

Approved by the Meeting of the Board of AS IPS Hansa Fondi on 9 July 2007

Registered with the Finance and Capital Market Commission

Included in the registrar of licences and certificates on 20 July 2007 with number 06.03.04.01.116/35

Registered under the laws of the Republic of Latvia

Fund term: 7 years

Amendments to the Fund Prospectus and their effective date: approved on 4 January 2008 at the Meeting of the Board of IPS AS Hansa Fondi by restating the Fund Prospectus, effective as from 4 February 2008.

## FUND PROSPECTUS

*closed-ended investment fund*

# Hansa Baltic Real Estate Fund

### **Fund Management Company**

*AS Ieguldījumu Parvaldes Sabiedrība Hansa Fondi  
Address: Balasta dambis 1a, Rīga, LV-1048*

### **Custodian Bank of the Fund**

*AS Hansabanka*

### **Distributor of the Fund investment certificates**

*AS Hansabanka  
Address: Balasta dambis 1a, Rīga, LV1048*

### **Auditor of the Fund**

*Deloitte & Touche Audits SIA*

The Fund Prospectus, Rules, annual and semi-annual reports of the Fund, as well as other information regarding the Fund and the Company, as well as details about the value of the Fund and of the Fund units are available for inspection at the seat of IPS Hansa Fondi at Balasta dambis 1a, Rīga, LV-1048, Latvia, on business days from 09:00 to 17:00 hours, as well as on the Company's website at [www.hansafondi.lv](http://www.hansafondi.lv).

Prior to making investments, one should get acquainted with the information provided in the Prospectus of the Fund. Please read this Fund Prospectus carefully and save it as a further source of reference.

The Fund Prospectus may also be distributed in other languages, but the version published in Latvian shall prevail.

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## **1. TERMS AND ABBREVIATIONS EXPLAINED**

**Baltic countries** - Latvia, Lithuania and Estonia.

**Member State** – a member state of the European Union or of the European Economic Area.

**EUR, euro** – the currency in the member states of the European Economic and Monetary Union (EMU).

**FCMC** - the Financial and Capital Market Commission of the Republic of Latvia.

**Fund unit** – the rights of claim corroborated in one investment certificate according to the value of the Fund unit.

**Fund unit value** – the Fund value divided by the number of investment certificates issued.

**Investor** – a person who has invested money in the Fund.

**Fund assets** – the things, the aggregate of which forms the Fund.

**Fund value** – the difference between the value of the Fund assets and the value of the Fund liabilities.

**Fund** – an aggregation of assets composed of investments made against investment certificates, as well as any assets acquired in transactions with the fund assets on the basis of the rights attached thereto; herein – the closed-ended investment fund Hansa Baltic Real Estate Fund.

**Investment target** – real estate and usufruct thereof, fund investment certificates (units), equity and debt securities of business companies, and deposits with credit institutions, which, according to statutory provisions and this prospectus, the Company is entitled to acquire using the Fund assets.

**Investment certificate** – a transferable security that confirms the investor's share in the Fund and the rights attached to this share.

**Distributor** – the person who distributes the Fund investment certificates in accordance with the rules set out in this Prospectus and based on an agreement entered into by and between the Company and the Distributor; herein – AS Hansabanka.

**Equity securities** – the securities that give the right to a share in the capital of a business company (for instance, shares, participations, etc.).

**LCD** – Latvian Central Depository.

**Law** – laws and regulations of the Republic of Latvia, including, without limitation, the Investment Management Companies Law.

**Money market instruments** – liquid short-term debt instruments that can be valued precisely at any given time (debentures, certificates of deposit, commercial papers, etc) and that are typically traded on money markets.

**Rules** – the Fund management bylaws, which prescribe the fund management procedure.

**OECD** – the Organization for Economic Co-operation and Development.

**Base currency** – the currency, in which the Fund value and the Fund unit value are established. The base currency of the closed-end investment fund Hansa Baltic Real Estate Fund is the euro.

**Debt securities** – the securities that confirm an issuer's liabilities to the holder of securities (for instance, bonds, debentures, etc.).

**Prospectus** – the present Prospectus of the Fund.

**Risk mitigation principle** – the mitigation of risk of financial loss by spreading the Fund assets over investment targets and complying with transaction restrictions, as well as by maintaining an opportunity to gain the maximum expected income.

**Company** – the investment management company, which, subject to law and this Prospectus, manages the Fund investments; herein – AS Ieguldījumu Parvaldes Sabiedrība Hansa Fondi.

**Company officials** – the members of the board of the Company, the investment fund managers, as well as other persons who have the authority to give instructions regarding the Fund assets or to act on behalf of the Company.

**Interested parties of the Company** – the Company's council members, officials, shareholders who own 10 or more per cent of the voting shares of the Company, as well as the spouses, parents and children of the natural persons named in this paragraph.

**International accounting standards** – the accounting standards issues by the International Accounting Standards Committee.

**Custodian Bank** – a bank who keeps the Fund assets, performs registration thereof, transactions in Fund assets and other duties prescribed by law and the custodian bank agreement; herein – AS Hansabanka.

**Custodian Bank agreement** – an agreement between the Company and the Custodian Bank, under which the Custodian Bank commits itself to keeping the Fund assets and performing transactions in the Fund assets, and operating the Fund account in accordance with the law, the Fund Prospectus, and instructions of the Company.

## **2. GENERAL DATA ABOUT THE INVESTMENT FUND**

The investment fund is not a legal person.

The Fund is a closed-ended investment fund and its management company is prohibited to buy back of investment certificates.

The Fund assets are a joint property of investors, and it is to be kept, recorded and managed separately from the assets of the Company, of other funds under its management, and the Custodian Bank.

The Fund assets may not be included in the assets of the Company or the Custodian Bank as the debtor if the Company or the Custodian Bank is declared insolvent or liquidated.

The term of the Fund is 7 calendar years, starting with the first business day after the Fund investment certificates initial placement period end date, which will be published on the Company's website at [www.hansafondi.lv](http://www.hansafondi.lv). Upon expiry of the period of operation of the Fund, following approval of the financial report, the Company has a duty to convene a general meeting of investors, which shall decide on continuation of operation or liquidation of the Fund, subject to provisions of Section 17 (FUND LIQUIDATION) of the Prospectus.

