

# **DEMINOR ACTIVE GOVERNANCE FUND**

**SEMI-ANNUAL REPORT 2010**

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**Deminor Active Governance Fund**

Semi open-end mutual fund, established on 2 November 2006

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## Key figures

	<b>30/06/2010</b>	31/12/2009
<b>Net Asset Value EUR x 1.000</b>		
Net Asset Value of the Fund	<b>27,464</b>	32,590
Total Units outstanding	<b>345,792</b>	393,721
<b>in EUR</b>		
Net Asset Value per unit	<b>79.42</b>	82.77
Dividend per unit	-	-
	<b>01/01/2010</b>	01/01/2009
	<b>30/06/2010</b>	31/12/2009
<b>Profit and loss summary EUR x 1.000</b>		
Income from investments	<b>486</b>	1,135
Capital gains/-losses	<b>-1,209</b>	5,874
Expenses	<b>-324</b>	-595
Total investment result	<b>-1,047</b>	6,414
<b>Result per unit EUR *</b>		
Total Units outstanding	<b>345,792</b>	393,721
Income from investments	<b>1.41</b>	2.88
Capital gains/-losses	<b>-3.50</b>	14.92
Expenses	<b>-0.94</b>	-1.51
Total investment result	<b>-3.03</b>	16.29

\* The calculation of the result per unit is based on the number of the outstanding units as of the end of the period under review.

## Profile

The Deminor Active Governance Fund ("The Fund") is a semi-open end mutual fund ("fonds voor gemene rekening") under the laws of the Netherlands. It is transparent for Dutch corporate income tax purposes. Investors can invest in the Fund directly, or indirectly, through the Feeder. The Feeder is a limited liability company ("naamloze vennootschap") under the laws of the Netherlands and is structured to meet the criteria of a fiscal investment institution ("fiscale beleggingsinstelling") within the meaning of section 28 of the said Dutch Corporate Tax. The Feeder is an investment institution with variable capital ("beleggingsmaatschappij met veranderlijk kapitaal").

The Fund does not have legal personality. It comprises a contractual arrangement governed by the placing documents among the Manager, the Depositary and each Unitholder. The Units are governed by the placing documents. Upon the first subscription of Units, a prospective investor agrees to be bound by the terms of the placing documents.

The Fund Assets are managed by the Manager and held in the name of the Depositary for the account (ten titel van beheer) of the Unitholders. Unitholders have no proprietary interest in respect of the Fund's Assets. Pursuant (and subject) to the Placing Documents, Unitholders are beneficially entitled to the Fund's Assets pro rata the number of their respective Units. According to the placing documents, a Unitholder can not be held liable (i) by third parties for any of the Fund's obligations, and (ii) by the Manager and the Depositary for any of the Fund's obligations for any amount in excess to the amount of its Subscription Amount. The Fund is established for an indefinite period of time and may only be dissolved and liquidated pursuant to a resolution to that effect by the Manager and the Depositary.

# Fund Manager Report as per 30 June 2010

## Introduction

We are pleased to present you herewith the semi-annual report of Deminor Investment Management regarding the activities of the Deminor Active Governance Fund (DAGF) for the financial half year ended on 30 June 2010. The present report relates to the DAGF Master Fund (hereinafter the Fund).<sup>1</sup>

At the end of June 2010, the investment portfolio represented 76.6% of the Fund Assets. In the current economical context with a lot of risk regarding the strength of the economic recovery, the sovereign debt risk, a deceleration in China, the Fund has increased its cash position during the second part of the semester.

Total assets of the Fund amounted to €27.5 million at the end of June 2010 (compared to €26.8 million at the end of June 2009).

## Investment and operational review-Portfolio return

The first half of the year begun on a difficult tone, but succeeded to recover from this difficult start. In the second quarter of the year, we have seen the emergence of sovereign risk with the Greek situation. This led to very volatile market conditions.

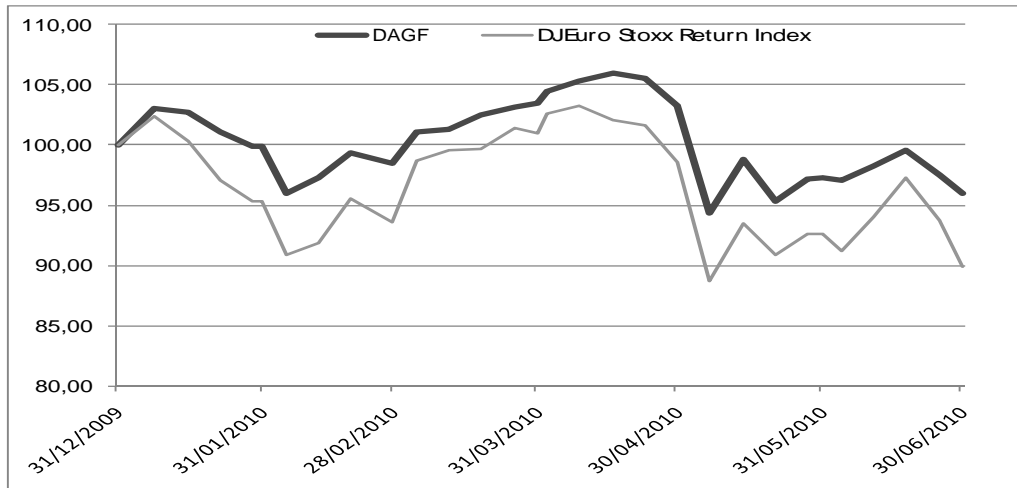
Over the semester, DAGF has progressively adapted its investment strategy to take into account the new macro economical context. The sovereign debt situation all across Europe and the announcement of austerity plans need to be addressed regarding our investment prospects.

In light of the emergence of new risks, DAGF is permanently adapting its investment approach in order to get the most balanced portfolio. During the second half on the year, the Fund will review investment in convertible bonds which offer in general a good mix between the safety of a bond and the upside potential of the stock performance. We believe that within the current situation, convertible bonds offer a good investment profile.

The cash level was at 23.4% at the end of June 2010 (13.9% at the end of December 2009).

The Fund's year-to-date return was negative and amounted to -4.0% for the first half of 2010. This is much better than other European stock indices (DJ Euro Stoxx Return Index: -8.4%, DJ Euro Stoxx 50 Index: -13.2%) . The following graph shows the evolution of the DAGF compared to the evolution of the DJ Euro Stoxx Return Index since the beginning of 2010:

[1] The Deminor Active Governance Fund is comprised of a Master Fund and a Feeder Fund. All investments in the Fund Assets are undertaken by the Master Fund. The Feeder Fund has as only objective to invest in Units of the Master Fund. The assets of the Feeder Fund therefore consist of an indirect investment in the Master Fund's assets.



