Financial Instruments Forms

The contemplated investments include, but are not limited to the following:

- Various credit products and other financing instruments, such as senior loans, term deposits, promissory notes, bonds or other interest-bearing instruments;
- Participating interests in, loans or guarantees to regional and other microfinance investment vehicles;
- Equity and quasi-equity investments; and
- Issuance of guarantees and letters of credit.

Such list of instruments is illustrative and does not prevent the Sub-Fund from investing in microfinance related hybrid instruments such as convertible bonds or redeemable preference shares or equity options or to add other instruments with clear microfinance connection in the future. Such instruments can be used either on a stand-alone basis or combined, depending on the needs of the MFI and the Sub-Fund's own considerations.

The Sub-Fund may invest in MFIs directly or indirectly through Luxembourg or foreign holding companies, if such structure is deemed within the best interest of the Sub-Fund, notably to benefit from double taxation treaties.

Debt instruments

The Sub-Fund uses debt as its preferred investment instrument. Debt usually takes the form of senior unsecured loans but the Sub-Fund may also grant senior secured, sub-ordinated or convertible loans depending on the needs of the MFI.

Tenor

In order to allow promising MFIs to develop, the maturity of the Sub-Fund's loans will typically be between three to five years, potentially even longer in specific cases.

Interest rate

As an investment vehicle with a development vocation, the Sub-Fund will take into account and balance the interests of its investors with those of the ultimate beneficiaries, the clients of MFIs. When determining appropriate interest rates on the loans offered, the Sub-Fund takes into account its own return requirements, the local financing market conditions, the respective risk profiles and the social impact of MFIs. The interest rate may vary from country to country and even from MFI to MFI within the same country, depending on the characteristics of the MFI, on the characteristics of each country's financial sector and on the accessibility of foreign financing. For loans granted in local currency, the costs of currency risk hedging (borne by the MFI) often constitutes a significant part of the total financing costs.

Capital participation

One of the investment instruments that the Sub-Fund also uses is capital participation. As an open-ended financial commitment to the MFI, the Sub-Fund adds value through its reliable long-term funding and the extensive knowledge and experience it and its partners bring to the corporate governance of the MFI. The Sub-Fund will in principle not become either the majority or the major shareholder of the MFI. Its representation on the board and in assemblies of shareholders of the MFI will be decided on a case by case basis.

Although the duration of engagement is theoretically open-ended, the Sub-Fund will state clearly to the MFI that, once the latter is able to find alternative, commercial sources of financing, the Sub-Fund will consider its mission fulfilled and intends to sell its stake. The moment and modalities of exit

will be based on the Sub-Fund's discretionary judgement, but guided by its overriding principle of serving the marginalized population in developing countries and considering the best interest of Investors. The Sub-Fund will prepare its exit in close consultation with the MFI's board and management. It may give preference to domestic country investors of the MFI, as these play a major role in strengthening the local economic and social tissue and have an important development impact. The Sub-Fund's stake could for example be sold to another investor, be bought back by the MFI or be offered for sale at a public offering.

The Sub-Fund may also invest in equity instruments of service providers to MIVs if such equity investments give access to services which ultimately benefit the Sub-Fund. Such services may include foreign exchange hedging for currencies for which hedging may otherwise not be available nor accessible to the Sub-Fund or excessively costly.

Guarantee

The Sub-Fund's guarantee mechanism may consist of a deposit made by it at a Luxembourg bank, which in turn issues a letter of credit to a lender, domestic (same country as the MFI) or international, who in turn provides credit facilities to the MFI, in view of linking the MFI to financial markets and alleviating the currency risk for the MFI. The Sub-Fund receives a commission from the MFI based on the guaranteed amount.

Regional or other microfinance investment vehicles

The Sub-Fund may invest in investment vehicles investing in microfinance debt, equity, guarantee or related instruments if investing in such vehicles is deemed advantageous with regards to access to certain MFIs or in view of operational efficiency of the Sub-Fund and the investment vehicle shares the Sub-Fund's social objectives. The Sub-Fund will in particular invest in investment vehicles based in developing countries and thus profit from the extensive local knowledge of the fund managers of such vehicles.

Currency exposure

Along the chain of microfinance intermediation, three players can take on currency risk: the Sub-Fund, the intermediary MFI and the end-client. Neither the MFI, as a developing institution, nor the end-client, can be expected to have the capacity to manage currency risks well. As an entity with a development vocation, it would not seem appropriate for the Sub-Fund to pass on this risk entirely to its developing country counterparts. Hence, next to the Euro and the USD, the Sub-Fund may engage also substantially in the domestic currencies of the MFIs.

Liquid assets

The Sub-Fund may invest on an ancillary basis, and for the purpose of its liquidity management, its treasury in cash, sight deposits, term deposits, money market instruments or other liquid instruments, including money market and debt instruments, UCIs and in liquid socially responsible, in particular microfinance-related, investment products.

The Sub-Fund intends to keep a minimum of 10% of its total net assets in liquid assets. If the Sub-Fund is not able to maintain such percentage, for example in case of significant redemptions, the Sub-Fund intends to sell less liquid investments and to attain such percentage in a time period considered appropriate in the best interest of Investors.

Investment Restrictions

- (A) Restrictions applicable to investment in financial instruments other than open-ended UCIs

The Fund may not:

- a) acquire, for the Sub-Fund and for the Fund as a whole, more than 30% of the equity instruments issued by the same issuer, except that it will however be allowed to acquire temporarily, for the Sub-Fund and for the Fund as a whole, more than 30% of the equity instruments issued by the same issuer. In such a case, the Fund will use its best endeavours to reduce such holding so as to represent no more than 30% within two years from the acquisition.
- b) invest more than 5% of the net assets of the Sub-Fund in financial instruments issued by the same issuer and guarantees exposing it to the latter, with an exposure of up to EUR 1.25 million permitted towards any issuer until the Sub-Fund reaches a size of EUR 25 million in net assets.
- c) invest more than 15% of the net assets of the Sub-Fund in a single country.

The Fund may invest up to 100% of the net assets of the Sub-Fund in non-listed securities.

The restrictions mentioned hereabove are also applicable to units or shares issued by closed-ended UCIs, the securities of which are considered as transferable securities.

The restrictions mentioned hereabove under a), b) and c) are not applicable to securities issued or guaranteed by a member state of the Organisation for Economic Cooperation

and Development or their local authorities or public international bodies with European Union, regional or world-wide scope.

(B) Restrictions applicable to investment in open-ended UCIs

The restrictions set forth under (A) (a), (b) and (c) above and the relaxations of those restrictions set forth under (A) above are applicable to the purchase of units or shares issued by open-ended UCIs if such UCIs are not subject to risk diversification requirements comparable to those provided for UCIs subject to Part II of the Law.

These restrictions are not applicable to the acquisition of units of open-ended UCIs if such target UCIs are subject to risk diversification requirements comparable to those applicable to UCIs which are subject to part II of the Law and if such target UCIs are subject in their home country to a permanent supervision by a supervisory authority set up by law in order to ensure the protection of investors.

This derogation may not result in an excessive concentration of the investments of the relevant Sub-Fund in one single target UCI provided that, for the purpose of this limitation, each compartment of a target UCI with multiple compartments is to be considered as a distinct target UCI if the principle of segregation of the commitments of the different compartments towards third parties is ensured.

(C) Borrowings

The Sub-Fund does not intend to use borrowings to finance its investments. It may however use borrowings, in limited circumstances, for liquidity management purposes and in order to meet redemption requests.

(D) Techniques and Instruments

The Sub-Fund shall generally not invest in derivative instruments, other than currency or interest rate hedging instruments, debt swaps, sovereign default credit swaps, or similar agreements designed to manage risk associated with financial instruments or borrowings, and similar risk management derivatives, within the limits set forth in Appendix I.

Investments identification and monitoring procedure

Identification of potential MFIs

For the identification of potential MFIs it can invest in, the Sub-Fund relies on investment advisors and on proposals from other institutions engaged in financing of MFIs and development cooperation. MFIs in developing countries may

also initiate their own request for funding.

The due diligence process includes an institutional and contextual analysis of the MFI, drawing upon qualitative as well as quantitative criteria. This analysis will look into the institutional structure of the MFI (history, governance, legal structure, human resources, etc.), it will assess its social profile (social mission, targeted clients, product offering, quality of established links with customers, etc.), and it will examine its financial robustness (cost coverage, capital structure, dependency on donors, portfolio quality, credit methodology, reserves and provisions, etc.). The analysis will draw upon the annual reports of the MFI, its financial accounts (preferably audited), and other available reports (e.g. rating report).

In addition to the institutional analysis, a country analysis is undertaken, to assess the environment the MFI operates in. This analysis consists in an evaluation of the country's political and macroeconomic situation, its social indicators, its legal and judicial environment, and the conditions of its financial sector, in particular the provision of financial services to the poor and the feasibility of cross-border transactions.

Coupled to the above analysis is a field visit, to verify, complete and deepen the information at the Sub-Fund's disposal. An important component of the field visit will lie in personal contacts with the managers of the MFI and may include a visit to micro-entrepreneurs who are clients of the MFI. The field visit will normally be conducted by an investment advisor.

