

Equalization Reserve: Introduction to performance fee using the equalisation factor starting 1 Januari 2007 at DQS Absolute Return Fund

As per article 12.1 of the prospectus of the Fund the Fund Manager is entitled to receive a performance related fee (the “Performance Fee”) computed and payable monthly in arrears, equal to 20% of the increase in Net Asset Value of the Fund, compared to the highest of such Net Asset Value at any previous month end, increased or decreased by the net value of the difference between subscribing and redeeming participants in that month.

In addition article 14.3 paragraph 4 and article 12.1 paragraph 3 of the prospectus of the fund grant the manager the possibility to introduce a more sophisticated method of calculating the performance fee of the Fund so that each Participation is effectively charged a fee which equates precisely with that Participation’s performance.

A more sophisticated method of calculation the performance fee using the equaliazation factor is introduced starting 1 Januari 2007; and is described hereunder.

This method of calculation ensures that:

- (i) any Performance Fee paid to the Manager is charged only to those Participations which have appreciated in value;
- (ii) all Participants have the same amount of capital per Participation at risk in the Fund; and
- (iii) Participants have the same Net Asset Value per Participation.

The Performance Fee will be payable annually in arrears in respect of each performance period. The performance period will comprise each twelve month period to 31 December (the “Performance Period”).

The Performance Fee will be equal to 20% of the increase in the Net Asset Value per Participation (after adding back any distributions made) outstanding in respect of each Performance Period subject to a High Water Mark. The use of a High Water Mark (as described below) ensures that investors will not be charged a Performance Fee until any previous losses are recovered.

The Performance Fee will be accrued monthly and taken into account in the calculation of the Net Asset Value per Participation on each Valuation Day. In the event that a Participant redeems Participations prior to the end of a Performance Period, any accrued but unpaid Performance Fee in respect of such Participations will be deducted from the redemption proceeds and paid to the Manager promptly thereafter. The Performance Fee in respect of each Performance Period will be calculated by reference to the Net Asset Value per Participation before the deduction of any accrued Performance Fees but after the deduction of accrued Management Fees and other expenses.

Methodology - Adjustment Due to Deficit and Premium Subscriptions

(a) Deficit Subscriptions

Where an investor subscribes for Participations at a time when the Net Asset Value per Participation is less than the High Water Mark then an adjustment is required to reduce inequalities that may otherwise result to the respective subscriber or to the Manager. The “High Water Mark” is the greater of:

- (i) the highest Net Asset Value per Participation on the last day of any Performance Period; and
- (ii) the initial issue price of €100 per Participation.

Where Participations are subscribed at a time when the Net Asset Value per Participation is less than the High Water Mark, such new Participants will in effect, be required to pay an equivalent Performance Fee with respect to any subsequent appreciation in the Net Asset Value per Participation of those Participations until the High Water Mark has been reached. This will be achieved by the Fund having the power to redeem a portion of that Participants' holding for a consideration equivalent to the Performance Fee at the end of each Performance Period which amount shall be paid directly to the Manager and not to the respective Participants.

A similar calculation and procedure will be applied in case of redemption by the Participant before the end of the Performance Period.

After the High Water Mark has been achieved, the Performance Fee will be calculated and levied in the same manner as for all other Participations. No Performance Fee will be accrued for existing Participants until the High Water Mark has been recovered.

(b) Premium Subscriptions

Where Participations ("Premium Participations") are purchased at a time when the Net Asset Value per Participation is greater than the High Water Mark (a "Premium Subscription"), the prospective investor is required to pay an additional sum equal to the accrual then in place per Participation in respect of the Performance Fee (an "Equalisation Credit"). The Equalisation Credit is designed to ensure that all Participants have the same amount of capital at risk per Participation.

The Equalisation Credit will be at risk in the Fund and will therefore appreciate or depreciate based on the performance of the Fund subsequent to the subscription. In the event of a decline in the Net Asset Value per Participation, the Equalisation Credit due to the Participants will reduce in line with the Performance Fee accrual for other Participations namely by an amount equal to 20 per cent of the amount of the loss on a per Participation basis until the Equalisation Credit is exhausted. Subsequent appreciation in the value of the Premium Participations will result in a recapture of any Equalisation Credit lost due to such reductions, but only to the extent of the previously lost Equalisation Credit up to the amount paid at subscription.

At the end of the Performance Period, an amount equal to the lower of the Equalisation Credit paid at the time of the Premium Subscription (less any Equalisation Credit previously applied) or 20 per cent of the excess of the Net Asset Value per Participation over the High Water Mark is applied in the subscription for additional Participations for the Participants. If the Participants redeems Premium Participations before the last day in any Performance Period, the Participants will receive additional redemption proceeds equal to any Equalisation Credit then remaining multiplied by a fraction, the numerator of which is the number of Premium Participations being redeemed and the denominator of which is the number of Premium Participations owned by the Participants immediately prior to the redemption.

Other

An example of the Fund's method of calculating the Performance Fee payable and any adjustments made thereto is set out below.

In case of any questions please contact the fund's Administrator.

Example Performance Fee Calculations

Participants	Participants Subscribes Participations at	NAV on Date of Purchase	Equalisation Credit Paid	Offering Price	NAV at Year End (before Performance Fee)	Performance Fee accrued at Year End	Deficit subscription payable	Equalisation Credit returned to Participants* **	NAV at Year End	Participations held by Participants at beginning of Year 2
A	Year beginning March. 1 NAV = €100	€100	€0	€100	€140	€8	€0	€0	€132	1.0000
B	Interim Purchase Date May. 1 NAV = €80	€80	€0	€80*	€140	€8	€4*	€0	€132	0.9697
C	Interim Purchase Date Jul. 1 NAV = €120 (before Performance Fee)	€116	€4	€120**	€140**	€8	€0	€4	€132	1.0303

* Additional Performance Fee owed for increase in NAV from €80 to €100 (which is not charged to Participants A). Adjustment made by redeeming a portion of Participants B's Participations at year end (the "deficit subscription").

** Includes Equalisation Credit.

*** In the form of additional Participation