The Fund's performance does not take into account any possible outcome of pending legal procedures that have been launched as part of the Fund's active engagement policy (see further below).

#### Active engagement during the first half of 2010

The Fund's investment philosophy consists in investing in undervalued companies with value improvement potential with the objective to unlock this value by implementing an active shareholder engagement strategy.

During the first half of 2010, the Fund was actively involved and engaged with several companies. Different kinds of engagement strategies were implemented in function of the specific circumstances of each company. In what follows, we give an overview of the most important public cases in which the Fund was involved.

- **Theolia**

The Fund invested in convertible bonds (OCEANES) issued by the French group Theolia active in wind energy. In September 2009, Theolia informed the market that it expected to have difficulties to reimburse its OCEANES (€253 million) in case the bondholders would ask for an early redemption on 1 January 2012.

DAGF had entered into discussions with Theolia's management in order to renegotiate the terms of the convertible bond issue. Those discussions led to a proposal for the restructuring of the convertible debt. During the first quarter of 2010, the DAGF's focus was mainly on the realization of first conditions precedent in order for the restructuring plan to become effective. The general meeting of bondholders unanimously approved the restructuring plan on 18 February 2010. On 19 March 2010, the plan was also approved by the general meeting of shareholders with more than 99% of the votes. The positive outcome of both general meetings confirmed the support of all stakeholders for the capital restructuring which already represents a significant achievement. DAGF also had contacts with the company's board of directors and management in order to raise several core issues with respect to the next steps of the restructuring plan and particularly the capital increase.

The company announced on 24 June 2010, the launch of a capital increase of €60.5 million which was the last precedent condition for the coming into force of the restructuring plan. DAGF also had the opportunity to meet with Mr Fady Khallouf, the new General Manager of the company who has a large experience in the management of large companies as well as projects in the energy sector. The announcement of the capital increase is really good news for the company which will finally have the opportunity to close its capital restructuring and as from now, build up its future on a more solid and balanced financial structure.

- **Electrabel**

The procedure before Belgium's High Court (Cour de cassation/ Hof van cassatie) is still pending in the Electrabel case regarding the squeeze out of Electrabel minority shareholders in 2007.

Regarding the nuclear central plans, an agreement occurred in Belgium to extend the lifetime by 10 years of the three oldest nuclear reactors. This extension of the nuclear power plants' lifetime could benefit the legal procedure but also represents substantial additional profits for Electrabel (and consequently for Suez). In this context DAGF presented a thorough study of the implication of such extension on the valuation of both Electrabel and GDF Suez. Those implications also have been revealed quite recently by the CREG, the commission in charge of the regulation of the electricity sector in Belgium.

- **RTL Group**

In the framework of the case launched by minority shareholders who wanted to force Bertelsmann to acquire their shares at the same conditions as those offered to GBL in 2001, the Government of Luxembourg filed a bill of law in order to introduce the squeeze out and the sell out in Luxembourg law.

This corresponds to what the Fund had been requesting as soon as it had become clear that a new law was necessary to remove the legal uncertainty around the RTL Group case. The position of RTL shareholders could be improved, depending on the legislation itself and how it will be drafted and implemented. The Fund has already contacted members of the Luxembourg Parliament in order to inform them that the text of the draft legislation could still be improved in order to take into account the interests of minority shareholders.

Recently, the results of the RTL Group were improving and DAGF expects the political process that will help redraft the Luxembourg legislation on squeeze outs to be completed for the summer. The Fund met the management of RTL together with investors. There seems to be lots of buyers of the stock in a very illiquid market. This results in a very positive evolution of the stock price, in line with the evolution of RTL's peers. The business profile of RTL remains one of the most solid among its peers. As a consequence, there is a very strong demand of buyers of the stock, in a quite illiquid market.

- **Active engagement involving other companies**

**Bolloré Group** has adopted at his general meeting the recommendation of DAGF regarding the cancellation of the double voting rights. DAGF has welcomed that news, and regards this as a positive evolution of the corporate governance in the Group. The Fund exited from Bolloré during the 2<sup>nd</sup> quarter. We still believe that the company represents really interesting features like, among others, its exposure to the African economy, the battery for electric cars or the Blue car.

As decided when the first investment took place in **Deceuninck**, DAGF took part in meetings with the management and the Chairman of the board together with family members, in order to have a good understanding of the decisions and actions taken to restore growth, to improve the margins and to provide the company with a better governance structure and organisation. The company also gradually succeeded to explain to the market that a new era had begun from a management and governance point of view. DAGF participated to the general meeting together with Risk Metrics and issued a list of questions that was submitted to the Chairman and management before the GM.

This evolution is more or less similar to what **Agfa Gevaert** recently experienced. DAGF decided to exit the company after the first signs of very encouraging recovery became visible and were reflected in the company's valuation. In the same time, Mr Cornu announced his departure from the management of the company.

In the **Eurotunnel** case, DAGF met with the management to update its view on and its understanding of the evolution of the group. Some negative events had occurred in December 2009, affecting the good valuation of the stock so far. DAGF is reassessing its investment in the company since the main value and governance triggers are now more or less anticipated by the market.

DAGF exited from **Credit Agricole** during the first quarter in order to reduce its exposure to financials more particularly as a result of the many uncertainties surrounding the (consequences of the) Greek debt crisis. On the other hand, DAGF decided to keep its investment in several Credit Agricole Regional Banks which is less volatile and far less exposed to the capital markets. DAGF also met the management of the bank in order to have a better understanding of the possible challenges to which it will be confronted as a consequence of the new regulatory frameworks (“Basel III” and “Solvency II”) which are currently being discussed.

DAGF continued to work on restructuring cases, as the Fund gained some substantial know-how over the last few months on that theme. DAGF initiated an investment case on the Swiss conglomerate **OC Oerlikon** which had carried on a heavy capital restructuring. The company had to cope with heavy financial difficulties after having acquired by mean of a huge debt leverage of the textile business Saur at the top of the cycle in term of valuation and activities. With the financial crisis, OC Oerlikon suffered huge financial losses and had to restructure its balance sheet. DAGF which had the opportunity to meet with the company representatives, has been able to take profit from this capital restructuring by investing in the company before the announcement of the capital restructuring and by exploiting arbitrage linked to the capital increase with the maintenance of preferred rights for existing shareholders.