If the MFI passes this screening successfully, the proposal is presented to the Board of Directors. The Board of Directors takes the final investment decision.

Monitoring of MFI

When financial support to an MFI is granted by the Sub-Fund, a contract is negotiated and signed between the MFI and the Fund for the account of the Sub-Fund or through an intermediate holding entity. The contract will require the MFI to, among other things, deliver a quarterly factsheet to the Sub-Fund (by which the Sub-Fund gauges the latest developments of the MFI with a series of key performance indicators), inform the Sub-Fund of any important events that may have a material impact on the course of the MFI, and accept field visits to its office by a Fund representative or an investment advisor. The MFI will moreover be strongly encouraged to introduce within a reasonable time period regular external evaluation of its performance, both financial and social, through an external rating agency, if it has not yet done so. The Sub-Fund will withdraw its funding in case of serious violation of the contract.

The Sub-Fund outsources the monitoring of the invested MFI to investment advisors. Care will be taken in the selection of independent investment advisors, whose interests shall not be aligned with those of the MFIs they follow.

Synergies between investments and technical assistance

The Sub-Fund invests mainly in promising Tier 2 MFIs. These MFIs often need technical assistance to realize their objectives, for example in the areas of the development of new products, capacity building, training and the sharing of best practices. The Sub-Fund does not provide nor finance technical assistance but may actively promote the build-up of links between the MFIs and external parties that can offer different kinds of technical services to the MFIs. The purpose is to facilitate the development of the MFIs.

D. Risk factors and their mitigation

The investments of the Fund are subject to risks inherent in any investment. It cannot therefore be guaranteed that the investment objectives will be achieved.

Investors must therefore be aware that the value of their investment may fall as well as rise and that past performance is not a guide to future performances. Moreover, Investors may lose some or all of their investment.

In particular, in considering an investment in Luxembourg Microfinance and Development Fund - Social Venture Capital Sub-Fund, prospective Investors should consider risks which include, but are not limited to, counterparty risk, currency risk, country risk, liquidity risk, operational risk, risks linked to investment in other UCIs and risks linked to the valuation of illiquid and unlisted investments.

The risks referred to below are not exhaustive and a financial advisor or other appropriate professional should be consulted for additional advice.

Counterparty risk

A significant risk the Sub-Fund is exposed to is counterparty risk. The Sub-Fund's assets essentially consist of its portfolio of debt, equity and guarantees. The Sub-Fund's counterparties are often perceived as high risk: young MFIs, located in developing countries, that grant mostly uncollateralized credit to poor people without a credit record.

However, in practice, numerous studies have shown that poor people are not worse borrowers than their richer counterparts. Evidence suggests that, being already at the bottom of the society, the creditworthiness of poor people

seems remarkably unaligned with the business cycle. Moreover, as the Sub-Fund does not lend directly to the end clients, but to MFIs, it benefits from risk diversification over a very large number of borrowers. To diversify its risks, the Sub-Fund will invest pursuant to the principle of risk spreading in accordance with the rules under heading "Investment Restrictions" in section 2.

Potential Investors should particularly note that investments in minority equity shares in MFIs in developing countries and related investments in debt and guarantee instruments are inherently risky, notably to external shocks (natural disasters, political risks, etc.) and to the risk that the MFI may not succeed in its strategy, for example through inadequate governance and/or risk management. The sale of an equity participation in an MFI which has not performed as expected might involve significant mark-downs on the price or a buyer might not be found at all.

Currency risk

Microfinance intermediation at the international level usually involves the provision of capital in a currency different to the currency the end-client of the MFI borrows in. The capital provided by the foreign investor is typically converted into the local currency of the MFI at the beginning of the engagement, and reconverted at the end of the engagement. As currency exchange rates do not remain the same over time, but can sometimes vary significantly, the invested funds are exposed to currency (or foreign exchange) risk.

The Sub-Fund maintains its accounts in Euro. However, next to the Euro, the Sub-Fund may have significant balances in USD and may engage significantly in the domestic currencies of MFIs' countries. From past experience, fluctuations in currency exchange rates may contribute significantly to the variations in the Net Asset Value of the Sub-Fund.

The Sub-Fund will aggregate the currency risks of its investments and intends to hedge its exposure to the extent possible and commercially feasible. It may also share the exposures with the MFIs. A balance shall be found between the protection of the Sub-Fund's Shareholders and the development interests of the MFIs and their end-clients.

In order to limit its currency risks, the Sub-Fund may deploy the following strategies:

- The Sub-Fund may use financial hedging instruments, such as swaps, futures/forwards and options, if such instruments are available and appropriate in terms of cost and benefits. As described in section "Capital participations", the Sub-Fund may have to make an equity investment in a service provider in order to gain access to hedging of certain currencies.

- The Sub-Fund will diversify its engagements in different countries and different currencies. This diversification should limit the impact the variation of any single exchange rate will have on the value of its portfolio in Euro;
- The Sub-Fund may have a share of its portfolio in guarantees. As the Sub-Fund commits in hard currency, including in Euro, the currency risk is reduced. This risk is not transferred to the MFI when the latter obtains a credit from a local bank in domestic currency;
- The Sub-Fund may envisage for its non-Euro engagements contractual provisions that share out currency risk between the Sub-Fund and the MFI or a third party willing to take on such risk;

The Board of Directors may decide to use other risk management strategies, if such strategies are deemed more appropriate to the currency risks the Sub-Fund is exposed to.

The Sub-Fund may invest in capital participations. This type of engagement is open-ended, in MFI domestic currencies and is by nature difficult to hedge.

Country risk

Country risk is generally understood as a risk that emanates from the country-specific operating environment of the MFI (in contrast to counterparty risk, which emanates from the MFI itself). The Sub-Fund, as it engages with counterparts in developing countries, does face some peculiar risks. These are often countries with fragile political and social institutions, weak property rights, inadequate legal and judicial systems, susceptibility to political upheavals, economic or financial crises, and natural disasters.

Furthermore, future modifications to the legal environment or to foreign exchange and capital transfer regulations subsequent to an investment may render the repatriation of funds challenging. In such case, the Sub-Fund will bear the associated costs and losses.

To limit its exposure, the Sub-Fund will avoid operating in areas engaged in armed conflict. To diversify its risks, the Sub-Fund will aim to limit its total engagement towards a single country to a maximum of 15% of its Net Asset Value. The Sub-Fund may consider the insurance of country risk on a case by case basis.

Liquidity risk

Potential Investors in the Sub-Fund should be specifically aware that the Sub-Fund invests a majority of its assets in illiquid, held-to maturity instruments and equity participations

with uncertain exit timing. The Sub-Fund intends to limit liquidity risks through a liquidity reserve amounting to 10% of its net assets and through credit lines it may negotiate with third parties. However, no guarantee can be given that the Sub-Fund will be able, at each Valuation Day, to honour all redemption requests.

Operational risk

The Fund aims to establish controls, rules and procedures to limit operational risks. These range from co-signature requirements for important decisions to the minimum length for the storage of records, from the safeguard of electronic data to the physical security of its offices.

In addition to these self-governing rules, the Fund will define its relations with its external partners (Custodian and Administrative Agent, investment advisors, distributors, etc.) in contractual agreements. These documents shall establish the respective tasks and obligations of the Fund's partners and fix their modes of interaction with the Fund.

The Board of Directors will carry out regular, pre-announced and non pre-announced, control visits to the Fund's offices. The external audit of its activities and accounts will be entrusted to an internationally renowned audit company.

It should be kept in mind that despite the best governance rules and procedures, and despite the best compliance, some residual operational risk will always remain.

Risks linked to investment in other UCIs

The investment by the Sub-Fund in target UCIs may result in a duplication of some costs and expenses which will be charged to the Sub-Fund, i.e. setting-up, filing and domiciliation costs, subscription, redemption or conversion fees, management fees, custodian bank fees, auditing and other related costs. For Shareholders of the Sub-Fund, the accumulation of these costs may cause higher costs and expenses than the costs and expenses that would have been charged to the Sub-Fund if the latter had invested directly.

Risks linked to the valuation of illiquid and unlisted investments

Financial instruments which are traded on a regulated market allow for measurement of their fair value through the availability of prices of recent transactions. Non-quoted, non-standardized instruments, such as the Sub-Fund intends to use, necessitate more effort to determine a probable realization value in the absence of transactions in the immediate past. The Fund will consider the use of three commonly accepted valuation methodologies: the income,

market, and cost approaches.

The income approach measures the value of an underlying investment by the present value of its future economic benefits. Indications of fair value are developed by capitalizing current benefits or discounting prospective cash flows to their present value at a rate of return that appropriately reflects the inherent risk of that particular underlying investment.

The market approach arrives at an indication of fair value by drawing upon comparable investments that have been recently executed in arm's-length transactions. The market data is then adjusted for any significant differences, to the extent known, between the identified comparable investment and the Sub-Fund's investment.

The cost approach considers reproduction or replacement cost as an indicator of fair value. The approach is based on the assumption that a prudent investor would pay no more for an investment than the amount for which he could replace or re-create it.

