DV01 Mechelle Limited

ACN 061 343 959

Equalisation Policy Statement

Issue Date: May 17, 2011

1.0 Introduction

The **Board** of **DV01 Mechelle Ltd (Company)** has designed the following statement to explain the equalisation approach of the Company with regard to the **Manager's** performance fees. The Manager is entitled to receive a performance fee equal to 20% of the increase in the **Pre-Tax NAV** for the **Performance Calculation Period** above the **Pre-Tax NAV High Water Mark (Pre-Tax NAV HWM)**. The Pre-Tax NAV HWM is the highest Pre-Tax NAV as of the end of any previous Performance Calculation Period during the immediately preceding three (3) years for which the Pre-Tax NAV HWM is being calculated. The Pre-Tax NAV HWM will also be adjusted by subtracting any dividends paid to shareholders since the Pre-Tax HWM was achieved and also adjusted following any capital raisings/redemptions. The performance fee accrues on a monthly basis, as at the last business day of each month, and is payable at the end of a calendar quarter (the Performance Calculation Period).

The Board has determined that the **Equalisation Credit** and **Depreciation Deposit** approach is the most suitable method of equalisation for the Company. The Company's approach to equalisation allows it to firstly equalise all shareholder performance fees, and secondly quote a single set of net asset values (both Pre-Tax and After-Tax) per share for all shareholders. Other alternative methods of equalisation that were deemed to be inappropriate for the Company included the multi-series approach, and the equalisation factor approach. The implementation of either of these approaches was not adopted because of complications that could arise from both corporate tax attribution and regulatory approvals required for small ongoing selective share buy-backs.

Equalisation is a method used to fairly allocate the effect of performance fees across shareholders in the Company due to inequities in attribution caused when new shareholders subscribe for shares at different periods of time and price. Equalisation is a well-known concept in alternative investments, but not as well known amongst traditional managed investment scheme investors. This document seeks to clarify the benefits of employing an equalisation approach as shareholders are sensitive to fees that they do not understand. In the case of equalisation, a new shareholder is depositing performance fees with the Company in advance of them being paid to the Manager when the actual performance will occur.

Equalisation has two very important roles: Firstly it allows the Manager to separately charge new shareholders for performance that they are the beneficiaries of when existing shareholders have already been invested and paid performance fees at a higher level. Secondly it makes sure that no investor is given unfair or preferential treatment by paying for a greater share of the **Company's** performance fees than is equitable due to the free ride and/or claw back situations (examples given below).

The example of the Free Ride in a no tax environment

Assume a company has a sole shareholder (Shareholder A) with 1 share of a company that has $100 in net assets and a high water mark of $200. At the beginning of a quarter a new shareholder (Shareholder B) buys into the company with the issue of 1 share at $100 each.

The company subsequently has positive investment performance and gross assets (prior to deduction of performance fees) increase by 100% within the quarter.

The Free Ride example*

1) Shareholder A owns 1 share with net asset value of $100 and high water mark of $200.
2) Shareholder B buys 1 share at $100.
3) End of quarter, net asset value per share rises to $200, so total net asset value of $400.
4) High water mark per share still $200, so total HWM of $400. No performance fees are paid.
5) Shareholder B will have a $20 "free ride" on their $100 gain in performance (20% of $100).

Without equalisation, there would be no performance fee paid until the net asset value has exceeded the high water mark of $400, even though Shareholder B has seen a 100% gain. Shareholder B would have a "free ride" in performance of $20 (20% of $100). In addition, without equalisation, gains above the high water mark would result in an inequitable allocation of performance fees with Shareholder A paying a higher percentage of profit in fees than Shareholder B, due to the $20 free ride illustrated above.

With equalisation, Shareholder A would pay no performance fee up to $200 per share (the high water mark per share) while Shareholder B would pay the $20 performance fee.