The Fund also investigated into an investment case in **OPAP**, the national Greek lottery company. This company which features a real lack in terms of corporate governance, was quite interesting regarding many aspects, including a monopoly position till 2020, a significant cash position, or a dividend yield of around 13% (at the timing of the investment). Regarding the magnitude of the Greek sovereign problems, and the fears of a potential direct tax on the gaming activities in Greece, DAGF decided to exit from its investment in OPAP, as the profile risk/ return wasn't good anymore. By doing so, the Fund managed to realize a moderate capital gain.

#### **Financial performance and cash position as of 30 June 2010**

Realized gains on investments during the first half of the year amounted to €2,106,691 but were entirely offset by unrealized losses of €3,316,035 as of 30 June 2010. The Fund received net dividends for an amount of €424,813 and interest income for an amount of €48,116.

Total expenses amounted to €324,242 (compared to €293,425 during the first half of 2009), of which the major part consists of the Fund Manager's fees for an amount of €246,390 (€222,384 during the first half of 2009). These fees were calculated by Fastnet, our independent Fund Administrator, in accordance with the Offering Memorandum. Other expenses consist of depositary fees, interest expenses, administration fees, fees paid to auditors and other advisors, publicity expenses, commissions and bank charges and depreciation of intangibles.

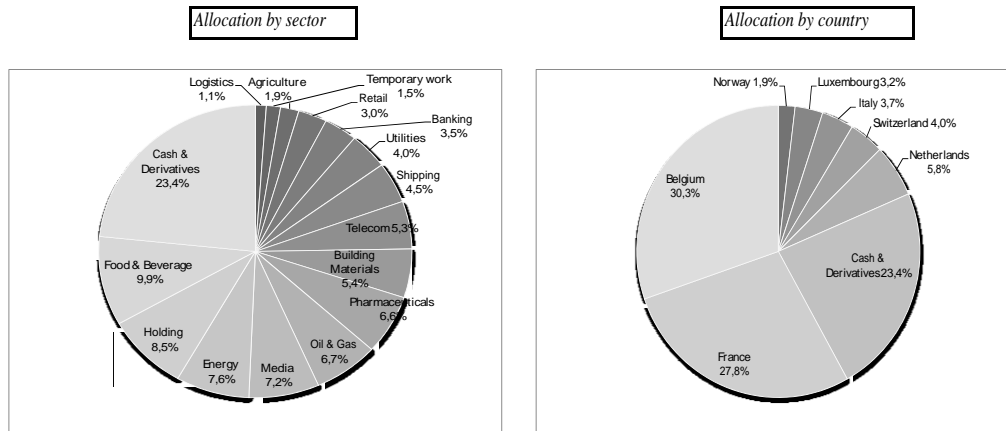
Net loss for the first half of the year amounted to €1,047,492 compared to a net gain of €629,650 during the first half of 2009. Shareholders' equity amounted to €27,463,684 which corresponds to a NAV per Unit of the Fund of €79.42.

At the end of the first half of 2010, the total cash position amounted to €6.6 million. The Fund had no financial debt outstanding as of 30 June 2010.

## Composition of the investment portfolio and evolution of NAV

The Fund Assets are invested in European equity instruments spread over various sectors (see left hand graph below) and various countries (see right hand graph below).

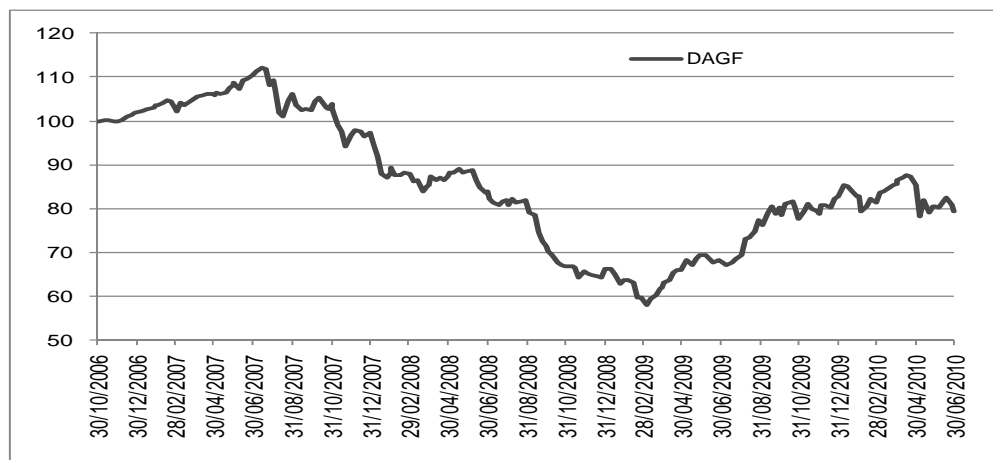
### Current DAGF Allocation - as of 30 June 2010



The Net Asset Value (NAV) per Unit amounted to €79.42 at the end of June 2010.

The graph below shows the evolution of the NAV per Unit of the Fund (in euros) since inception.

### Performance since inception



## Risk review

The Fund's risks are subject to a regular review by the Portfolio Managers and the Risk & Compliance Officer, who reports to the Board of Directors. The Risk & Compliance Officer monitors compliance with the investment restrictions such as set forth in the Offering Memorandum.

The various risks to which the Fund is subject are described in more detail in the Offering Memorandum.

The main risks to which the Fund was subject during the first half of 2010 were essentially the risks resulting from the evolution of sovereign debt situation in Europe. This situation led to fears about the implementation of austerity plan that could hamper the already fragile economic recovery which creates the conditions for a very volatile equity market.

The Fund Manager accepts market risk as a result of its investment strategy. It may protect the Fund against market risk, currency or sector risk at any given time on the basis of its own assessment of the portfolio's risk profile. The Fund Manager attempts to protect the Fund against specific company risk by investing in companies which present sound business fundamentals.

A well-balanced diversification of its portfolio, as illustrated by the sector and country allocation of the Fund's investments (see graphs above), also contributes to risk mitigation.

The Beta of the invested part of the portfolio at the end of June 2010 amounted to 0.75 (0.74 at the end of December 2009). The distribution of the Betas can be presented as follows:

<b>Equity Beta</b>	<b>100,0%</b>
<b>0.0 - 0.3</b>	0,7%
<b>0.3 - 0.6</b>	34,7%
<b>0.6 - 0.8</b>	25,6%
<b>0.8 - 1.0</b>	26,8%
<b>1.0 - 1.4</b>	12,3%

The table below summarizes the Betas of the portfolio at the end of each quarter during the first half of 2010.