The use of any of these three methodologies depends on the availability of relevant information. The current microfinance industry is characterized by scarcity of information with regards to reliable and accessible market information. Only a few microfinance initial public offerings have taken place so far. A secondary market for investments is unorganized and a majority of transactions are private placements.

It is important to note that no single one of the three valuation methodologies will yield a definitive determination of fair value as each underlying investment involves unique factors. The Fund aims to use, wherever feasible based on the information available, more than one methodology. The valuation process requires the objective analysis of data, the application of experienced judgment, and discussion with the MFIs management to yield a reasonable conclusion.

There is however no certainty that the valuation derived from using such methodologies equals the value the Fund will realize when it sells its investments.

3.- SHARES

Shares will be issued in registered form only. Shareholders shall receive a confirmation of their shareholding. Share certificates will only be issued upon request and at the expense of the Shareholder.

The inscription of the Shareholder's name in the register of Shareholders evidences his/her/its right of ownership of Shares.

Fractions of Shares up to three decimal places will be issued if so decided by the Board of Directors. Such fractions of Shares shall not be entitled to vote but shall be entitled to participate in the net assets and any distributions attributable to the relevant Class on a pro rata basis.

All Shares must be fully paid-up; they are of no par value and carry no preferential or pre-emptive rights. Each Share of the Fund, irrespective of its sub-fund, is entitled to one vote at any general meeting of Shareholders, in compliance with Luxembourg law and the Articles.

Within each sub-fund, several Classes of Shares may be issued.

Classes issued in Luxembourg Microfinance and Development Fund - Social Venture Capital Sub-Fund.

The Sub-Fund presents a diversified and differentiated capital structure, encompassing the public sector, private institutions and private individuals.

As a result, three Classes of Shares are currently offered in the Sub-Fund, namely Class A Shares, Class B Shares and Class C Shares, each targeting different types of Investors, evidencing a different level of risk, offering a different target return and evidencing a different level of involvement in the Fund's governance.

These three Classes of Shares are invested in a common portfolio of investments.

Risk profile

The risks and associated potential losses incurred by the Sub-Fund are allocated between the three Classes of Shares in proportion to their percentages in the Sub-Fund's NAV except for Class C Shares' exposure to microfinance impairment risk.

Class A Shares shall cover the net loss since the last Valuation Day allocated to Class C Shares, if such loss arises

from the impairment of microfinance related investments. In such case, Class A Shares' capital covers Class C Shares' loss until either Class C Shares' NAV reaches its NAV of the previous Valuation Day, the impairment loss allocated to Class C Shares according to their proportion in the Sub-Fund's total NAV is absorbed by Class A capital, or Class A Shares' capital becomes depleted, whichever limit is attained first. Class A Shares will not cover any loss, nor the part of any loss, occurred since the last Valuation Day allocated to Class C Shares not arising from microfinance impairment risk. Microfinance impairment risk is defined for this purpose as any reduction in value in the Sub-Fund's microfinance investment that results from the deterioration of the financial conditions of the counterparty.

Microfinance impairment risk does not include any reduction in value in the Sub-Fund's microfinance investment that results from the depreciation of the investment currency vis-à-vis the Euro (currency risk), from externally imposed restrictions on cross-border capital transfer and forced confiscation or appropriation of the Sub-Fund's investment (country risk) or, specifically for the Sub-Fund's capital participations, any reduction in value that results from a diminution in the external references that are unrelated to the counterparty's own financial conditions. These risks, as well as all other risks incurred by the Sub-Fund such as liquidity risk, operational risk and counterparty risk emanating from the Sub-Fund's liquidity placements are not covered by Class A Shares on behalf of Class C Shares, but are borne by each Share Class in proportion of its percentage in the Sub-Fund's Net Asset Value.

Shareholders in Class C Shares should be aware that the cover granted to Class C Shares in respect of the impairment risk emanating from the microfinance investments of the Sub-Fund is not a guarantee that the NAV per Share of Class C Shares will never decrease. Shareholders in Class C Shares should also note that the coverage is effective only as long as there is sufficient Net Asset Value attributable to Class A Shares to cover the microfinance impairment risk of Class C Shares.

The Net Asset Value of Class A Shares shall represent at least 20% of the sum of the Net Asset Values of Class A Shares and Class C Shares, in order to provide the aforementioned coverage. Additional subscriptions of Class C Shares in respect of each Valuation Day will be subject to this safeguard ratio, determined on the basis of the previous NAV adjusted so as to take into account the subscription and redemption requests received in respect of that Valuation Day.

Class B Shares bear their own microfinance impairment risk, i.e. they support any loss resulting from a microfinance

investment, and any loss incurred by the Sub-Fund in general, in proportion of the percentage of the Sub-Fund's Net Asset Value they represent.

Return

If the conditions as described in Section 5.B “Allocation of Net Asset Value among Classes of Shares within Luxembourg Microfinance and Development Fund – Social Venture Capital Sub-Fund” are met, Class B Shares shall earn a 1 percentage point p.a. higher return than Class A Shares and Class C Shares, to the extent possible. Class A Shares and Class C Shares will start being remunerated once the return of the Sub-Fund permits to give Class B Shares a return equivalent to 1 percentage point p.a.

In case of loss for the Sub-Fund, the three Classes of Shares shall bear the loss according to their respective proportions in the Sub-Fund's overall Net Asset Value, except for the allocation of the microfinance impairment risk between Class A Shares and Class C Shares as described earlier under “Risk profile”.

In case the Sub-Fund's provisions for write-downs due to microfinance impairment risks are deemed excessive at a later date and returned to the Sub-Fund's Shareholders, the three Classes of Shares shall as a general rule be allocated their shares of the excess write-down as determined by their respective proportions in the Sub-Fund's total Net Asset Value, whereas Class A Shares shall recuperate in priority the net cumulative impairment loss they have previously covered, if any, for Class C Shares.

Involvement in the Fund's governance

Class A Shares constitute the core capital of the Sub-Fund and are meant to be held by Shareholders who bear a greater investment risk in order to promote microfinance investment among private investors. In return, Class A Shareholders receive a significant influence over the Fund's governance.

Class A Shareholders are entitled to have a greater involvement in the Fund's governance than Class B or Class C Shareholders. Firstly, Class A Shareholders have the right to propose to the general meeting of Shareholders a list containing the name of candidates for the position of Director of the Fund out of which a majority of the Directors of the Fund must be appointed. Secondly, as each Share of the Fund entitles the holder to one vote irrespectively of the Class the Share belongs to, and as the initial subscription price of Class A Shares is set 4 times lower than the initial subscription price of Class B Shares and Class C Shares, Class A Shareholders receive more voting rights than Class B and Class C Shareholders for the same amount invested.

These three Classes of Shares have the following features:

Class A Shares

- **Eligible Investors**
Luxembourg Government, ADA and such other Investors as may be approved by the existing Class A Shareholders.
- **Denomination currency**
Euro.
- **Initial subscription price**
Euro 25 per Share.
- **Target return**
At least above the inflation rate targeted by the European Central Bank over the medium term (consumer price index), i.e. 2% p.a., in order to safeguard the real value of the Share.
- **Redemption**
Not redeemable.
- **Transferability**
Restricted to Class A Eligible Investors, subject to the prior consent of existing Class A Shareholders, which cannot be unreasonably withheld.
- **Risk profile**
Junior.
- **Specific rights**
Class A Shares give the right, in accordance with the Articles, to propose to the general meeting of Shareholders a list containing the name of candidates for the position of Director of the Fund out of which a majority of the Directors of the Fund must be appointed.

Class B Shares

- **Eligible Investors**
No restriction.
- **Denomination currency**
Euro.
- **Initial subscription price**
Euro 100 per Share.
- **Target return**
At least above the inflation rate targeted by the European Central Bank over the medium term (consumer price index), plus 1 percentage point, i.e. 3% p.a.
- **Redemption**
Redeemable.
- **Transferability**
Free transferability.
- **Risk profile**
Mezzanine.
- **Specific rights**
Class B Shares shall earn a 1 percentage point p.a. higher return than Class A Shares and Class C Shares to the extent possible.
- **Sale (subscription) fee**
Up to 2% to the benefit of the distributor.
- **Redemption fee**
Up to 2% to the benefit of the Sub-Fund at the discretion of the Board of Directors.

Class C Shares

- **Eligible Investors**
Private individuals and private non-profit organisations; admission of private non-profit organisations subject to the Board of Directors' consent.
- **Denomination currency**
Euro.
- **Initial subscription price**
Euro 100 per Share.
- **Target return**
At least above the inflation rate targeted by the European Central Bank over the medium term (consumer price index), i.e. 2% p.a., in order to safeguard the real value of the Share.
- **Redemption**
Redeemable.
- **Transferability**
Restricted to Class C Eligible Investors and, in case of transfer to non-profit organisations, subject to the Board of Directors' prior consent, which cannot be unreasonably withheld.
- **Risk profile**
Senior.
- **Specific rights**
Class C Shares' risk emanating from impairment of the microfinance investments of the Sub-Fund is covered by Class A Shares under certain conditions of Net Asset Value. This support is effective as long as there is sufficient Class A capital to cover Class C Shares.
- **Sale (subscription) fee**
Up to 2% to the benefit of the distributor.
- **Redemption fee**
Up to 2% to the benefit of the Sub-Fund at the discretion of the Board of Directors.