After end of the Fund investment certificates initial placement period, the Company shall be entitled to decide on the admission of the Fund investment certificates to OMX Riga Stock Exchange Baltic funds list.

The Company Board may, once a month, decide to perform a periodic issue of the Fund investment certificates, subject to provisions of Section 14 (RULES AND PROCEDURE OF SALE AND RE-ACCEPTANCE OF INVESTMENT CERTIFICATES) of the Prospectus.

The Company Board may, once a year, decide on the reduction of the Fund issue, subject to provisions of Section 15 (DISTRIBUTION OF FUND INCOME) of the Prospectus.

### **3. INVESTMENT POLICY**

#### **3.1. Investment objective**

*The investment objective of the closed-end investment fund Hansa Baltic Real Estate Fund is to achieve a return on investments for the Fund investors by investing, directly or indirectly, predominantly in the Baltic real estate.*

#### **3.2. General rules of investing**

The Fund assets shall be invested directly in real estate in the Baltic countries or its usufruct, in equity or debt securities of business companies, or in deposits with credit institutions and fund investment certificates (units) in accordance with provisions of this Prospectus.

The underlying principles of investment policy are long-term appreciation of the investment portfolio and a balanced investment strategy.

The Fund manager operates with the Fund assets, takes decisions and gives instructions in compliance with the conditions set forth in the Prospectus, the decisions of the Company Board, the Fund investment policy, and subject to the procedure prescribed by law and the Rules.

The investment targets are selected in accordance with the Fund investment policy principles and the investment restriction principles set out in this Prospectus, and according to the procedure set forth by the Rules, subject to the diversification and risk mitigation principles.

In making investments, the Fund manager acquires reasonably comprehensive information, as well as monitors the real estate and other investment targets, where the Fund assets have been or will be invested. Prior to any investment, the Fund manager carries out an analysis with a view to determining whether or not the planned investment would contribute to the achievement of the Fund

objectives. In making investments, the Company ensures an adequate diversification of investments across various investment targets.

The Fund manager may hold a part of the Fund assets in cash on cash account with the Custodian Bank for the purposes of making the intended Fund investment.

### 3.3. Investment targets:

#### 3.3.1. Direct investments in real estate

The Fund manager may place up to 100 per cent of the Fund assets in direct investments in real estate.

The Fund assets may be used to directly purchase the real estate, which is located in and is subject to registration in the Baltic countries only.

The Fund assets may be invested in the following types of real estate, according to the purpose of utilization:

- 1) office premises;
- 2) retail space, shopping centres;
- 3) industrial objects – manufacturing and warehouse premises;
- 4) residential buildings, apartments;
- 5) mixed-purpose real estate according to the uses set out in 1) – 4);
- 6) land plots and real estate development projects.

The Fund assets may be invested in real estate in the following ways:

- a) by purchasing real estate;
- b) by entering into a contract on the construction, incl. reconstruction, of real estate properties;
- c) by entering into a contract on works aimed at increasing the value of the real estate;
- d) by entering into a contract on the acquisition or exercise of the right to use a real estate;
- e) by extending a loan for financing investments in real estate or the right to use thereof;
- f) by conducting other transactions with real estate in compliance with provisions of law.

Investments in real estate shall be made in compliance with the conditions set out in Section 4 (INVESTMENT RESTRICTIONS) of the Prospectus.

#### 3.3.2. Investments in business companies

Up to 100 per cent of the Fund assets may be invested in:

- a) equity securities of business companies, whose core business area is the investing in real estate, real estate development, or investments in the capital of other business companies, whose core business area is investing in real estate;
- b) debt securities of a business company if these debt securities are issued for the purpose of financing investments in real estate.

The Fund assets in the equity and debt securities referred to in this clause may be invested if the direct or indirect real estate investments of their issuer is any of the types of investments listed in clause 3.3.1.

The Fund asset investments set forth in this clause shall be subject to the investment restrictions set out in clause 4.2 of the Prospectus.

### 3.3.3. Deposits with credit institutions

The Fund manager may, in between, prior to and after real estate transactions, invest up to 100 per cent of the Fund assets in deposits with credit institutions, subject to conditions set out in Section 4 (INVESTMENT RESTRICTIONS) of the Prospectus.

### 3.3.4. Investments in fund investment certificates (units)

The Fund manager may, in between, prior to and after real estate transactions, invest up to 100 per cent of the Fund assets in fund investment certificates (units), which meet the conditions set out in clause 4.4.

### 3.3.5. Borrowings on the account of the Fund

The Company may take out loans on the account of the Fund, subject to the conditions set out in Section 4 (INVESTMENT RESTRICTIONS) of the Prospectus.

## **4. INVESTMENT RESTRICTIONS**

### 4.1. General investment restrictions

4.1.1. The monetary assets of the Fund may be placed in investment targets in compliance with the investment restrictions and procedure set forth in this Prospectus.

4.1.2. The Company shall have no right to assume any liabilities on the account of the Fund assets unless directly related to the Fund. The Company may not conduct, with the Fund assets, any transactions without compensation. Claims against the Company and rights attached to the Fund assets may not be set off against each other.

4.1.3. The Fund assets may not be pledged or otherwise encumbered with rights *in rem* except if they serve as a collateral in receiving loans according to the procedure set out in the Prospectus, as well as the encumbering of the real estate owned by the Fund with rights *in rem* is permissible where done so in the course of ordinary business operations.

4.1.4. The Fund assets may be used for purchasing the securities issued by interested parties of the Company, through organized market only.

4.1.5. The following operations are not permitted on the account of the Fund:

- 1) to perform the liabilities of the Company incurred on its own behalf and account;
- 2) to issue securities other than investment certificates;
- 3) to assume liabilities under guarantee agreements.

4.1.6. The Company may not, on the account of the Fund, sell securities or assume liabilities for the sale of securities unless they are a part of the Fund assets at the time of entering into the transaction.

4.1.7. The Company may not, at the expense of the Fund, purchase assets at a price higher than the market price or to dispose of the Fund assets at a price lower than the market price.