	<b>Beta</b>
31-Mar-10	0.76
30-Jun-10	0.64

The VAR analysis of the portfolio can be presented as follows (5 % interval):

<b>VaRs</b>	<b>2 Days</b>	<b>5 Days</b>	<b>7 Days</b>	<b>10 Days</b>
<b>% of total value</b>	1,76%	2,78%	3,29%	3,94%

The theoretical weighted average unwinding period of the invested part of the portfolio was 4.56 days at the end of June 2010 (4.10 days at the end of December 2009).

**Important events occurred after the end of the reporting period**

There are no important events to be reported as of this date.

**Expectations for the future and investment objective**

The outlook for the second half of 2010 does not seem to be crystal clear for the time being, with a lot of fears regarding sovereign debt in Europe and the likely implementation of austerity measures. In addition, recent statistics in the US do not confirm a strong growth of the economy but rather a fragile one. On the side of China, the economy is cooling down. To avoid the creation of a bubble, this should not be considered as bad news, but the situation in China should however be closely monitored to gauge the importance of this deceleration.

The Fund will keep screening the market for additional investment opportunities that offer interesting perspectives in terms of value creation. The Fund will also further implement its active engagement strategies that were initiated so far.

The Fund Manager's objective is to achieve long term capital appreciation. Given the specific investment strategy of the Fund such as set forth in the Offering Memorandum, the Fund's returns may substantially deviate from market returns.

The Fund Manager has as objective to increase the Fund's assets in the future.

Amsterdam, 25 August 2010

The Fund Manager  
*Deminor Investment Management B.V.*

# Investment Policy

The investment objective of the Fund is to achieve capital growth by investing primarily in listed companies within Europe that are fundamentally sound, but whose shares or other financial instruments trade at discount towards peers or estimated intrinsic values and where shareholder engagement or other external factors can lead to improved performance and creation of value for the shareholders, independent of overall market trends.

The Fund aims at producing long-term positive returns over multiple market cycles through a combination of traditional value analysis, governance assessment and active engagement.

The Fund will pursue an active voting policy as part of its active engagement programs.

When fully invested, the Fund will typically have 10 to 15 core investments in target companies that it envisages to actively engage. The Fund will initially focus on Listed Companies in Europe with market capitalisations between EUR 1,5 billion and 15 billion.

The number of core investments or their respective market capitalisation may increase as the Fund's assets under management grow over time. In addition, outside the group of core investments, the Fund may take positions in listed companies where external factors can lead to improved performance and value creation. Positions will typically be held between 6 and 36 months, with a clearly defined exit once the previously defined value creation target is realized or regarded no longer possible, though it may be a much shorter or longer period depending on particular circumstances. Holdings may represent a substantial part of the total share capital of the target companies. The Manager may take advantage of short term market price movements to increase or decrease the Fund's positions.

The Fund may use derivatives (primarily listed options and futures), or other techniques (short selling) to hedge market, sector and currency risk.

The Manager will act as the manager (Beheerder) of the Fund, subject to the terms of the placing documents. The Manager will act in the interest of the Unitholders. The Manager is governed by its Board of Directors. Certain members of the Board of Directors have been designated to act as the Fund's portfolio managers. The Board of Directors comprises one person who will be the Fund's risk & compliance officer. Investment decisions will be made by the Board of Directors on the basis of proposals submitted to it by the portfolio managers. The Board of Directors may instigate one or more committees, including an investment committee. If instituted, the investment committee shall inter alia approve or disapprove proposed investments of the Fund and monitor the compliance by the Fund with the placing documents, in particular the compliance with the Fund's investment strategy and restrictions. Absent an investment committee, the Board of Directors will perform the tasks and duties of the investment committee.

Amsterdam, 25 August 2010

The Fund Manager  
*Deminor Investment Management B.V.*

# Financial Report

## Deminor Active Governance Fund

### Balance sheet

(before profit appropriation)

	Note	30/06/2010 EUR	31/12/2009 EUR
<b>Investments</b>			
Shares	(4.1)	18,504,521	26,516,809
Convertible Private Bonds	(4.2)	2,483,781	1,507,024
Options	(4.3)	-	261,750
Futures	(4.4)	-	17,100
		<u>20,988,302</u>	<u>28,302,683</u>
<b>Receivables</b>			
Other receivables and prepaid expenses	(5.1)	62,483	50,146
		<u>62,483</u>	<u>50,146</u>
<b>Other assets</b>			
Cash at banks	(6.1)	6,635,345	4,354,208
Intangible assets	(6.2)	26,619	36,536
		<u>6,661,964</u>	<u>4,390,744</u>
<b>Cash and cash equivalents</b>			
		6,661,964	4,390,744
<b>Current liabilities (due within one year)</b>			
Other liabilities	(7.1)	122,565	153,900
		<u>122,565</u>	<u>153,900</u>
<b>Investments short</b>			
Futures	(4.4)	126,500	-
		<u>126,500</u>	<u>-</u>
<b>Total of receivables and other assets less current liabilities</b>			
		<u>6,475,382</u>	<u>4,286,990</u>
<b>Total assets less current liabilities</b>			
		<u>27,463,684</u>	<u>32,589,673</u>
<b>Fund capital</b>			
Issued capital	(8.1)	42,494,974	46,573,471
Legal reserve	(8.2)	26,619	36,536
General reserve	(8.3)	-14,010,417	-20,433,914
Undistributed earnings	(8.4)	-1,047,492	6,413,580
		<u>27,463,684</u>	<u>32,589,673</u>
Net Asset Value per Unit		<u>79.42</u>	<u>82.77</u>

## Profit and loss account

	Note	30/06/2010 EUR	30/06/2009 EUR
<b>Income from investments</b>			
Dividends	(9.1)	424,813	824,077
Interest income	(9.2)	48,116	67,742
Distribution fees	(9.3)	13,165	26,912
		<b>486,094</b>	918,731
<b>Results on investments</b>			
Realized gains/-losses on Shares		2,330,983	-2,820,431
Realized gains/-losses on Options		-212,442	-1,120,020
Realized gains/-losses on Forward contracts		-	5,639
Realized gains/-losses on Futures		-8,950	-21,000
Realized gains/-losses on Bank accounts		-2,900	5,815
		<b>2,106,691</b>	-3,949,997
Unrealized gains/-losses on Shares		-3,033,338	3,693,114
Unrealized gains/-losses on Convertible Bonds		-48,447	-152,754
Unrealized gains/-losses on Options		-90,650	430,200
Unrealized gains/-losses on Forward contracts		-	-16,219
Unrealized gains/-losses on Futures		-143,600	-
		<b>-3,316,035</b>	3,954,341
<b>Total income</b>		<b>-723,250</b>	923,075
<b>Expenses</b>			
Investment management fees	(10.1)	246,390	222,384
Depositary fee	(10.2)	3,050	2,943
Depreciation of intangible assets	(6.2)	9,917	9,938
Interest expenses		1	298
Other expenses	(10.3)	64,884	57,862
<b>Total expenses</b>		<b>324,242</b>	293,425
<b>Result of operation</b>		<b>-1,047,492</b>	629,650