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4.- HOW TO DEAL

Investors may submit subscription, redemption, transfer and conversion orders to the Administrative Agent at its registered office. Such orders will be dealt with according to the provisions of this section.

A. Issue of Shares

Subscription of Shares

Subscriptions of Shares are accepted on a quarterly basis at each Valuation Day (as defined hereinafter).

The subscription price per Share (the “Subscription Price”) will be equal to the Net Asset Value of the relevant Class of the relevant sub-fund increased, as the case may be, by sales fee as stated below. The Subscription Price is available for inspection at the registered office of the Fund.

The Shares will be issued on a continuous basis, as capital is required by the Fund.

Any applicant shall complete an Application Form in such form as the Fund may from time to time prescribe and shall comply with such conditions as may be prescribed by the Fund. Only Application Forms prescribed by the Fund or its authorised agent will be accepted. Investors whose applications are accepted will be allotted Shares issued on the basis of the NAV determined in respect of the Valuation Day following receipt of the Application Form provided that such application has been received in Luxembourg at the registered office of the Administrative Agent not later than 6:00 p.m. (Luxembourg time), on the fifth Business Day preceding the relevant Valuation Day. Applications received after that time will be processed in respect of the next Valuation Day.

Whenever the Fund offers Shares for subscription, the price per Share at which such Shares are offered may be increased by a sales fee of up to a maximum of 2% of the NAV per Share of the relevant Class to the benefit of the distributor. The price so determined shall be payable to the Fund’s account at the Custodian, in the denomination currency of the relevant Class of the relevant sub-fund or in any other currency specified by the Investor (in which case any currency conversion cost shall be borne by the investor) within five Business Days following the publication of the applicable NAV.

Written confirmations of shareholding will be sent to Shareholders within two Business Days following the issue of the Shares.

The Shares will be issued on the sixth Business Day following the publication of the applicable NAV.

The Fund reserves the right to reject in its full discretion any application in whole or in part, in which case subscription monies paid, or the balance thereof, as appropriate, will be returned to the applicant without interest as soon as practicable or to suspend at any time and without prior notice the issue of Shares in one, several or all of the sub-funds or classes.

In particular, the Fund reserves the right to suspend subscription in Class C Shares within the Sub-Fund if the threshold of 20% between the NAV of the Class A Shares and the sum of the NAV of the Class A and Class C Shares as described in “3.-SHARES, Risk profile” is breached or can be expected to be breached. In such case, subscription applications already received by the Fund and in excess of the threshold will be cancelled pro rata as determined by the Fund and the excess subscription monies returned to the applicants without interest as soon as practicable.

The Fund may agree to issue Shares as a consideration for a contribution in kind of securities or other assets, provided that such securities or other assets comply with the investment objectives and policy of the relevant sub-fund and that the contribution is made in compliance with the conditions set forth by Luxembourg law, in particular the obligation to deliver a valuation report from the approved statutory auditor of the Fund (“*réviseur d’entreprises agréé*”) which shall be available for inspection. Any costs incurred in connection with a contribution in kind of securities or other assets shall be borne by the relevant Shareholders.

No Shares of any sub-fund will be issued during any period when the calculation of the NAV in such sub-fund is suspended, in accordance with the Articles.

In the case of suspension of dealings in Shares, the application will be dealt with as at the first Valuation Day following the end of such suspension period.

B. Late trading and market timing

Late Trading is to be understood as the acceptance of a subscription, conversion or redemption order after the time limit fixed for accepting orders (*cut-off time*) on the relevant day and the execution of such order at the price based on the net asset value applicable to such same day.

Market Timing is to be understood as an arbitrage method through which an investor systematically subscribes and redeems or converts units or shares of the same UCI within a short time period, by taking advantage of time differences

and/or imperfections or deficiencies in the method of determination of the net asset value of the UCI.

The Fund shall comply with any relevant provisions contained in CSSF Circular 04/146 of 17 June 2004 concerning the protection of undertakings for collective investment and their investors against Late Trading and Market Timing practices as they may be amended or revised from time to time.

In this respect, no subscription, conversion or redemption orders received by the Fund will be accepted after the relevant cut-off time except for subscription, conversion or redemption orders received by the distributors which undertake to apply the cut-off time to all such orders and transmit the orders to the Administrative Agent within a reasonable period of time. Subscriptions, conversions or redemptions will be dealt on a forward pricing basis as more fully described above.

The Board of Directors of the Fund does not permit practices related to Market Timing. Both the Board of Directors and the Administrative Agent reserve the right to reject subscription and conversion orders from an Investor who the Board of Directors or the Administrative Agent suspects of using such practices. The Board of Directors further reserves the right to take, if appropriate, the necessary measures to protect the other Investors of the Fund.

C. Anti-money Laundering Provisions

Pursuant to international rules and Luxembourg laws and regulations comprising, but not limited to, the law of 12 November 2004 on the fight against money laundering and financing of terrorism, as amended, and circulars of the supervising authority, obligations have been imposed on professionals of the financial sector to prevent the use of undertakings for collective investment for money laundering and financing of terrorism purposes. As a result of such provisions, the identity of the subscriber in the Fund shall be ascertained in accordance with Luxembourg laws and regulations. Accordingly, the Fund or Administrative Agent or any duly appointed agent may require subscribers to provide any document it deems necessary to effect such identification.

In case of delay or failure by an applicant to provide the documents required, the application for subscription (or, if applicable, for redemption) will not be accepted. The Fund or the Administrative Agent shall not be held liable for delays or failure to process deals as a result of the applicant providing no or only incomplete documentation.

Shareholders may be requested to provide additional or updated identification documents from time to time pursuant to ongoing client due diligence requirements under relevant laws and regulations.

D. Redemption

Unless otherwise herein provided for in relation to any given sub-fund or Class, the Shares are redeemable on a quarterly basis as at each Valuation Day at the request of the Shareholders at a price based on the NAV of the relevant Shares. Shares will be cancelled as at the first Business Day of the following quarter.

Redemption requests should contain the following information: the identity and address of the Shareholder requesting the redemption, the number of Shares or amount to be redeemed, the relevant sub-fund, the relevant Class of Shares, the name in which such Shares are registered and details as to whom payment should be made. All necessary documents to complete the redemption should be enclosed with such request.

The redemptions are dealt with at an unknown NAV. Shareholders whose requests for redemption are accepted will have their Shares redeemed in respect of a Valuation Day provided that the requests have been received in Luxembourg not later than 6:00 p.m. (Luxembourg time) on the 45th calendar day preceding the Valuation Day (or, if such day is not a Business Day as defined here above, on the following Business Day). Requests received after that time will be processed in respect of the next applicable Valuation Day.

Shares will be redeemed at a price equal to the NAV in the relevant Class of the relevant sub-fund in respect of the relevant Valuation Day less a redemption fee of up to 2% which is payable to the Fund. The same level of redemption fee will be applicable to all Shares of the same Class redeemed as at the same Valuation Day.

The Board of Directors reserves the right to modify the redemption charge if and when appropriate.

The redemption price shall be paid not later than 4 Business Days after the publication of the applicable NAV, or from the date on which the redemption request is complete, whichever is the later date.

Payment will be made by wire transfer to the Shareholder or by bank order to an account indicated belonging to the Shareholder, at such Shareholder's expense and risk. No payment to third-party accounts will be made.

The redemption price will be paid in the denomination currency of the relevant Class of the relevant sub-fund or in any other freely convertible currency specified by the Shareholder. In the last case, any currency conversion cost shall be borne by the Shareholder. The redemption price may be higher or lower than the price paid at the time of subscription or purchase.

Shares in any sub-fund will not be redeemed if the calculation of the NAV in such sub-fund is suspended in accordance with the Articles.

Furthermore, if with respect to any Valuation Day redemption requests relate to more than 5% of the Net Asset Value of a specific sub-fund or Class, the Board of Directors may decide that the payment of such requests for redemption will be deferred (pro rata) for such period as the Board of Directors considers to be in the best interest of the sub-fund, but normally not exceeding three months.

The Articles provide that the Board of Directors, on behalf of the Fund, may compulsorily redeem the Shares held by any person, firm or corporate body, if in the opinion of the Fund such holding may be detrimental to the Fund, if it may result in a breach of any law or regulation whether Luxembourg or foreign, or if as a result thereof the Fund may become subject to laws other than those of the Grand Duchy of Luxembourg (including but without limitation tax laws); specifically but without limitation the Fund may compulsorily redeem Shares held by any U.S. Person.

E. Conversion of Shares

Any Shareholder is entitled to request the conversion of all or part of his/her/its Shares of one sub-fund into Shares of another sub-fund or of Shares of one Class into Shares of another Class, subject to the restrictions set in section 3: “Shares” (e.g., eligibility criteria). The price for the conversion of Shares shall be computed by reference to the respective Net Asset Value of the sub-funds or the two Classes of Shares, calculated as at the same Valuation Day. Acceptance of any application for conversion is contingent upon the satisfaction of any conditions (including any minimum redemption/subscription and prior notice requirements) applicable to the sub-fund/Class from/into which the conversion is to be effected.