4.1.8. The Fund investment portfolio's compliance with investment restrictions shall be determined using the value of investments established according to the procedure set out in Section 16 (PRINCIPLES AND RULES OF DETERMINING THE FUND VALUE).

4.1.9. Unless this Prospectus lays down investment restrictions, to which, in accordance with the law, the closed-ended Fund may apply a scope of investment restrictions that differs from that set by the law, the Fund investments shall be made without regard to such investment restrictions.

#### 4.2. Rules for investing in real estate and in equity and debt securities of business companies investing in real estate

4.2.1. The Fund investments laid down in clause 3.3.1 and 3.3.2 of this Prospectus in one Baltic country may constitute up to 100% of the Fund assets.

4.2.2. The Fund's total investments in land plots and real estate development projects and business companies, which have made investments in land plots or real estate development projects, in accordance with provisions of this Prospectus may not, in aggregate, exceed 25% of the Fund assets. Notwithstanding the foregoing, it is permissible that such investments exceed 25%, but do not exceed 50% of Fund value longer than for 6 consecutive months.

4.2.3. The restrictions of clause 4.2.2 may be exceeded as long as the Fund value does not exceed EUR 10,000,000.

4.2.3.<sup>1</sup> The aggregate of the Fund's direct investments in one real estate object, whose existing space or space to be built includes, according to their intended use, the space mentioned in clause 3.3.1 (4), or the Fund's investments in a business company, which makes investments in such object may only be made if the share of space mentioned in clause 3.3.1 (4) does not exceed 30% of the aggregate of the existing space and the space to be built in the specific real estate object.

4.2.4. The real estate acquired by the Fund assets shall be recorded with the Land Registry in the name of the Company, indicating that the real estate has been purchased by the Fund assets. Unless consented by the Custodian Bank, the Company may not dispose of, pledge or encumber with other rights *in rem* this real estate. The Company, in dealing with this real estate, shall comply with the restrictions set forth in the law and this Prospectus.

4.2.5. The Company shall not manage the real estate itself but shall sign a contract thereon with a third party, whose principal line of business is professional real estate management.

4.2.6. The Company may transfer the right to use the real estate acquired by the Fund assets, to any third party for a consideration.

4.2.7. The Company, in investing the Fund assets in real estate, may enter into transactions with a future settlement date.

4.2.8. An independent panel of professional experts approved by the Company shall be engaged for the valuation of investments in real estate and investments in business companies that have made investments in real estate. Such investments may only be made if the panel of experts has valued the real estate or has approved a valuation done by an independent certifier appraiser, and the Fund assets to be invested do not exceed this value.

#### 4.3. Rules for deposits with credit institutions

The Fund investments may be made in credit institutions that have received a licence to operate as a credit institution in Latvia, in another Member State or in a member state of the OECD, and are entitled to render financial services in the said countries.

Deposits with credit institutions may be made if they can be withdrawn on demand, or before maturity date and their maturity does not exceed 12 months.

#### 4.4. Rules for investments in fund investment certificates (units)

4.4.1. The Fund assets may be invested in investment certificates (units) of open-ended funds, or essentially equivalent undertakings for collective investments, registered in Latvia or in another Member State, which mainly invest in debt securities such as debentures or bonds issued or guaranteed by a state, a local government or a central bank, as well as in debentures and bonds issued by financial institutions and other companies, as well as in money market instruments and deposits with credit institutions, and the investments of such funds are made exclusively in securities of Latvian issuers or issuers of other Member States.

4.4.2. Up to 100% of the Fund assets may be invested in the Hansa Lats Money Market Fund or Hansa Euro Money Market Fund managed by the Company. Investment certificates of funds managed by the Company may be acquired on the account of the Fund if neither investment certificate sales nor redemption fees are charged.

#### 4.5. Borrowings at the expense of the Fund

The Company may take out loans at the expense of the Fund if such borrowings are for a period of up to three months and, in the aggregate, do not exceed 25 per cent of the Fund value.

The decision on taking out loans at the expense of the Fund may be taken by the Fund manager in accordance with the Prospectus and the Rules.

#### 4.6. Investment restrictions and deviation therefrom

The investment restrictions laid down in the Prospectus may be deviated from if such deviation occurs due to the exercising of subscription rights arising from the transferable securities or money market instruments that are part of the Fund assets, or due to other circumstances that the Company could not have predicted. To eliminate the deviation from the investment restrictions, the Company shall promptly perform sales transactions in line with the risk mitigation principle and the interests of the Fund investors.

### **5. THE FUND RISK PROFILE DESCRIPTION AND INVESTMENT RELATED RISKS**

The Fund is intended as a medium risk investment. Investments in real estate are typically considered less risky as compared to investments in equity securities, yet more risky than investments in fixed income financial instruments.

#### **Investment risk**

When investing in the Fund, the investors must consider the risk that is associated with investing the Fund assets and may affect the performance of the Fund. The Fund may make a profit or suffer a

loss. Neither AS IPS Hansa Fondi, nor AS Hansabanka, nor any other financial or state institution guarantees the preservation of or growth in the value of investments. The historical yield of the Fund does not guarantee a similar yield in the future. Therefore, the investors should always make sure whether the risks associated with investments in the Fund are acceptable for them.

Risk is a potential of loss arising from investment activity. Based on the causes giving rise to loss, the risks can be divided in the following main risks: price risk, interest rate fluctuation risk, legal system risk, credit risk, liquidity risk, operational risk and other risks.

**Price risk** – the value of and income from investment targets are subject to fluctuations, which directly affect the value of the Fund unit or investment certificate owned by the investors. When making direct investments in real estate or investments set out in clause 3.3.2 on the account of the Fund, the Company shall obtain valid and detailed information about the real estate and will continue monitoring the condition of this real estate. To minimize the possibility of financial loss, the Company may insure the real estate property against the risk of fire or natural disasters and/or unlawful third-party actions.

**Interest rate fluctuation risk** – changes in the rates of interest in the market may cause a change in the amount of payments of interest on the borrowings, which, in turn, may have an adverse effect on income from direct investments in real estate and investments in set out in clause 3.3.2. The value of debt securities may change depending on changes in interest rates: when interest rates increase, the value of these securities decreases, and vice versa.