## Cash flow statement

	<b>30/06/2010</b>	30/06/2009
	<b>EUR</b>	EUR
<b>Cash flow from investment activities</b>		
Income from investments	<b>486,094</b>	918,731
Expenses	<b>-324,242</b>	-293,425
Depreciation of intangible assets	<b>9,917</b>	9,938
	<hr/>	<hr/>
Investment result	<b>171,769</b>	635,244
Purchases	<b>-23,208,650</b>	-10,936,125
Sales	<b>29,452,037</b>	25,068,590
	<hr/>	<hr/>
	<b>6,243,387</b>	14,132,465
Realized gains/-losses on Forward contracts	-	5,639
Realized gains/-losses on Futures	<b>-8,950</b>	-21,000
Realized gains/-losses on Bank accounts	<b>-2,900</b>	5,815
	<hr/>	<hr/>
	<b>-11,850</b>	-9,546
Change in receivables	<b>-12,337</b>	-904,316
Change in current liabilities	<b>-31,335</b>	854,223
	<hr/>	<hr/>
	<b>-43,672</b>	-50,093
	<hr/>	<hr/>
<i>Cash flow from investment activities</i>	<b>6,359,634</b>	14,708,070
<b>Cash flow from financing activities</b>		
Received on shares issued	<b>1,450,000</b>	33,100
Paid on repurchased shares	<b>-5,528,497</b>	-6,629,354
	<hr/>	<hr/>
<i>Cash flow from financing activities</i>	<b>-4,078,497</b>	-6,596,254
<b>Change in cash</b>	<b>2,281,137</b>	8,111,816
Cash in bank 1 January	<b>4,354,208</b>	7,090,456
	<hr/>	<hr/>
<b>Cash on 30 June</b>	<b>6,635,345</b>	15,202,272

## Notes to the financial statements

### General information

The Deminor Active Governance Fund has been incorporated on 2 November 2006 and has its corporate seat in Amsterdam, the Netherlands.

Investors can invest in the Deminor Active Governance Fund or indirectly, through the Feeder.

### 1 Principles of valuation of assets and liabilities

Financial statements have been drawn up in accordance with Dutch GAAP (Titel 9 Boek 2 BW and the Act on Financial Supervision).

#### *General*

Unless stated otherwise, assets and liabilities have been accounted at face value.

#### *Investments and financial instruments*

Investments are valued based on the following most important principles:

- listed securities with a regular marketability are valued at most recent stock market prices;
- any security which is neither listed nor quoted on any securities exchange or similar electronic system or if, being so listed or quoted, is not regularly traded thereon or in respect of which no regular prices are available, will be valued at its probable realisation value as determined by the Fund Manager in good faith having regard to its cost price, the price at which any recent transaction in the security may have been effected, the size of the holding having regard to the total amount of such security in issue and such other factors as the Fund Manager in its sole discretion deems relevant in considering a positive or negative adjustment to the valuation;
- Cash and deposits are valued at nominal value plus accrued interest;
- Investments, other than securities, which are not dealt in or traded through a clearing firm or an exchange or through a financial institution will be valued on the basis of the latest available valuation provided by the relevant counterparty.

Any value other than Euros will be converted into Euros at the exchange rate which the Administrator in its absolute discretion deems applicable as at close of business on the relevant business day.

Expenses related to the purchase of investments are included in the cost of investments. These expenses are activated into the capital gains/losses due to the valuation at fair value. Sales charges, if any, are deducted from gross proceeds and will be expressed in the profit and loss account.

The Fund Manager and Depositary may, at their discretion, permit any other method of valuation to be used if they consider that such method of valuation better reflects the value and is in accordance with good accounting practice.

#### *Intangible fixed assets*

The foundation and introduction expenses are capitalized at the start of the Fund and are subsequently depreciated on a straight-line basis in 5 years.

#### *Valuation foreign currency*

Assets and liabilities in foreign currencies are translated into Euros at the exchange rate at the balance sheet date. Income and expenses in foreign currencies are translated at the exchange rate as per the transaction date. All exchange differences are taken to the profit and loss account.

#### *Other assets and liabilities*

Other assets and liabilities are stated at nominal value. If required, provisions have been taken for questionable receivables.

### **Principles of result determination**

#### *General*

Income and expenditure are allocated to the financial year to which they relate.

#### *Distributions fees*

Distributions fees recognized in the income statement comprise subscription and redemption fees and are allocated to the year to which they relate.

#### *Dividends*

Dividend income is recorded on the ex-dividend date.

#### *Interest income*

Interest income and interest expenses are recognised in the income statement on an accrual basis using the original effective interest rate of the instrument and in line with the contractual terms. Interest is accrued on a daily basis.

#### *Tax position*

The Fund qualifies as a tax transparent mutual fund ('besloten fonds voor gemene rekening') for Dutch corporate tax purposes. Consequently, the Fund is not subject to Dutch corporate income tax. For Dutch tax purposes, the assets, liabilities, income, expenses and capital gains of the Fund are deemed to be assets, liabilities, income, expenses and capital gains of the Investors in the Fund pro rata to their interest in the Fund.

## **2 Risk factors**

#### *General*

An investment in the Fund carries a substantial degree of risk. The value of the Fund's underlying investments is subject to market fluctuations on the financial markets and risks that are inherent to investments. There is no assurance or guarantee that the Fund's investment policy will be successful or that the Fund will achieve its investment objectives. The Net Asset Value of Units may increase or decrease over time. Unitholders should be aware that the return (if any) on their investment in the Fund is dependent on the value of the Fund's underlying investments. If the value of the underlying investments decreases, the return on a Unitholder's investment will also decrease. There is no assurance or guarantee that the Fund shall at all times be able to repay to a Unitholder any Redemption Amount. Without prejudice to the foregoing, the value of the Fund's underlying investments may be affected inter alia if any of the risks identified below materialises, and, as a result, the Net Asset Value of a Unit may decrease.