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5.- NET ASSET VALUE

A. Valuation of Assets

The NAV in respect of each Class of each sub-fund shall be expressed in the currency in which the Shares of such Class are denominated and shall be calculated as at any Valuation Day (as defined hereinafter) by dividing the net assets of each Class and/or sub-fund (being the value of the portion of assets less the portion of liabilities attributable to such Class and/or sub-fund as at any such Valuation Day) by the total number of Shares in the relevant Class and/or sub-fund then outstanding. The NAV per Share may be rounded up or down to the nearest second decimal.

The Fund and its Administrative Agent will make all reasonable efforts to correctly assess the value of the underlying investments of each sub-fund based on the information made available to them at the time of determining such value. The Fund and its Administrative Agent intend to calculate the NAV as soon as possible once they have collected the information and data necessary to perform a reasonably correct assessment of the value of the underlying investments of the relevant sub-fund. The NAV calculated on this basis will be binding upon the Fund and its Shareholders. However, if, since the time of determination of the NAV as at the relevant Valuation Day, there has been a substantial change in the valuation of the investments attributable to the relevant sub-fund, the Board of Directors may, in order to safeguard the interests of the Shareholders and of the Fund, cancel the first NAV and carry out a second valuation until any subscription, redemption or conversion has been processed on the basis of the NAV so determined. All subscription, redemption and conversion requests shall be treated on the basis of this second valuation.

The NAV is determined as at the last calendar day of March, June, September and December (each, a “Valuation Day”) and for the first time as at 31 March 2010, on the basis of the value of the underlying investments of the Fund determined as follows:

- (a) Debt instruments not listed or dealt in on any stock exchange or any other regulated market that operates regularly, is recognized and open to the public will be valued at the nominal value plus accrued interest. Such value will be adjusted, if appropriate, to reflect e.g. major fluctuations in interest rates in the relevant markets or the appraisal of the Board of Directors on the creditworthiness of the relevant debt instrument. The Board of Directors will use its best endeavours to continually assess this method of valuation and recommend changes, where necessary, to ensure that debt instruments

will be valued at their fair value as determined in good faith by the Board of Directors. If the Board of Directors believes that a deviation from this method of valuation may result in material dilution or other unfair results to Shareholders, the Board of Directors will take such corrective action, if any, as it deems appropriate to eliminate or reduce, to the extent reasonably practicable, the dilution or unfair results.

- (b) Capital participations not listed or dealt in on any stock exchange or any other regulated market that operates regularly, is recognized and open to the public will be valued at their reasonably foreseeable sales price determined prudently and in good faith pursuant to procedures established by the Board of Directors. Such procedures include in order of preference:
- Up to the first year following the sub-fund's acquisition, the capital participations will be valued at cost. A different valuation approach may be taken if material changes within the MFI or in its operating environment occur during the first year following acquisition;
 - After the first year of holding, the value of the capital participation will be estimated with reference to prices of equity transactions or issues of new shares involving the same MFI within a reasonable time period of the Valuation Date. Such a time period is determined by an assessment of the Board of Directors whether material changes within the MFI or in its operating environment have occurred since the date such transaction took place;
 - If such transactions are not available or deemed not representative of fair value, the value of the capital participation should be estimated with reference to the price-to-book ratio at which the sub-fund acquired the capital participation. Such ratio may be adjusted by factors obtained from relevant industry sources. The Board of Directors may consider alternative ratios such as price-to-earnings or price-to-cash flow multiples if the application of such multiples is deemed more appropriate to the circumstances of the MFI;
 - In case the sub-fund has entered into negotiations to sell a capital participation to a third party, the capital participation may be valued at its expected sales price if the disclosure is judged appropriate by the Board of Directors in view of the ongoing negotiations.
 - The Board of Directors intends to conduct, whenever feasible and, if possible, at least once per year, based on available information and the resources available to the sub-fund, the

following cross-checks to the valuation of capital participations:

- by industry ratios implied by transactions and ratios obtained from quoted companies deemed comparable by the Board of Directors, as and when such comparables become available;
- by using the income approach in the form of discounted cash flows (“DCF”). The use of DCF depends critically on the availability of future earnings or cash-flows as forecasted by the MFI’s management, as well as the determination of an appropriate cost of capital to discount such earnings or cash-flows.

(c) The value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash dividends and interest declared or accrued as aforesaid and not yet received shall be deemed to be the full amount thereof, unless in any case the same is unlikely to be paid or received in full, in which case the value thereof shall be arrived at after making such discount as the Board of Directors may consider appropriate in such case to reflect the true value thereof.

(d) The value of assets which are listed or dealt in on any stock exchange is based on the last available price on the stock exchange which is normally the principal market for such assets.

(e) The value of assets dealt in on any other regulated market is based on the last available price.

(f) The value of units or shares in UCIs is based on their last-stated net asset value. Other valuation methods may be used to adjust the price of these units or shares if, in the opinion of the Fund, there have been changes in the value since the net asset value has been calculated or the valuation method used by the UCIs is not appropriate to reflect the fair value thereof.

(g) For assets that are not listed nor dealt in on any stock exchange or any other regulated market and which are not mentioned above or in the event that, for any assets, the price as determined pursuant to sub-paragraph (d) or (e) is not representative of the fair market value of the relevant assets, the value of such assets will be based on the reasonably foreseeable sales price determined prudently and in good faith.

The value of all assets and liabilities not expressed in the

reference currency of a sub-fund will be converted into the reference currency of such sub-fund at the rate of exchange ruling in Luxembourg as at the relevant Valuation Day. If such quotations are not available, the rate of exchange will be determined in good faith by or under procedures established by the Board of Directors.

The Board of Directors, in its discretion, may permit some other method of valuation to be used, if it considers that such valuation better reflects the fair value of any asset of the Fund.

The NAV and the issue, redemption and conversion prices for the Shares of each Class of each sub-fund may be obtained during business hours at the registered office of the Administrative Agent.

The NAV determined as at a Valuation Day will normally be available at the registered office of the Administrative Agent within 45 calendar days after that Valuation Day and in any case no later than the following Valuation Day.

B. Allocation of Net Asset Value among Classes of Shares within Luxembourg Microfinance and Development Fund – Social Venture Capital Sub-Fund

The Net Asset Value of the Sub-Fund, determined pursuant to section 5.A “Valuation of Assets”, is allocated among the Classes A, B and C in the following way:

The preferential return to Class B Shares as stipulated in section 3 “Shares” shall be allocated if and only if the Sub-Fund results since the last Valuation Day, both with and without microfinance impairment risk, show a profit. In such case, the net profit generated by the Sub-Fund since the last Valuation Day is first allocated to Class B Shares until such remuneration reaches either the total net profit since the last Valuation Day, the equivalent of a 1% per annum interest on Class B Share’s NAV or, if there is return of a previously made excessive microfinance impairment, the total profit without impairment return since the last Valuation Day, whichever limit is attained first. The remaining net profit, if any, is allocated among the three Classes of Shares according to their respective proportions in the Sub-Fund’s total NAV.

Microfinance impairment risk is allocated to the different Classes following the methodology set out in “3.- SHARES”.

C. Suspension of the Calculation of the Net Asset Value

In each sub-fund, the calculation of the NAV and the issue, redemption and conversion of Shares may be temporarily suspended:

- (a) during any period when any one of the stock exchanges or other principal markets on which a substantial portion of the assets of the Fund attributable to such sub-fund, from time to time, is quoted or dealt in is closed (otherwise than for ordinary holidays) or during which dealings therein are restricted or suspended provided that such restriction or suspension affects the valuation of the investments of the Fund attributable to such sub-fund quoted thereon; or
- (b) during any period when, as a result of political, economic, military or monetary events or any circumstances outside the control, responsibility and power of the Board of Directors, or the existence of any state of affairs which constitutes an emergency in the opinion of the Board of Directors, disposal or valuation of the assets held by the Fund attributable to such sub-fund is not reasonably practicable without this being seriously detrimental to the interests of shareholders, or if in the opinion of the Board of Directors the issue and, if applicable, redemption prices cannot fairly be calculated; or
- (c) during any breakdown in the means of communication or computation normally employed in determining the price or value of any of the investments of the Fund attributable to such sub-fund or the current prices or values on any stock exchanges or other markets in respect of the assets attributable to such sub-fund; or
- (d) during any period when the Fund is unable to repatriate funds for the purpose of making payments on the redemption of Shares of such sub-fund or during which any transfer of funds involved in the realisation or acquisition of investments or payments due on redemption of Shares of the Fund cannot, in the opinion of the Board of Directors, be effected at normal rates of exchange; or
- (e) from the time of publication of a notice convening an extraordinary general meeting of Shareholders for the purpose of winding up the Fund or any sub-fund(s), or merging the Fund or any sub-fund(s), or informing the Shareholders of the decision of the Board of Directors to terminate or merge any sub-fund(s); or
- (f) when for any other reason, the prices of any investments owned by the Fund attributable to such sub-fund cannot be promptly or accurately ascertained.