**Legal system risk** – the risk of possibility that the national legislation (incl. taxation policy) may be amended in a way that the Fund incurs additional expenses, as well as the risk that the municipal regulatory documents may be amended (incl. amendment of detail planning, building regulations, etc.).

### **Credit risks**

*Counterparty credit risk* – the risk that arises if a counterparty, with whom the Fund has entered into a transaction, is unable to perform his obligations to the Fund. To minimize this risk, the Company shall carry out due analysis of the transaction, use cash accounts in execution of transactions, etc.

*Issuer credit risk* – the risk that arises if the issuer, in whose securities the Fund has invested its assets, defaults on his obligations. The value of debt securities may change depending on changes in the creditworthiness of the issuer: if the creditworthiness worsens, the price of securities falls, and vice versa. The issuer credit risk is minimized by making a due analysis of the issuer before investing, as well as by monitoring the financial and economic situation of issuers during investment.

*Open foreign exchange position risk* – the Fund assets may be invested in securities denominated in foreign currencies or placed in investments in real estate in countries, whose national currency differs from the base currency of the Fund. If the exchange rates of foreign currencies change against the Fund base currency, the value of the Fund investment may either decrease or increase.

**Liquidity risk** – means the possibility of disposing of some Fund assets at a minimum expense over a certain period of time. In relation to real estate investments, this risk will be minimized by making

investments, which are liquid and enjoy a rather high demand that is expected to remain high also in the future.

**Operational risk** – the possibility of incurring a financial loss in day-to-day operations of the Company and the Custodian Bank, for example, due to an employee's deliberate or unintentional deviation from statutory requirements or due to a failure in the means of communication or computer systems, etc. The operational risk is minimized through a sound internal control framework, the protection and backup of information systems and databases, and through ensuring adequately qualified staff.

**Other risks** – force majeure (natural catastrophes and calamities, warfare, strikes, communication and information system failures), change of investment company or custodian bank, sanctions imposed by public authorities and court judgements against the investment company or custodian bank, and similar.

## **6. INVESTMENT PRACTICE APPLIED IN THE FUND MANAGEMENT**

The principal sources of income for the Fund are both a rise in the value of and income from direct real estate investments and investments set out in clause 3.3.2. Such investments are made with a view that the maximum return on them will be made by selling them in a period of time equivalent to the term of the Fund or shorter.

## **7. RIGHTS OF THE FUND INVESTORS**

### **7.1. The investors of the Fund have the following rights:**

- 1) to dispose of the investment certificates on the secondary market without any restrictions;
- 2) to take part, in proportion to the number of investment certificates, in the distribution of proceeds from transactions with the Fund assets;
- 3) to take part, in proportion to the number of investment certificates, in the distribution of proceeds from the liquidation of Fund assets;
- 4) to demand that a general meeting of investors is convened by the Company when and as stipulated in this Prospectus;
- 5) to demand that the issued investment certificates are reaccepted by the Company if due to the fault of Company the Fund Prospectus and documents enclosed thereto contain false information that has a material effect of the evaluation of investment certificates;
- 6) to have access to all publicly available information about the Company, the Fund and persons related to the operation of the Fund, as well as to demand and receive, free of charge, the annual and semi-annual reports of the Fund;
- 7) after admission of the investment certificates to an organized market, the investment certificates shall be treated as publicly traded securities. The rights and obligations of the owners of publicly traded investment certificates are laid down according to the law.
- 8) other rights of the Fund investors are stipulated by the law and this Prospectus.

7.2. The investors shall have no right to demand that the Fund be divided. Also the pledgees of the investor's pledged assets, the investor's creditors and the investor's trustees in bankruptcy shall have no such right.

7.3. The Fund investors shall not be liable for the obligations of the Company. The Fund investors' liability for the claims that may be brought against the Fund assets shall be limited to the Fund units owned by them.

7.4. The provisions of the Fund Prospectus shall become binding on the relations between the Company and the investor as soon as the investors acquire the Fund investment certificates according to the procedure laid down in the Prospectus and the Rules.

#### 7.5. General meeting of investors

The Company shall have the right to convene a general meeting of investors on its own initiative or upon demand of investors representing a minimum of 10 per cent of the Fund value.

The general meeting of investors shall have the right to adopt decisions binding on the Company on:

- 1) the approval and amendment of the Fund Prospectus. Where the Fund Prospectus needs to be amended due to a change in the capital of the Company, the composition of the Council or officials, a change in the business name and registered office of the Company and the Custodian Bank, a change in contact details given in the Prospectus, the Company shall have the right to amend the Prospectus without convening a general meeting of investors;
- 2) the change of the Company or Custodian Bank;
- 3) the liquidation of the Fund;
- 4) the extension of the term of the Fund;
- 5) other matters stipulated by the FCMC or provided for in this Prospectus or the law.

The cost of convening a general meeting of investors shall be covered by the Fund assets.

A decision to reduce the pool of the issued Fund investment certificates shall, in the event provided for in clause 15.2 of this Prospectus, be made by the Board of the Company without convening a general meeting of investors.

The procedure for the convocation and the proceeding of the general meeting of investors is prescribed in the Rules. The procedure for decision-making at the general meeting of investors shall be according to the law.

### **8. DESCRIPTION OF THE TYPICAL INVESTOR**

The Fund benefits professional and experienced investors, who wish to be involved in the development of the Baltic real estate market.

### **9. TAXES AND DUTIES APPLICABLE TO THE FUND INVESTORS, AND THEIR PAYMENT PROCEDURE**

In accordance with the law, the Fund is not a legal person and is not subject to taxation. If any taxes are, under laws or regulations, applicable to investment targets or transactions with the Fund assets, the Company shall in such a case pay these taxes at the expense of the Fund assets.

Taxes are levied on the investor's income in accordance with the legislation of the state, in which the investor is a taxpayer, and depending on whether or not the law and this Prospectus imposes a duty on the Company or the Custodian Bank to withhold taxes from any pay-outs to investors as may be applicable to the relevant payment or transaction. Depending on the legislation of the state, in which the investor is a taxpayer, the investor may be entitled to tax breaks for taxes withheld in the Republic of Latvia.