#### *Market risks*

The value of the Fund's underlying investments is subject to market fluctuations on the financial markets. The prices of securities may decrease globally, or on the stock markets in Europe. The Fund may however hedge market and other risks at the discretion of the Portfolio Managers and in accordance with the approved hedging and risk policies.

#### *Concentration risks*

The prices of securities of an investee company or group of investee companies within the same sector may decrease due to circumstances that affect that particular investee company or sector. As a result, the Fund may sustain significant losses if it holds a large position in a particular investee company or group of investee companies within the same sector. In addition, it may not at all time be possible to timely sell or otherwise liquidate large positions of securities or other investments.

The Fund will generally seek to spread its investments among various sectors. However, the Fund will not decline investment opportunities for the reason that they lead to an overexposure to a specific sector.

The Fund investments will also depend on the existence of investment opportunities corresponding to the Fund's specific investment policy and objective. These opportunities may therefore have an influence on the number of investments made, which may be less than 10 at certain times, and on the diversity of the investment portfolio. Derivatives or short selling techniques may be used to hedge portfolio risks.

There can be no insurance or guarantee that an optimal use of derivatives or short selling techniques will, or can, at all times be made.

#### *Currency exposure*

The value of the Fund's underlying investments may be affected by fluctuations in currency rates. The currency exchange rate of the Euro may increase in relation to the currency in which the Fund's underlying investments are denominated. Derivatives may be used to hedge currency exposure. There can be no assurance or guarantee that an optimal use of derivatives will, or can, at all times be made.

#### *Lack of Liquidity*

It may not at all time be possible to timely sell or otherwise liquidate securities or other investments for the prices quoted on the relevant stock market or for their expected value due to a lack of liquidity of those securities or investments on such markets. The Fund may invest in stocks with a limited liquidity.

#### *Redemptions risks*

Redemptions may cause the Fund to dispose of investments in order to satisfy the aggregate Redemption Amounts payable in respect thereof under less favourable conditions than the Fund would have otherwise enjoyed upon a disposal of such investments.

#### *Counterparty, settlement risks and custody risks*

An issuing institution, or counterparty to a derivative, may fail to comply with one or more of its obligations vis-a-vis the Fund and losses may be sustained by the Fund as a result thereof.

Settlement through a clearing system may not take place as expected due to a failure by the Funds counterparty to deliver the relevant securities or payment in respect thereof and losses may be sustained by the Fund as a result thereof.

Losses may be sustained by the Fund as a result of negligence, fraudulent behaviour and/or the liquidation, bankruptcy or insolvency, of the Depository, the Custodian Bank and any sub-custodian banks engaged by the Custodian Bank.

#### *Inflation*

Due to inflation, the relative value of Units may decrease. The Fund will not specifically hedge inflation risk or take other measures to mitigate this specific risk.

#### *Securities borrowing and securities lending*

Securities borrowing transactions may result in borrowed securities having to be returned to the lender on a date earlier than expected in which case such securities may need to be purchased in the market against prices which are higher than anticipated. Any re-call of securities by the lender may cause the Fund not being able to purchase securities in the market for redelivery in which case the Fund may incur fines or penalties, or, alternatively, it may have to pay significantly higher prices to buy back the securities.

The risk of securities lending is that a loss may be sustained by the Fund as a result of the failure of another party to comply with its obligations under the securities lending contract.

#### *Change in legislation*

The tax and regulatory environment for investment funds is evolving and changes therein may adversely affect the Fund's ability to pursue its investment strategies. The regulatory and/or tax environment for derivative and related instruments is evolving and may be subject to modification by government or judicial action which may adversely affect the value of the investments held by the Fund. The effect of any future regulatory or tax charge on the Fund is impossible to predict.

Active engagement programs may also require the Fund to comply with specific legal or regulatory provisions the breach of which may result in fines or other sanctions. The Manager will use its best efforts to have the Fund comply with such provisions. Changes in legislation may limit the Fund's ability to effectively conduct active engagement campaigns in the future.

The Feeder will opt for the status of a fiscal investment institution ("fiscale beleggingsinstelling"), pursuant to which it will be subject to a zero per cent rate of corporate income tax. If the Feeder will not comply with one of the conditions for the fiscal investment institution regime, it may lose its status and become subject to Dutch corporate income tax on its profits.

#### *Uncertain outcome of active engagements - Litigation*

The outcome of active engagements on behalf of the Fund is dependent on various factors and is difficult to predict. In some circumstances, active engagement programs may even lead to litigation. The outcome of litigation is typically subject to various factors outside the Fund Manager's control. It may have an adverse impact on the Fund's investments. The Fund will attempt to mitigate the risk inherent to long term active engagements by focusing on companies with sound fundamentals.

#### *Lack of track record*

Beyond the management of the Fund launched in November 2006, the Manager has no track record in managing investment portfolios. The Manager is a subsidiary of Deminor International, which has extensive experience and a reputable track record in the field of corporate governance and the defence of shareholder rights. Deminor International will put its expertise available to the Manager pursuant to a service agreement. However, Deminor International's experience is no guarantee for achieving the Fund's investment objectives. The investment performance of the Fund is substantially dependent on the services of key individuals who are responsible for managing the investments of the Fund. These key individuals are connected with the Manager. In the event of death, disability, departure, insolvency or withdrawal of any of these key individuals, the performance of the Fund may be adversely affected.

#### *Short selling*

The Fund may use short selling techniques. As there is no limited downside to such transactions, the Fund may incur significant losses before short positions can be closed out. The Fund's vulnerability to potential losses incurred in short selling may be enlarged due to the illiquidity of the involved securities.

Losses on short selling may exceed the Net Asset Value of the Fund causing Unitholders to lose out on their entire investment in the Fund.