Notice of the beginning and of the end of any period of suspension shall be given by the Fund to all the Investors and Shareholders affected, i.e. having made an application for subscription, redemption, transfer or conversion of Shares for which the calculation of the NAV has been suspended.

Any application for subscription, redemption or conversion of Shares is irrevocable except in case of suspension of the calculation of the NAV in the relevant sub-fund, in which case Shareholders may give notice that they wish to withdraw their application. If no such notice is received by the Fund, such application will be dealt with as at the first applicable Valuation Day following the end of the period of suspension.

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6.- MANAGEMENT AND ADMINISTRATION OF THE FUND

A. Board of Directors

The Board of Directors shall have the broadest powers to act in any circumstances on behalf of the Fund, subject to the powers assigned by law and the Articles to the general meeting of Shareholders.

The Board of Directors has been given power to administer and manage the Fund and to decide on its objectives and on the investment policy to be pursued by each sub-fund.

The Fund may indemnify any Director against expenses reasonably incurred by him/her/it in connection with any action, suit or proceeding to which he/she/it may be made a party by reason of him/her/it being or having been a director of the Fund, except in relation to matters as to which he/she/it shall be finally adjudged in such action, suit or proceeding to be liable of gross negligence or misconduct. The foregoing right of indemnification shall not exclude other rights to which he/she/it may be entitled.

B. Management

The Board of Directors may delegate the day-to-day management of the Fund to one of its members or to a committee composed of several persons who are not necessarily members of the Board of Directors (such director or committee is herein referred to as the “Management”). The Management shall notably be in charge of the financial management of the Fund’s portfolio, risk management, reporting to Shareholders, relations with third parties such as supervisory authorities and external consultants, the organisation of internal administrative procedures and any other regular day-to-day tasks as delegated by the Board of Directors.

At the date of this Prospectus, the Board of Directors has delegated the day-to-day management of the Fund to Kaspar Wansleben. Kaspar Wansleben assumes as such a full time position. He is supported by a dedicated team of one or several persons (the “Support Team”). In consideration of the services rendered to the Fund, the Management and the Support Team are entitled to receive a fee that, together with the fee paid to the investment advisor(s), is of maximum 3% of the Sub-Fund’s average Net Asset Value per year. This fee shall be inclusive of the Management’s and the Support Team’s wages, salaries, bonuses and benefits, but shall not comprise other organisational and operating expenses incurred by the Fund.

C. Investment advisors

The Board of Directors may appoint one or more investment advisors, at the Fund’s expense, to provide the following services:

- (i) identification, valuation (analysis and due diligence), selection, negotiation and structuring of microfinance investment and disinvestment opportunities.
- (ii) review, supervision and monitoring of microfinance investments and management of the Fund’s relationship with its target investments.

At the date of this Prospectus, the Sub-Fund has appointed Appui au Développement Autonome a.s.b.l. (ADA) as investment advisor (the “Investment Advisor”).

In consideration of the advisory services rendered to the Sub-Fund, the investment advisors are entitled to receive a total fee of maximum 2% of the Sub-Fund’s average Net Asset Value per year.

D. Custodian

By an agreement dated 7 October 2009 (the “Custodian and Paying Agent Agreement”), Banque et Caisse d’Epargne de l’Etat, Luxembourg (hereafter referred to as “BCEE”) has been appointed as the custodian of the assets of the Fund (the “Custodian”). The Custodian and the Fund may terminate the appointment of the Custodian at any time upon three months’ written notice. In the event of termination of the appointment of the Custodian, the Fund will use its best endeavours to appoint within two months of such termination, a new custodian who will assume the responsibilities and functions of the Custodian. Pending the appointment of a new custodian, the Custodian shall take all necessary steps to ensure good preservation of the interests of the Shareholders. After termination as aforesaid, the appointment of the Custodian shall continue thereafter for such period as may be necessary for the transfer of all assets of the Fund to the new custodian.

The Custodian shall assume its functions and responsibilities in accordance with the provisions of the Law.

E. Administrative Agent

By an agreement dated 7 October 2009 (the “Administrative, Domiciliation, Registrar and Transfer Agent Agreement”), the Fund has further appointed EFA as domiciliary, administrative, registrar and transfer agent of the Fund.

As such, EFA is responsible for processing of the issue (registration), redemption, transfer and conversion of the Shares and settlement arrangements thereof, keeping the register of the Fund's Shareholders, calculating the Net Asset Value per Share, maintaining the records, and other general administrative functions.

The Administrative Agreement is entered into for an unlimited term and may be terminated by either party subject to a written notice of three months.

F. Distributors

The Board of Directors may designate one or several distributors to distribute or arrange for the distribution of Shares.

At the date of this Prospectus, the following distributors have been designated:

Banque et Caisse d'Epargne de l'Etat, Luxembourg
1, Place de Metz
L-2954 Luxembourg

Banque de Luxembourg S.A., Luxembourg
14, boulevard Royale
L-2449 Luxembourg

BGL BNP Paribas S.A., Luxembourg
50, avenue J.F. Kennedy
L-2951 Luxembourg

Fortuna Banque s.c., Luxembourg
130, boulevard de la Pétrusse
L-2330 Luxembourg

Distributors shall abide by and enforce all the terms of this Prospectus including, where applicable, the terms of any mandatory provisions of Luxembourg laws and regulations relating to the distribution of the Shares. Distributors shall also abide by the terms of any laws and regulations applicable to them in the country where their activity takes place, including, in particular, any relevant requirements to identify and know their clients.

Any distributor(s) appointed to market and place the Shares of the Fund have the power to offer directly, or through any of their subsidiaries or group companies, nominee services for applicants purchasing Shares through them to the extent such distributor(s) are located in a FATF (Financial Action Task Force) Country and submitted to anti-money laundering regulations.

Applicants may elect, but are not obliged, to make use of

such nominee service pursuant to which the nominee will hold Shares in its name for and on behalf of the applicants who shall be entitled at any time to claim direct title to the Shares and who, in order to empower the nominee to vote at any general meeting of Shareholders, shall provide the nominee with specific or general voting instructions to that effect. Applicants retain the ability to directly invest in the Fund without using a nominee service.

G. Auditor

BDO has been appointed as Approved Statutory Auditor of the Fund and will audit the Fund's annual financial statements.

H. Conflicts of Interest

The Directors, the Administrative Agent, the Custodian and the investment advisors may from time to time act as promoter, manager, investment manager, investment adviser(s), registrar, transfer agent, administrator, trustee, custodian, director or placing agent to, or be otherwise involved in, other UCIs which have similar investment objectives to those of the Fund or may otherwise provide discretionary fund management or ancillary administration or custodian services to investors with similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of their business, have potential conflicts of interests with the Fund. Each will at all times have regard in such event to its obligations to the Fund and they will endeavour to resolve such conflicts fairly.

In the event that any Director has an interest in a transaction which is subject to the approval of the Board of Directors, that director must make such interest known to the Board of Directors and cause a record of his/her/its statement to be included in the minutes of the meeting. In case of an interest conflicting with that of the Fund, this Director must not deliberate or vote upon any such transaction.

At the next following general meeting, before any other resolution is put to vote, a special report shall be made on any transactions in which any of the Directors may have had an interest conflicting with that of the Fund.

7.- FEES AND EXPENSES

A. Custodian and Administrative Fees

The Custodian and Administrative Agents are entitled to receive out of the assets of the Fund fees calculated in accordance with normal banking practice in Luxembourg and payable quarterly at a rate based on the average gross asset value of the Fund of each quarter.

In addition, the Custodian and Administrative Agents are entitled to be reimbursed by the Fund for their reasonable out-of-pocket expenses properly incurred in carrying out their duties as such and for the charges of any correspondents.

All the above charges are subject to review from time to time. For its duties as custodian, the Custodian's fees will be calculated by reference to a percentage of the average gross assets held on behalf of the Fund, subject to an annual minimum fee, and will be paid quarterly in arrears.

B. Other Fees and Expenses

The Fund also pays (a) the charges and expenses of advisers and Approved Statutory Auditor, (b) any issue or transfer taxes chargeable in connection with any securities transactions, (c) all taxes and corporate fees payable to governments or agencies, (d) allowances and reimbursable expenses, payable to the Directors, (e) communication expenses with respect to investor services and all expenses of meetings of Shareholders and of preparing, printing and distributing financial and other reports, proxy forms, prospectuses and similar documents, (f) litigation and indemnification expenses and extraordinary expenses not incurred in the ordinary course of business, as the case may be, (g) marketing and promotional expenses and (h) all other organisational and operating expenses, including among others due diligence expenses.

C. Formation and launching expenses of the Fund

Costs and expenses of establishing the Fund were borne by ADA.

D. Formation and launching expenses of additional sub-funds

The costs and expenses incurred in connection with the creation of a new sub-fund shall be written off over a period not exceeding five years against the assets of such sub-fund only and in such amounts each year as determined by the Board of Directors on an equitable basis. The newly created sub-fund shall not bear a pro-rata of the costs and expenses incurred in connection with the initial issue of Shares, which have not already been written off at the time of the creation of the new sub-fund.

8.- DIVIDEND POLICY

The primary investment objective of the Fund is to achieve long-term growth. The Fund's operating plan in general does not contemplate payment of dividends to Shareholders.