The potential investors should consult their tax advisors for the legal implications of and taxation applicable to acquisition, holding and disposal, as well as redemption of investment certificates.

## **10. FEES AND CHARGES**

The investment certificates sales fee is fixed at up to **3.00%** of the value of the Fund unit. The decision on the size of the sales fee is made by the Board of the Company. The Company shall advise the investors, the Custodian Bank and the Distributor about the size of the sales fee payable by investors.

## **11. REMUNERATION PAYABLE OUT OF THE FUND ASSETS**

### **11.1. Remuneration payable to the Company**

The Company shall receive a remuneration at the following extent for the management and servicing of the Fund:

- a) **1.00%** (one per cent) per annum of the average value of the Fund and **1.00%** (one per cent) per annum of the average value of indirect liabilities of the Fund,
- b) **0.75%** (zero point seven five per cent) of direct real estate investment transaction value and the transaction value of investments set out in clause 3.3.2 (except investments in real estate development projects) and
- c) **2%** (two per cent) of the direct real estate investment transaction value and the transaction value of investments set out in clause 3.3.2. in real estate development projects, and
- d) **20%** (twenty per cent) of the average growth in the Fund unit value over the last 3 years of operation, **which exceeds the compound rate of 8% per annum** (eight per cent, the minimum rate of return).

The remuneration shall be calculated and paid according to the methodology described in the sub-clauses of clause 11.2 hereof.

The amount of the remuneration payable to the Company may be subject to change, yet may not be in excess of the amount of remuneration fixed in this section.

## 11.2. Methodology of calculating remuneration payable to the Company and payout mechanics thereof

### 11.2.1. Definitions

**Value of indirect liabilities of the Fund** means the aggregate of liabilities of business companies in which the Fund owns equity securities (excluding the aggregate of liabilities to the Fund) in proportion to the Fund's share in the equity capital of the respective business company. It is calculated in accordance with the International Accounting Standards.

**Real estate investment transaction value** means the remuneration, which the Fund provides in making a direct real estate investment or investment set out in clause 3.3.2. This includes the aggregate of monies and other assets, as well as a proportional share of the value of liabilities assumed.

### 11.2.2. Remuneration payable to the Company under clause 11.1 a)

The remuneration under clause 11.1 a) shall be calculated using the following formulas:

$$F_1 = \frac{r}{12} * \frac{A_0 + A_T}{2}, \text{ and accordingly } F_2 = \frac{r}{12} * \frac{L_0 + L_T}{2},$$

Where  $F_1$ ,  $F_2$  – the sum of remuneration to be calculated for a month under according to clause 11.1 a) respectively as a share of the Fund's assets and the average value of indirect liabilities

$r$  – the applicable rate of remuneration expressed as a decimal

$A_0$  – the sum of Fund's assets as at the end of the preceding period of calculation

$A_T$  – the sum of Fund's assets as at the end of the period of calculation

$L_0$  – the sum of Fund's indirect liabilities as at the end of the preceding period of calculation

$L_T$  – the sum of Fund's indirect liabilities as at the end of the period

### 11.2.3. Remuneration payable to the Company under clause 11.1 b) and c)

The remuneration under clause 11.1 b) and c) shall be calculated using the following formula:

$$F_3 = r * T_m,$$

Where  $F_3$  – the sum of remuneration to be calculated for a month as a share of the real estate investment transaction value according to clause 11.1 b) and c)

$r$  – the rate of remuneration, expressed as a decimal, according to clause 11.1 b) and c)

$T_m$  – the real estate investment transaction value according to clause 11.1 b) or c), respectively, during the month for which the calculation is being made

### 11.2.4. Remuneration payable to the Company under clause 11.1 d)

The remuneration under clause 11.1 d) shall be calculated using the following formula:

$$F_4 = r * \left[ \left( \sqrt[\frac{N}{365}]{\frac{P_T}{P_0}} - 1 \right) - H \right] * A_T ,$$

Where  $F_4$  – the sum of remuneration per year according to clause 11.1 d)

$r$  – the applicable rate of remuneration expressed as a decimal

$P_T, P_0$  – the value of the Fund's unit as at the end of the last reporting year and as at the end of the reporting year 3 years ago. In the first calculation after the first 3 years of activity of the Fund,  $P_0$  is the value of the Fund's unit as at the initial placement.

$H$  – the minimum rate of return expressed as a decimal

$N$  – the total of calendar days in the last reporting year, in the preceding reporting years, and in the reporting year 2 years ago.

$A_T$  – the sum of Fund's assets as at the end of the last reporting year.

#### 11.2.5. Calculation and payout of remuneration to the Company

The remuneration under clause 11.1 a) – c) shall be calculated for every month after the value of the Fund's unit as at the end of the preceding month is calculated. The Company shall receive the remuneration fixed under clause 11.1 a) – c) once a month not later than three days after the day when the value of the Fund's unit as at the end of the preceding month is calculated.

The remuneration under clause 11.1 d) shall be calculated for every last three reporting years of the Fund after the approval of the preceding reporting year's audited annual report of the Fund. The Company shall receive no remuneration fixed under clause 11.1 d) for the first 2 reporting years, as well as if sum of remuneration calculated is a negative number. The Company shall receive the remuneration fixed under clause 11.1 d) once a year five business days after the approval of the preceding reporting year's audited annual report of the Fund.

#### 11.3. Remuneration payable to the Custodian Bank

##### 11.3.1. Remuneration for custody of the Fund's assets and for investment restriction monitoring

The maximum amount of remuneration to the Custodian Bank for the custody of the Fund assets and for monitoring compliance with investment restrictions shall be 0.18% (zero point one eight per cent) per annum of the average value of the Fund assets. The remuneration payable to the Custodian Bank for the custody of the Fund assets and for investment restriction monitoring may be subject to change but not in excess of the maximum amount of this remuneration. The remuneration to the Custodian Bank shall be payable out of the Fund assets.

The Custodian Bank's remuneration for custody of the Fund's assets and for investment restriction monitoring shall be calculated and accrue on a monthly basis. The Custodian Bank shall receive the remuneration once a month not later than three days after the day when the value of the Fund's unit as at the end of the preceding month is calculated.