## Notes to the balance sheet

	<b>30/06/2010</b>	31/12/2009
	<b>EUR</b>	EUR
<b>4 Investments</b>		
<i>4.1 Statement of changes in securities</i>		
Balance at 1 January	<b>26,516,809</b>	14,916,307
Purchases	<b>21,770,646</b>	39,647,933
Sales	<b>-29,080,579</b>	-34,335,659
Realized gains/-losses on investments	<b>2,330,983</b>	-3,504,421
Unrealized gains/-losses on investments	<b>-3,033,338</b>	9,792,649
Balance at 30 June	<b>18,504,521</b>	26,516,809
Historical cost	<b>19,180,422</b>	24,159,176
<i>4.2 Statement of changes in convertible bonds</i>		
Balance at 1 January	<b>1,507,024</b>	10,631,177
Purchases	<b>1,025,204</b>	932,660
Sales	-	-10,449,650
Realized gains/-losses on investments	-	35,391
Unrealized gains/-losses on investments	<b>-48,447</b>	357,446
Balance at 30 June	<b>2,483,781</b>	1,507,024
Historical cost	<b>3,137,795</b>	2,112,591
<i>4.3 Statement of changes in options</i>		
Balance at 1 January	<b>261,750</b>	115,650
Purchases	<b>412,800</b>	2,391,575
Sales	<b>-371,458</b>	-1,468,855
Realized gains/-losses on investments	<b>-212,442</b>	-1,382,820
Unrealized gains/-losses on investments	<b>-90,650</b>	606,200
Balance at 30 June	-	261,750
Historical cost	-	171,100
<i>(4.4) Overzicht futures</i>		
	Notioneel bedrag:	Reële waarde:
	<b>30/06/2010</b>	<b>30/06/2010</b>
	<b>EUR</b>	<b>31/12/2009</b>
		<b>EUR</b>
DJ Euro Stoxx 50	<b>2,694,500</b>	<b>-126,500</b>
	<b>2,694,500</b>	<b>17,100</b>
Balance at 30 June	<b>2,694,500</b>	<b>-126,500</b>
	<b>2,694,500</b>	<b>17,100</b>

	<b>30/06/2010</b>	31/12/2009
	<b>EUR</b>	EUR
<b>5 Receivables</b>		
<i>5.1 Other assets and prepaid expenses</i>		
Other receivables and prepaid expenses	<u>62,483</u>	<u>50,146</u>
Balance at 30 June	<u>62,483</u>	<u>50,146</u>

Other receivables and prepaid expenses comprise the interest receivable on convertible bonds and other receivables.

## **6 Other assets**

### *6.1 Cash at banks*

These include bank balances at free disposal of the Fund.

### *6.2 Intangible assets*

Balance at 1 January	36,536	56,577
Depreciation intangible assets	<u>-9,917</u>	<u>-20,041</u>
Balance at 30 June	<u>26,619</u>	<u>36,536</u>

The foundation and introduction expenses capitalized at the start of the Fund are depreciated in over years.

## **7 Current liabilities (due within one year)**

### *7.1 Other liabilities*

Accrued expenses	<u>122,565</u>	<u>153,900</u>
Balance at 30 June	<u>122,565</u>	<u>153,900</u>

## **8 Fund capital**

**units**

### *8.1 Issued capital*

Balance at 1 January	393,721	46,573,471	53,157,554
Issued	16,975	1,450,000	4,355,271
Repurchased	<u>-64,904</u>	<u>-5,528,497</u>	<u>-10,939,354</u>
Balance at 30 June	<u>345,792</u>	<u>42,494,974</u>	<u>46,573,471</u>

#### *Redemption charge*

Unitholders wishing to redeem one or more Units shall not be required to pay a Redemption Charge, save in the event that the Units proposed to be redeemed were acquired within a period of one year prior to the date of Redemption. The Redemption Charge shall accrue to the Fund.

The Redemption Charge (if any) payable subject to the terms of the Conditions equals 3% of the relevant Redemption Amount during the first year.

In case a Unitholder who redeems one or more Units would have already paid a Redemption Charge in connection with a prior investment in the Fund, the Redemption charge, if any, in connection with any subsequent investment in the Fund, will be reduced by an amount up to the Redemption Charge, if any, such Unitholder has already paid in connection with a prior investment in the Fund.

#### *Subscription*

Units may be issued at the request of a Unitholder at their respective Net Asset Value. Subject to the terms of the Conditions, Units are issuable on the first Business Day of each calendar month, provided no Suspension Event is occurring. The manager is authorised to fix additional dates for Subscription of Units.

Units will be issued against payment of the Subscription Amount. The number of Units to be issued will be calculated by dividing the Subscription Amount by the Net Asset Value per Unit as per the Business Day immediately prior to the relevant date fixed for subscription. Fractions of Fund Units may be issued up to four decimal positions.

The minimum Subscription Amount payable by prospective investors wishing to invest in the Fund amounts to EUR 125,000. The Manager may accept investments in the Fund for any lesser amount, provided no investor be permitted to invest for an amount that falls below EUR 25,000. Unitholders can make further applications for Units in one or more multiples of EUR 25,000.

	<b>30/06/2010</b>	31/12/2009
	<b>EUR</b>	EUR
<i>8.2 Legal reserve</i>		
Balance at 1 January	<b>36,536</b>	56,577
Release	<b>-9,917</b>	-20,041
Balance at 30 June	<b>26,619</b>	36,536

The legal reserve relates to the capitalized foundation and introduction expenses.

#### *8.3 General reserve*

Balance at 1 January	<b>-20,433,914</b>	-2,583,927
Transferred from Legal reserve	<b>9,917</b>	20,041
Transferred from undistributed result	<b>6,413,580</b>	-17,870,028
Balance at 30 June	<b>-14,010,417</b>	-20,433,914

#### *8.4 Undistributed result*

Balance at 1 January	<b>6,413,580</b>	-17,870,028
Transferred to General reserve	<b>-6,413,580</b>	17,870,028
Result of the year	<b>-1,047,492</b>	6,413,580
Balance at 30 June	<b>-1,047,492</b>	6,413,580

## Notes to the Profit and Loss account

### 9 Income from investments

#### 9.1 Dividends

This refers to net cash dividend.

#### 9.2 Interest income

This includes the interest income in respect of the liquid assets held in the context of the investment activities.

#### 9.3 Distribution fees

This includes the subscription and redemptions fees.

	<b>01/01/2010</b>	01/01/2009
	<b>30/06/2010</b>	30/06/2009
	<b>EUR</b>	EUR
<b>10 Expenses</b>		
<i>10.1 Investment management fees</i>		
Performance fee	-	-
Management fee	<b>227,289</b>	195,161
Other investment management fee	<b>19,101</b>	27,223
	<b>246,390</b>	222,384

#### • *Performance fee*

The Performance Fee due to the Manager equals 20% of the increase in Net Asset Value of the Fund compared to the highest Net Asset Value of the Fund at the end of any calendar quarter in the preceding two years, adjusted for Subscriptions and Redemptions and distributions to Unitholders and after deduction of all cost and expenses (including the Management Fee) above a fixed hurdle rate of one quarter of the Euribor 3 months rate plus 50 bps. The relevant Euribor 3 months rate is the rate on the first Business Day of each calendar-quarter. The Performance Fee shall be calculated on a “high water mark” basis.