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9.- TAXATION IN LUXEMBOURG

The following information is based on the laws and practice currently in force and is subject to changes therein. Prospective Investors should consult their own professional advisers as to the implications of buying, holding or disposing of Shares and to the provisions of the laws of the jurisdiction in which they are subject to tax.

The Fund

Under current law and practice the Fund is not liable to any Luxembourg income tax, nor are dividends paid by the Fund liable to any Luxembourg withholding tax. As a matter of principle, the Fund is liable in Luxembourg to a subscription tax (*taxe d'abonnement*) at a rate of 0.05% per annum of its net assets, such tax being payable quarterly and calculated on the basis of the total net assets of the Fund at the end of the relevant quarter. Classes of Shares held exclusively by Institutional Investors are subject to a reduced rate of 0.01%. As the main objective of Luxembourg Microfinance and Development Fund – Social Venture Capital Sub-Fund is the investment in MFIs, it is however exempted from the subscription tax in accordance with article 175 of the Law of 2010. No stamp duty or other tax is payable in Luxembourg on the issue of the Shares of the Fund, except a once and for all tax of Euro 1,250 which was paid upon incorporation.

Under current law and practice, no Luxembourg capital gains tax is payable on the realised or unrealised capital appreciation of the assets of the Fund. Although the Fund's realised capital gains, whether short or long-term, are not expected to be taxable in another country, the Shareholders must be aware and recognise that such a possibility is not totally excluded.

Dividends and interest, if any, received by the Fund from investments may be liable to withholding taxes in the State of source at varying rates, which normally cannot be recovered.

Shareholders

Luxembourg resident individuals

Capital gains realised on the sale of Shares by Luxembourg resident individual Investors who hold the Shares in their personal portfolios (and not as business assets) are generally not subject to Luxembourg income tax except if:

- the Shares are sold before or within 6 months from their subscription or purchase; or
- if the Shares held in the private portfolio constitute a substantial shareholding. A shareholding is considered as substantial when the seller, alone or with his/her spouse

and underage children, has participated either directly or indirectly at any time during the five years preceding the date of the disposal in the ownership of more than 10% of the capital or assets of the company.

Distributions made by the Fund will be subject to income tax.

Luxembourg personal income tax is levied following a progressive income tax scale, and increased by the solidarity surcharge (contribution au fonds pour l'emploi) giving an effective maximum marginal tax rate of 43.6%.

Luxembourg resident corporates

Luxembourg resident corporate Investors will be subject to corporate taxation at the rate of 29.22% (in 2014 for entities having their registered office in Luxembourg-City) on distributions received from the Fund and gains realized upon disposal of the Shares.

Luxembourg corporate resident Investors who benefit from a special tax regime, such as, for example, (i) undertakings for collective investment subject to the Law of 2010, related to undertakings for collective investments, (ii) specialized investment funds subject to the law of February 13, 2007 related to Specialised Investment Funds, or (iii) family wealth management companies subject to the law of May 11, 2007 related to family wealth management companies, are exempt from income tax in Luxembourg, but instead subject to an annual subscription tax (*taxe d'abonnement*) and thus income derived from the Shares, as well as gains realized thereon, are not subject to Luxembourg income taxes.

The Shares shall be part of the taxable net wealth of the Luxembourg resident corporate Investors except if the holder of the Shares is (i) an undertaking for collective investment subject to the amended law December 17, 2010 related to undertakings for collective investments, (ii) a vehicle governed by the law of March 22, 2004 on securitization, (iii) a company governed by the law of June 15, 2004 on venture capital vehicles, (iv) a specialized investment fund subject to the law of February 13, 2007 related to specialised investment funds or (v) a family wealth management company subject to the law of May 11, 2007 related to family wealth management companies. The taxable net wealth is subject to tax on a yearly basis at the rate of 0.5%.

Non Luxembourg resident Shareholders

Shareholders who are not domiciled, resident or who do not have a permanent establishment in Luxembourg for taxation purposes are not liable to any income, withholding, transfer, capital gains, estate, inheritance or other taxes on holding, transferring, purchasing or repurchasing of Shares in the Fund

or on any dividends, distributions or other payments made to such Shareholders.

EU Savings Directive

The Council of the EU has adopted on 3 June 2003 a Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “Directive”). Under the Directive, EU member states are required to provide the tax authorities of another EU member state with information on payments of interest or other similar income paid by a paying agent (as defined by the Directive) within its jurisdiction to an individual resident in that other EU member state. Luxembourg has opted instead for a withholding tax system for a transitional period in relation to such payments. The applicable withholding tax is at a rate of 35%. The Directive was implemented in Luxembourg by a law dated 21st June 2005.

Pursuant to current legislation, redemptions of Shares and distributions by the Fund are not within the scope of the Directive.

A directive providing for amendments to the Directive has been adopted by the European Council on 24 March 2014, including a number of suggested changes which, if implemented, would broaden the scope of the Directive. Following these amendments and assuming the paying agent is established in Luxembourg, the exemption from Luxembourg withholding tax would disappear. However, on 18 March 2014, a bill of law has been introduced with the Luxembourg parliament to implement the exchange of information system, in which case, in spite of the changes to the Directive, no Luxembourg withholding tax would apply on payment made by the Fund to the Shareholders.

10.- GENERAL INFORMATION

A. Reports

The financial year of the Fund ends on 31 March in each year.

Audited financial statements of the Fund made up to 31 March in each year will be prepared in Euro and are made available at the Fund's registered office to Shareholders within four months after 31 March of each year. Copies of the latest annual report will be sent to Shareholders free of charge on request.

In addition, unaudited semi-annual reports are also made available at the registered office of the Fund within two months after 30 September of each year.

B. Meetings of Shareholders

The annual general meeting of Shareholders of the Fund will be held at the registered office of the Fund in Luxembourg on the first Thursday in the month of July each year at 4:00 p.m. (Luxembourg time).

Notices of all general meetings, setting forth the agenda and specifying the time and place of the meeting and the conditions of admission thereto and referring to quorum and majority requirements, will be sent by registered post to Shareholders, at least 8 days prior to the meeting, to their addresses in the register of Shareholders.

Under the conditions set forth in Luxembourg laws and regulations, any such notice may provide that the quorum and the majority at the related general meeting shall be determined according to the Shares issued and outstanding at a certain date and time before such general meeting (the "Record Date"), whereas the right of a Shareholder to attend a general meeting of Shareholders and to exercise the voting rights attaching to his/her/its Shares shall be determined by reference to the Shares held by this shareholder as at the Record Date.

In addition, and, to the extent required by law, such notices will be published in the Mémorial and in one Luxembourg newspaper as determined by the Board of Directors and, as the case may be, in such other newspapers as the Board of Directors shall determine.

The Articles make provision for meetings of Shareholders. Every Shareholder present in person or by proxy has the same number of votes as the number of Shares in the property of the Fund represented by the Shares of which he/she/it is the Shareholder. Voting in respect of fractions of Shares is not permitted.

C. Amendments to the Articles

Proceedings of any extraordinary general meeting called upon to resolve on amendments to the Articles shall not be valid unless at least one half of the capital is represented and the agenda indicates the proposed amendments to the Articles and, where applicable, the text of those which concern the objects or the form of the Fund. If the first of these conditions is not satisfied, a second meeting may be convened, in the manner prescribed by the Articles, by means of notices published on two occasions in the Mémorial and in two Luxembourg newspapers, at an interval of at least fifteen days and fifteen days before the meeting. The convening notice shall reproduce the agenda, indicating the date and results of the previous meeting. The proceedings of the second meeting shall be valid regardless of the proportion of the capital represented. At both meetings, resolutions shall be validly passed if they are passed by two-thirds of the votes cast.

D. Liquidation of the Fund

The Fund may at any time be dissolved by a resolution of the general meeting of Shareholders subject to the quorum and majority requirements applicable for amendments to the Articles.

Whenever the share capital falls below two-thirds of the minimum capital of EUR 1,250,000.-, the question of the dissolution of the Fund shall be referred to a general meeting of Shareholders by the Board of Directors. The general meeting, for which no quorum shall be required, shall decide the dissolution by simple majority of the Shares represented at the meeting.

The question of the dissolution of the Fund shall also be referred to a general meeting of Shareholders whenever the share capital falls below one-fourth of the minimum capital of EUR 1,250,000.-; in such event, the general meeting shall be held without any quorum requirement and the dissolution may be decided by Shareholders holding one-fourth of the Shares represented at the meeting.

The meeting must be convened so that it is held within a period of forty days as from ascertainment that the share capital has fallen below two-thirds or one-fourth of the legal minimum, as the case may be.

Liquidation shall be carried out by one or several liquidators, who may be physical persons or legal entities and do not need to be Shareholders; the general meeting of Shareholders shall appoint them and determine their powers and their compensation.

The net proceeds of liquidation corresponding to each Class in each sub-fund shall be distributed by the liquidators to the holders of Shares of the relevant Class in the relevant sub-fund in proportion to their holding of such Shares in such Class.