The Custodian Bank's remuneration for custody of the Fund's assets and for investment restriction monitoring shall be calculated according to the following formula:

$$F_t = \frac{r}{12} * \frac{A_0 + A_T}{2},$$

Where  $F_t$  – the amount of remuneration to be calculated for a month

$r$  – the applicable rate of remuneration, expressed as a decimal, payable to the Custodian Bank

$A_0$  – the sum of Fund’s assets as at the end of the preceding period of calculation

$A_T$  – the sum of the Fund’s assets as at the end of the period of calculation.

### 11.3.2. Remuneration for other Custodian Bank services

Remuneration to the Custodian Bank for other Fund operations related services not covered by clause 11.3.1 (fees for transactions with the Fund’s cash, securities and issue accounts maintained with the Custodian Bank, for DVP settlements and other services) shall be at the expense of the Fund assets in accordance with the Custodian Bank agreement or, where the amount of remuneration is not fixed the Custodian Bank agreement, in accordance with the Custodian Bank’s price list effective at the time of transaction.

## **12. OTHER EXPENSES AND PAYMENTS**

### 12.1. Other payments out of the Fund assets

Other costs related to the Fund activities (remuneration to the Fund auditors, real estate management payments, real estate properties insurance payments, taxes, fees for brokerage services, etc) shall be paid at actual cost and according to source documents.

All costs associated with real estate transactions (fees to agents, brokers, notaries, lawyers, land registry fees, taxes, costs related to preparation of documents and research work at the specific property, etc) shall be paid at actual cost and according to source documents. If the relevant transaction is concluded, such costs shall be added to the acquisition value of the real estate investment (shall be capitalized).

### 12.2. Payments by the Fund investors

All expenses incurred by investors in conducting transactions with investment certificates (such as bank fees for opening cash and securities accounts, for operations with securities and cash accounts, etc) shall be covered by investors at their own expense.

## **13. AUDITOR OF THE FUND**

Deloitte & Touche Audits SIA shall be the Fund auditor. Registration number with the Register of Enterprises of the Republic of Latvia: 000324778. Registered office: Bīskapa gāte 2, Rīga, LV 1050, Latvia, sworn auditor business license No. 45.

## **14. RULES AND PROCEDURE FOR SALE AND REACCEPTANCE OF INVESTMENT CERTIFICATES**

### **14.1. Initial placement of investment certificates**

The Company shall commence the initial placement of the Fund investment certificates following registration of the Fund with the FCMC, adoption by the Company of the decision to issue the certificates and the recording of investment certificates with the LCD.

The pool of the issued Fund investment certificates in the initial placement shall be EUR 20,000,000.

The investment certificates initial placement period shall last 10 (ten) days or in case all the investment certificates offered in the initial placement are sold before this period expires, then until the day when all the investment certificates are sold. Information on the start date and end date of the initial placement shall be published on the Company's website at [www.hansafondi.lv](http://www.hansafondi.lv), and the Company shall have the right to make this information public in other ways.

After the end date of the Fund investment certificates initial placement period, the issue shall be deemed to have taken place at the amount of the investment certificates paid for.

### **14.2. Periodic issuing of the Fund investment certificates**

After the initial placement of the Fund investment certificates, the Company may periodically issue the Fund investment certificates 12 times a year. The time of periodic issuing of investment certificates shall be the first ten days of each month. The Company shall adopt a decision on every periodic issuing of the investment certificates before the start of issuing.

The pool of investment certificates in every periodic issuing shall be at least EUR 15,000,000. The price of investment certificates during periodic issues shall be equal to the value of the Fund unit approved by the Company, plus the sales fee.

The Company shall notify investors of the decision on and the rules of periodic issuing of the Fund investment certificates by publishing the relevant information on the Company's website at [www.hansafondi.lv](http://www.hansafondi.lv), as well as notify the FCMC and the Custodian Bank thereof. The subscription to investment certificates of the new issue and the purchase of investment certificates shall be done in accordance with the procedure set forth in this section.

After the end date of the Fund investment certificates periodic issuing period, the issue shall be deemed to have taken place at the amount of the investment certificates paid for.

### **14.3. Purchase of investment certificates**

In order to subscribe to the Fund investment certificates, the investor must have a financial instruments account with the Custodian Bank, with any of the LCD members or with an account custodian, who, through interbank or central depositories correspondent banking relations, has the capacity for custody of financial instruments with the LCD.

In order to purchase investment certificates, the investor must fill in and deliver to the Company an order for the purchase of investment certificates.

The Company shall have a duty to execute only accurately and duly completed orders for the purchase of the Fund investment certificates. The responsibility for accuracy and completeness of information presented in the order shall lie with the investor.

Orders for the purchase of the Fund investment certificates shall be accepted and executed strictly in accordance with the provisions of the Rules.

Every investor can subscribe to an unlimited number of investment certificates, which does not exceed the pool of investment certificates issued.

The Company shall have the right to reject any order for the purchase of investment certificates delivered to it.

The Company shall advise investors about the acceptance of their order and about the size of sales fee payable by the investor. The sales fee shall be added to the Fund unit value.

#### 14.4. Investment certificates issue price calculation methods

The issue price of investment certificates is composed of the Fund unit value and the fee for sale of investment certificates.

The Fund unit value in the initial placement shall be EUR 5,000.

#### 14.5. Settlements

Investment certificates shall only be issued against full payment of these certificates in cash.

After an investment certificate purchase order is received and processed, the Company shall instruct the Custodian Bank to sell a certain number of newly issued investment certificates against payment using *Delivery Versus Payment (DVP)* type of settlements. The investor must give to their cash and financial instruments account custodian an analogous instruction for the delivery of investment certificates against payment. Investment certificates shall be transferred to the financial instruments account specified by the investor immediately after receiving payment.

The investor must deposit the investment certificates price in the account of the Fund within five business days of delivery to the Company of the order for the purchase of the Fund investment certificates and of receipt of the Company's notification that the order has been accepted, but in any event not later than by the issue end date. If the amount of money for the purchase of investment certificates is not transferred to the cash account of the Fund within the above period of time, the order will be deemed invalid and become null and void.

Settlements for investment certificates shall be in the base currency of the Fund.