#### • *Management fee*

The Management Fee due to the Manager equals 0.375% of the Net Asset Value of the Fund (after deduction of the Performance Fee of the previous quarter) per quarter and is payable at the beginning of each quarter. Other investment fees are fees directly related to the management of investments, like custody fee, transaction cost, expenses for lending securities.

#### 10.2 *Depositary fee*

The Depositary Charge of the Depositary equals EUR 5,000 (exclusive of VAT). The Depositary Charge shall be borne by the Fund.

#### 10.3 *Other expenses*

Administration fee	<b>17,268</b>	18,915
Auditor and fiscal advisor fee	<b>25,205</b>	8,876
Commissions and bank charges	<b>4,890</b>	9,410
Lawyers and notary fees	<b>16,857</b>	20,661
Other expenses	<b>664</b>	-
	<b>64,884</b>	57,862

#### *Related party information*

Deminor Investment Management BV is the manager of the Fund. The manager is a fully owned subsidiary of Deminor International. The manager will enter into a contract with Deminor International pursuant to which Deminor International or any of its subsidiaries will provide research, investment advice and services related to the manager. The manager of the Fund earned a management fee for the period 1 January 2010 to 30 June 2010 of EUR 227,289.

#### **Actual costs compared to prospectus**

The table hereunder presents a cost comparison between costs as described in the prospectus with the actual costs. A specific calculation of these costs is not available in advance as these costs are mostly future and variable costs and contingent upon circumstances arising.

<b>Expenses</b>	<b>Actual cost</b>	<b>Prospectus</b>	<b>Difference in %</b>
Management Fee	227,289	227,289	0%
Administration Fee	17,268	17,268	0%
Depositary Fee	3,050	3,050	0%
	<u>247,607</u>	<u>247,607</u>	<u>0%</u>

Management-, Performance-, Administration and Depositary Fee are charged to the Fund in accordance with the Prospectus. All other fees and expenses are negotiated by the Manager in the best interest of the Unitholders.

#### **Assets not shown in the balance sheet**

As part of the Fund's active engagement policy the Fund has launched certain legal procedures. As the outcome of the pending legal procedures is uncertain per the balance sheet date, the Fund has not recognized assets related to the legal procedures in the balance sheet.

## Other information

#### *Expense ratio*

The expense ratio is calculated as following : total expenses divided by the average NAV\* of the Fund.

Total expenses are the costs which are reported at the profit and loss account. The expenses related to subscriptions and redemptions covered by a mark-up or down as well as depreciation and interest expenses, will not be taken into account.

The Expense ratio of the Fund for the period from 1 January 2010 to 30 June 2010 amounts: 1,00%. (30 June 2009 2,06%).

#### *Turnover ratio*

The turnover rate is calculated as follows: total purchases and sales minus subscriptions and redemptions divided by the average NAV\* of the fund.

The turnover ratio of the Fund for the period from 31 December 2009 to 30 June 2010 amounts to 144,65%. (30 June 2009 106,66%).

\* - The average Net Asset Value of the Fund is calculated as the sum of the Net Asset Values divided by the number of Net Asset Values. The average Net Asset Value of the Fund is based on the values at the following dates: 31 December 2009, 31 March 2010 and 30 June 2010 weighted 0,5 : 1 : 0,5.

**The Fund has outsourced the following duties :**

*Administration*

The Fund has engaged Fastnet Netherlands N.V. to provide certain financial, accounting, administrative and other services to the Fund. The Administrator provides, subject to the overall direction of the Fund Manager, administrative services, for instance daily Net Asset Value calculation and general administration, of the Fund assets, register and transfer agent services. Furthermore, the Administrator provides information for the composition of the semi-annual and annual accounts. The Administrator receives a fee with a minimum of EUR 30,000 per year. Until 1 July 2010 the fee is based on the following applicable percentages related to the Net Asset Value:

EUR 25,000,000:	0,06%
in the range up to:	
EUR 50,000,000	0,05%
in the range up to:	
EUR 100,000,000	0,04%
in the range up to:	
EUR 200,000,000	0,03%

*Depository activities*

Stichting Bewaarder Deminor Active Governance Fund is the Depository.

Stichting Bewaarder Deminor Active Governance Fund is a foundation (stichting) under the laws of the Netherlands. Stichting Bewaarder Deminor Active Governance Fund is registered in the Trade Register at the Chamber of Commerce of Amsterdam under number 34145801.

Stichting Bewaarbedrijf Guestos (Guestos) is acting as director of the Depository.

The board of directors of Guestos presently comprises of:

J. van der Sluis  
K.A.C. Wirschell

The Depository is specialised in the safekeeping of assets and liabilities of contractual investment funds such as the Fund and is known for being professional and reputable. The Depository has no shareholders and is not affiliated with any company within the Deminor Group.

The purpose of the Depository is limited to acting as Depository ('bewaarder') of investment funds, including the acquisition, holding and disposal of legal title securities and other assets for the account of of such fund's investors. The Depository shall act with due observance of the Placing Documents, solely upon the instructions of the Manager and in the interest of the Unitholders.

The Depository shall be liable for damages to the extent such damages are the direct result of the gross negligence ('grove schuld of toerekenbare nalatigheid'), fraud or wilful misconduct ('opzet') of the Depository in the performance or non-performance by it under the Placing Documents. The Depository will be indemnified out of the Fund Assets for damages incurred by the Depository for which it is not liable.

The semi-annual report does not require an external auditor statement.

*Employees*

As previous years the Fund did not employ anyone.

*Security Lending*

The Fund has the possibility to create short positions. Therefore the Fund closed a loan contract. Due to this contract the Fund is able to borrow securities and resale these to create an "open" short position. For this facility the Fund is due a lending fee.

Amsterdam, 25 August 2010

The Fund Manager  
*Deminor Investment Management B.V.*

The Depository  
*Stichting Bewaarder Deminor Active Governance Fund*

## Supplementary information

### **Distributions**

Article 15 of the Agreement of Management and Custody states:

#### *Dividend policy*

The Fund's profits will, to the fullest extent possible, be re-invested and not distributed. Where distributions must be made, they shall be made pro rata to the number of Units held by a Unitholder. Distributions (if any) are declared due and payable by notification to the Unitholder and publication thereof on the Website. Distributions (if any) will be made in cash.

### **Proposal profit destination**

The Fund Manager proposes not to distribute any interim dividend. The result of operation will be added to the General Reserve.

### **Manager's personal interest**

As per 30 June 2010 the Fund manager as well as the direction of the Fund do not have any holdings admitted in the Fund's portfolio.