Should the Fund be voluntarily or compulsorily liquidated, its liquidation will be carried out in accordance with the provisions of Law, which specifies the steps to be taken to enable Shareholders to participate in the distribution(s) of the liquidation proceeds and provide for a deposit in escrow at the *Caisse de Consignation* at the time of the close of liquidation. Amounts not claimed from escrow within the statute of limitation period shall be liable to be forfeited in accordance with the provisions of Luxembourg law.

E. Liquidation or Amalgamation of Sub-Funds

If the net assets of any sub-fund or Class fall below or do not reach an amount determined by the Board of Directors to be the minimum level for such sub-fund or such Class to be operated in an economically efficient manner or if a change in the economic or political situation relating to the sub-fund or Class concerned justifies it, the Board of Directors has the discretionary power to liquidate such sub-fund or Class by compulsory redemption of Shares of such sub-fund or Class at the Net Asset Value per Share calculated as at the Valuation Day at which such a decision shall become effect. The decision to liquidate will be published by the Fund prior to the effective date of the liquidation and the publication will indicate the reasons for, and the procedures of, the liquidation operations. Unless the Board of Directors decides otherwise in the interest of, or in order to keep equal treatment between, the Shareholders, the Shareholders of the sub-fund or Class concerned may continue to request redemption or conversion of their Shares free of redemption or conversion charge (but taking into account actual realisation prices of investments and realisation expenses).

Notwithstanding the powers conferred to the Board of Directors by the preceding paragraph, a general meeting of Shareholders of any sub-fund or Class may, upon proposal from the Board of Directors, redeem all the Shares of such sub-fund or Class and refund to the Shareholders the Net Asset Value of their Shares (taking into account actual realisation prices of investments and realisation expenses) calculated as of the Valuation Day at which such decision shall take effect. There shall be no quorum requirements for such a general meeting of Shareholders at which resolutions shall be adopted by simple majority of the votes cast.

Assets which could not be distributed to their beneficiaries upon the conclusion of the liquidation of a sub-fund or Class

will be deposited with the *Caisse de Consignation* on behalf of such beneficiaries.

Upon the circumstances provided for under the first paragraph of this section, the Board of Directors may decide to allocate the assets of any sub-fund or Class to those of another existing sub-fund or Class within the Fund or to another UCI, or to another sub-fund or Class within such other UCI (the “new sub-fund/class”) and to re-designate the Shares of the sub-fund concerned as Shares of the new sub-fund/class (following a split or consolidation, if necessary and the payment of the amount corresponding to any fractional entitlement to Shareholders). Such decision will be notified to the Shareholders concerned (and, in addition, the notification will contain information in relation to the new sub-fund/class), one month before the date on which the amalgamation becomes effective in order to enable Shareholders to request redemption or conversion of their Shares, free of charge, during such period.

Notwithstanding the powers conferred to the Board of Directors by the preceding paragraph, a contribution of the assets and liabilities attributable to any sub-fund or Class to another sub-fund or Class of the Fund or of another UCI may be decided upon by a general meeting of the Shareholders of the contributing sub-fund or class for which there shall be no quorum requirements and which shall decide upon such an amalgamation by resolution adopted by simple majority of the votes cast, except when such amalgamation is to be implemented with a Luxembourg UCI of the contractual type (“*fonds commun de placement*”) or a foreign based UCI, in which case resolutions shall be binding only on the Shareholders of the contributing sub-fund who have voted in favour of such amalgamation.

F. Historic Performance

The historic performance of each sub-fund of the Fund will be published each year in the annual report of the Fund.

G. Documentation

A copy of the Articles and the latest financial reports may be obtained without cost on request from the Fund. Copies of the material agreements mentioned in this Prospectus may be inspected during usual business hours on any Business Day at the registered office of the Fund.

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APPENDIX

SPECIAL INVESTMENT AND HEDGING TECHNIQUES AND INSTRUMENTS

1. Techniques and Instruments related to Transferable Securities

For the purpose of hedging, efficient portfolio management, duration management or other risk management of the portfolio, the Fund may, in each sub-fund, use the following techniques and instruments relating to transferable securities:

(A) Transactions relating to Options on Transferable Securities

An option is the right to buy or sell a particular asset at a stated price at some date in the future within a particular period. The Fund may buy and sell call or put options on transferable securities provided that these options are traded on options exchanges or over-the-counter with broker-dealers who make markets in these options and who are first class financial institutions that specialize in these types of transactions and are participants in the over-the-counter markets.

The Fund shall further comply with the following rules:

- (i) The total amount of premiums paid for the purchase of call and put options which are considered here, together with the total amount of premiums paid for the purchase of call and put options described under (B) b) below, may not, in respect of each Sub-Fund, exceed 15 % of the NAV of such Sub-Fund.
- (ii) The total commitment arising from (a) the sale of call and put options (excluding the sale of call options for which there is adequate cover) and (b) transactions for purposes other than hedging as referred to under (B) below, may not exceed, in respect of each Sub-Fund, at any time the NAV of such Sub-Fund. In this context, the commitment on call and put options sold is equal to the aggregate amount of the exercise prices of those options.
- (iii) When selling call options, the Fund must hold either the underlying transferable securities, or matching call options or any other instruments (such as warrants) providing sufficient cover. The cover for call options sold may not be disposed of as long as the options exist unless they are covered in turn by matching options or other instruments used for the same purpose.

Notwithstanding the foregoing, the Fund may sell uncovered call options if the Fund is, at all times, able to cover the positions taken on such sale and if the exercise prices of such options do not exceed 25% of the NAV of the relevant Sub-Fund.

- (iv) (When selling put options, the Fund must be covered during the full duration of the options by sufficient cash to pay for the transferable securities deliverable to the Fund by the counterparty on the exercise of the options.

(B) Transactions relating to Futures and Option Contracts relating to Financial Instruments

Dealing in financial futures is the trading in contracts related to the future value of transferable securities or other financial instruments. Except as regards interest rate swaps on a mutual agreement basis and options which may be traded as provided for under (A) hereabove, all transactions in financial futures may be made on a regulated market only. Subject to the following conditions, such transactions may be made for hedging purposes and for other purposes.

a) Hedging

Hedging is designated to protect a known future commitment.

- (i) As a global hedge against the risk of unfavourable stock market movements, the Fund may sell futures on stock market indices or other financial instruments on indices. For the same purpose, the Fund may sell call options or buy put options on stock market indices. The objective of these hedging operations assumes that a sufficient correlation exists between the composition of the index used and the Fund's corresponding portfolios.
- (ii) As a global hedge against interest rate fluctuations, the Fund may sell interest rate futures contracts. For the same purpose, it can also sell call options or buy put options on interest rates or make interest rate swaps on a mutual agreement basis with first class financial institutions specializing in this type of transaction.

The total commitment relating to futures and option contracts on stock market indices may not exceed the total valuation of securities held by the relevant Sub-Fund in the market corresponding to each index. In the same way, the total commitment on interest rate futures contracts, option contracts

on interest rates and interest rate swaps may not exceed the total valuation of the assets and liabilities to be hedged held by the relevant Sub-Fund in the currency corresponding to these contracts.

b) Trading

Trading is based on the forecasting of future movements in financial markets. In this context and apart from option contracts on transferable securities (See (A) above) and contracts relating to currencies (See 2. below), the Fund may, for a purpose other than hedging, buy and sell futures contracts and options contracts on any type of financial instrument provided that the total commitment arising on these purchase and sale transactions together with the total commitment arising on the sale of call and put options on transferable securities, in respect of each Sub-Fund, at no time exceeds the NAV of such Sub-Fund.

Sales of call options on transferable securities for which the Fund has sufficient cover are not included in the calculation of the total commitment referred to above.

In this context, the commitment arising on transactions which do not relate to options on transferable securities is defined as follows:

- the commitment arising on futures contracts is equal to the liquidation value of the net position of contracts relating to identical financial instruments (after netting between purchase and sale positions), without taking into account the respective maturities and
- the commitment relating to options bought and sold is equal to the sum of the exercise prices of those options representing the net sold position in respect of the same underlying asset, without taking into account the respective maturities.

The total of the premiums paid to acquire call and put options as described above, together with the total of the premiums paid to acquire call and put options on transferable securities as described under (A) above may not, in respect of each Sub-Fund, exceed 15 % of the NAV of such Sub-Fund.

2. Currency Hedging

In order to protect its present and future assets and liabilities against the fluctuation of currencies, the Fund may enter into transactions the object of which is the purchase or the sale of forward foreign exchange contracts, the purchase or the sale of call options or put options in respect of currencies, the

purchase or the sale of currencies forward or the exchange of currencies on a mutual agreement basis provided that these transactions be made either on exchanges or over-the-counter with first class financial institutions specializing in these types of transactions and being participants of the over-the-counter markets.

The objective of the transactions referred to above presupposes the existence of a direct relationship between the contemplated transaction and the assets or liabilities to be hedged and implies that, in principle, transactions in a given currency (including a currency bearing a substantial relation to the value of the reference currency (i.e. currency of denomination) of the relevant sub-fund - known as "Cross Hedging") may not exceed the total valuation of such assets and liabilities nor may they, as regards their duration, exceed the period where such assets are held or anticipated to be acquired or for which such liabilities are incurred or anticipated to be incurred.