All expenses incurred by investors in connection with purchase of investment certificates (bank charges for operations with financial instruments / cash accounts, etc) shall be covered by investors.

The Company shall have the right to agree with investors on the purchase of the Fund investment certificates at a future date, subject to the relevant terms of issue, by entering into a separate contract thereon. Such a contract may impose a duty on the investor to purchase a certain number of investment certificates at a future date and pay a penalty and reimburse for losses in case of default on the duty, furthermore such a duty shall pass over to the new owner of the investment certificates in case of disposal thereof. Such a contract may also contain other provisions insofar as not at variance with this Prospectus and not in violation of the rights of other investors.

#### 14.6. Secondary trading in investment certificates

The Fund investment certificates may be purchased or sold over-the-counter in accordance with provisions of the law or on stock exchanges in accordance with regulations of the relevant exchange if the Fund investment certificates are listed. The Company shall not fix prices for transactions in the Fund investment certificates on the secondary market, as well as the Company shall not be liable for any fluctuations in the price of the Fund investment certificates on secondary market of investment certificates.

#### 14.7. Rules and procedure for reacceptance of investment certificates

If Company is at fault for any error in or omission of details, which are material in the assessment of investment certificates, in the Fund Prospectus or documents enclosed therewith, the investor shall have the right to demand that the Company reaccepts their investment certificates and reimburses them for any losses incurred due to such error or omission.

The demand must be raised within 6 months of the day when the investor found out about the error in or omission of the detail, but in any event not later than within three years of the day of purchase of the investment certificate.

The demand for reacceptance of investment certificates shall be delivered to the Company in writing to the seat of the Company, along with the proof that the investor incurred the loss due to the fault of the Company, indicating the error in or omission of the detail in the Fund Prospectus or the documents enclosed therewith, which is material in the assessment of investment certificates.

The reacceptance of investment certificates may be suspended when the FCMC exercises its right to impose restrictions on the Company's right to operate with the Fund's bank accounts and in case of liquidation of the Fund.

Reacceptance of investment certificates may not be carried out after the commencement of liquidation of the Fund.

In the event of liquidation of the Fund the claims of the Fund creditors and investors shall be satisfied according to the procedure prescribed in the law.

## **15. DISTRIBUTION OF INCOME OF THE FUND**

### **15.1. Income of the Fund**

Any income earned through the Fund assets shall be invested in the Fund. Investors take part, in proportion to the number of investment certificates owned by them, in the distribution of income from transactions with the Fund assets.

The investor's income is reflected in an increase or decrease in the Fund unit value.

### **15.2. Reduction of the pool of investment certificates issued**

The Board of the Company shall have the right, once a year, after the receipt and approval of the assessment, by a certified valuator, of the Fund's direct real estate investments, to decide on the reduction of the pool of investment certificates issued and on partial redemption of investment certificates.

The amount of the Fund investment certificates to be redeemed may not be in excess of the increase in the value of investments made. The redemption price of certificates shall be equivalent to the latest Fund unit value approved by the Company. The Fund investment certificates shall be redeemed on *pro rata* basis to the number of investment certificates owned by the investor. In distribution of the redeemable investment certificates to investors, the number of redeemable investment certificates shall be rounded off to 3 digits after the decimal separator according to normal arithmetic rules.

The Company shall notify investors of the decision to reduce the pool of investment certificates issued and to redeem a part of investment certificates, by publishing the relevant information on the Company's website at [www.hansafondi.lv](http://www.hansafondi.lv), as well as notify the FCMC and the Custodian Bank thereof. The Company's decision shall be effective as from adoption thereof.

The investment certificates redemption amount shall be paid out to investors in the base currency of the Fund according to the procedure prescribed in the LCD regulations.

The expenses associated with redemption of investment certificates shall be covered by the Fund assets.

### 15.3. Fund liquidation proceeds

The Fund liquidation proceeds and the realized investment value increase shall be paid out to investors after the liquidation of the Fund, except the special event provided for in the Prospectus when the Company has adopted a decision on the reduction of the pool of the Fund investment certificates issued and on partial redemption of investment certificates at an extent that is not in excess of the realized Fund investment value increase. The liquidation proceeds shall be distributed among investors on *pro rata* basis to the number of their investment certificates.

## **16. PRINCIPLES AND RULES OF DETERMINING THE FUND VALUE**

16.1. The Fund value determination principles as well as the principles of determining the value of individual investment types (real estate investments and usufruct thereof, investments in equity and debt securities of business companies, loans to business companies, investments in fund investment certificates (units), deposits with credit institutions).

16.2. The Fund value shall be determined regularly on the twentieth day of every month or the following business day in accordance with the law and the provisions of the Prospectus and the Rules.

16.3. The following general principles shall be complied with in determining the Fund value:

1) going concern principle – under which it is assumed that the Fund will continue its operations as a going concern;

2) reconciliation or continuity principle – under which it is assumed that the same valuation methods will be used as were applied for establishing the value of the Fund before;

3) prudence principle – under which the valuation at all times must be carried out with due prudence;

4) accrual principle – under which, the value of the Fund is estimated by taking into account all revenues and expenses of the Fund, irrespective of the date of receipt or payment thereof and in accordance with the accrued amount until the date of estimation of the Fund's value;

5) relevance (materiality) principle – under which at the time of establishing the value of the Fund, all the material information regarding transactions and events is duly disclosed.

## **17. LIQUIDATION OF THE FUND**

The Board of the Company shall, not later than a month after the approval of the audited financial statements on the last year of the Fund operations, convene a general meeting of investors, at which the following decisions shall be adopted:

- a) on the liquidation of the Fund, or
- b) on continuation of the Fund and the relevant amendment of the Fund Prospectus.

Upon expiry of the Fund term set in the Prospectus, if the Fund's investments in real estate properties and/or prospective real estate development projects have a good potential for an increase in the yield, the general meeting of investors shall consider the extension of the Fund term by three years. The decision to extend the Fund term shall be adopted by the general meeting of investors.

If a decision to extend the Fund term is adopted, the liquidation of the Fund shall not be commenced and the Board of the Company shall be responsible for making relevant amendments to the Fund Prospectus and for registration thereof with the FCMC.

If a decision to liquidate the Fund is adopted, the liquidation of the Fund shall be carried out according to the procedure prescribed in the law and the Company itself shall perform the Fund liquidator functions. The Fund liquidation procedure is prescribed in the Rules.

## **18. START AND END OF THE REPORTING YEAR OF THE FUND**

The reporting year of the Fund is the calendar year and it starts on 1 January and ends on 31 December.

The first and the last reporting year of the Fund may cover a shorter period of time. The decision on the period of time that the first and the last reporting year covers shall be adopted by the Board of the Company.

## **19. FUND MANAGEMENT**

### **19.1. Fund Management Company**

#### General

The Fund is managed for investors by the investment management company AS IPS Hansa Fondi. The registered office of the Company is Balasta dambis 1a, Riga, LV-1048, Latvia. The Company was founded on 17 March 1997. Single registration number of AS IPS Hansa Fondi: 40003337582.

The equity capital of the Company at the time of foundation was LVL 100,000. The registered and paid-up capital of the Company is LVL 435,000.

Further information about the financial standing of the Company is available in the annual reports of the Company, which are available at the seat of the Company as stipulated in the Rules.

#### Council of the Company

**Toms Siliņš** – the Chairman of the Council, earned his master's degree in social science from the University of Latvia, and MBA degree from New York University majoring in accounting and business law, corporate finance, financial markets and instruments. A Chartered Financial Analyst. From 1993 to 2002, worked for the Bank of Latvia as the Currency Operations Division analyst at the Foreign Loans Dept, as the Foreign Reserves Portfolio Manager at the Currency Operations Division, as the Deputy Head of Currency Operations Division, and as the Head of Transactions and Investments Dept. In 2003, worked for Deutsche Bank Securities Inc. in the field of convertible fixed-income securities trading and emerging economies investment strategy development. From 2004 –

2005, has been the Deputy Head of the Market Operations Division at the Bank of Latvia. From 2005, works as the Head of Finance Division at AS Hansabanka, as well as is a Member of the Board of AS Hansabanka.

**Tina Kuze** – Deputy Chairperson of the Council, Member of the Board of AS Hansabanka and Head of Investments Division of AS Hansabanka. Employed with AS Hansabanka since 1997.

**Oksana Sivokobijska** – Member of the Council. Holds a master's degree in Economics. From 1998 to 2006, the Head of Marketing and Corporate Communications at AS Hansabanka. From January 2007 – Member of the Board of AS Hansabanka and the Head of Retail Banking, AS Hansabanka. From January 2007, a Member of the Council of AS Hansa Atklatais Pensiju Fonds.

#### Board of the Company

**Harijs Švarcs** - Chairperson of the Board since August 2007. Former employment includes working with the Bank of Latvia (1999 – 2001; 2002 – 2007) and Tallinna Pank Securities Latvia (1997 – 1999).

**Kristiāns Miķelsons** – Member of the Board and asset manager since September 2002. From 1997 to 1999, worked at AS Hansabanka Capital Market Dept, and from 2001 to 2002 – with London-based *Lehman Brothers Ltd.* as an analyst with Debt Capital Market Dept. Mr Miķelsons manages several investment funds, state-funded pension investment plans and private pension fund pension plans that are under the management of the Company.

**Mareks Hauks** – Member of the Board, the Head of Market Risk Management and Analysis Dept, AS Hansabanka. Works with AS Hansabanka since 1993.

#### Fund Manager

**Andris Ogrīņš** is the Manager of the Fund. Andris Ogrīņš has been Real Estate Investments Director at the Company since 2007. Earned his bachelor's degree in economics and business management from Stockholm School of Economics in Riga. From 2000 to 2004, worked with Estonian-based AS Trigon Capital group companies in the field of corporate finance (M&A and private capital raising), including as a Member of the Board. From 2004 to 2007 – the CEO of Latvian fast-food chain operator SIA Kebabs Fix.

The Manager is the person who conducts transactions with the Fund assets on behalf of the Company. The rights and obligations of the Manager are detailed in the Rules.

When the Fund Manager is absent, the Fund management functions are carried out by a person expressly authorized for that by the Fund Manager.

Other investment funds under the Company's management:

**Hansa Lat Money Market Fund** – an open-ended investment fund registered in Latvia.

**Hansa Euro Money Market Fund** – an open-ended investment fund registered in Latvia.

**Hansa Eastern Europe Bond Fund** - an open-ended investment fund registered in Estonia.

The Company also manages state-funded pension investment plans and private pension fund pension plans.

## **19.2. Custodian Bank of the Fund**

AS Hansabanka carries out the duties of the custodian bank of the Fund.

The bank has been registered with the Register of Enterprises of the Republic of Latvia on 14 May 1992. Single registration number: 40003074764.

The registered office and seat of the Bank is at: Balasta dambis 1a, Riga, LV-1048.

## **19.3. Transfer to third parties of the right to provide Fund management services**

The Company may, subject to the procedure prescribed in the law, delegate the right to provide certain services pertaining to the management of the Fund, to other persons, who hold the relevant qualifications and are experienced in providing the services in question.

The Company has entered into agreements with AS Hansabanka, under which the Company has transferred to AS Hansabanka the right to provide the following service related to administrative management of the Fund:

- distribution of investment certificates of funds that are under the Company's management
- establishing the Fund's value and the price of investment certificates
- keeping records of transactions made by the Company with the Fund's assets
- preparation of the Fund's financial statements and reports;
- handling of separate legal issues concerning the Fund.

In case the provision of any of the Fund management services not mentioned above is delegated by the Company to a third party, the Company shall advise the Fund investors about the type of service delegated and furnish the information required under the law concerning the third party, to which the service has been delegated, by publishing the relevant information on the Company's website no less than 10 days prior to the third party selected by the Company commencing the provision of the service delegated.

## **19.4. The review of historical performance of the fund**

At the date of approval of this Prospectus the Fund does not have any history of prior performance.

Chairperson of the Board of AS IPS Hansa Fondi \_\_\_\_\_ Harijs Švarcs

Member of the Board of AS IPS Hansa Fondi \_\_\_\_\_ Kristiāns Miķelsons

Member of the Board of AS IPS Hansa Fondi \_\_\_\_\_ Mareks Hauks