The example of Clawback of Performance Fees in a no tax environment*

Assume a sole shareholder (Shareholder A) with 1 share in a company that has $180 in net assets and a high water mark of $100. This implies that the **Company** has accrued unpaid Manager performance fees of $20 at risk of continued performance in the company (i.e. gross assets of $200 less 20% of $100 or $20 in accrued performance fees, which equals net assets of $180). A second investor (Shareholder B) buys into the company with the issue of 1 share at $180, within the calculation period, increasing gross assets to $380. Following the new investment, the gross assets of the company (calculated prior to deduction of performance fees) have subsequently decreased to $180, a loss of $200.

The Claw Back example*

1) Shareholder A owns 1 share with net asset value per share of $180, (gross asset value per share of $200 and unpaid performance fees at risk from decline equal to $20 calculated on a high water mark of $100 per share).
2) Shareholder B buys 1 share at $180, gross asset value now $380 ($200+$180).
3) End of quarter, gross asset value decreases to $200, gross asset value per share of $100.
4) The high water mark per share is still $100.
5) Shareholder A will have lost $100 ($200-$100) and Shareholder B will have lost $80 ($180-$100), due to a $20 "claw back" in performance fees by the company as a whole.

Without equalisation, the gross assets per share would be $100 prior to fees, implying a loss of $100 to Shareholder A ($200-$100) and a loss of $80 to Shareholder B ($180-$100). Shareholder B has unduly benefitted from the "claw back", by the company as a whole, of the $20 in accrued and unpaid performance fees, when that $20 rightly belongs to

* Changes in share price are exaggerated to reflect the effects on shareholder performance without equalisation.

Shareholder A. With equalisation the $180 loss would be shared equally by both Shareholders prior to fees.

2.0 Equalisation when a Shareholder subscribes for shares in the Company and the Pre-Tax NAV is below the High Water Mark (the Depreciation Deposit)

When an investor subscribes for shares in the Company and the Pre-Tax NAV is below the Pre-Tax NAV High Water Mark, a portion of the investor's subscription amount is allocated to a Depreciation Deposit which represents the performance fees payable on the investor's subscription amount if the Pre-Tax NAV were to appreciate to the Pre-Tax NAV HWM subsequent to the new investor's investment in the Company.

The **Depreciation Deposit** is a liability owed by the Company to the new shareholder from which performance fees will be deducted at the end of subsequent Performance Calculation Periods for any positive investment performance following a new subscription. The Depreciation Deposit is lodged at risk with the Company and is fully exposed to the pre-tax performance of the Company.

The initial Depreciation Deposit, which is also the **Maximum Depreciation Deposit** is calculated as follows:

Depreciation Deposit = (1-Tax Rate) x Subscription Amount x Rb x 20%

Where Rb is the percentage that the Pre-Tax NAV HWM is above the Pre-Tax NAV calculated as follows:

Rb = (Pre-Tax NAV HWM / Pre-Tax NAV) -1

And where the Tax Rate is the current statutory corporate tax rate and Subscription Amount is the total dollar amount that the new investor subscribes for.

The remainder of the subscription amount is allocated to shares issued to the investor and is calculated as follows:

Shares Issued = [Subscription Amount - Depreciation Deposit] / After-Tax NAV per Share

As an example, assume that a new shareholder subscribes for $100,000 worth of shares in the Company when the After-Tax NAV per share is $91 and the Pre-Tax NAV HWM per share is $120 or 20% above the Pre-Tax NAV per share of $100:

Depreciation Deposit Example

1) New shareholder subscribes for $100,000 of shares in the Company at an After-Tax NAV per share of $91, a Pre-Tax NAV per share of $100 and High Water Mark per share of $120; Rb is 20% [120/100-1]
2) A Depreciation Deposit is calculated as $2,800; (1-30%) x $100,000 x 20% x 20%
3) The dollar amount of shares issued is $97,200.00; ($100,000 - $2,800.00)
4) 1,068 shares are issued for $97,200.00; [$100,000 - $2,800.00] / $91
5) An initial Depreciation Deposit of $2,800.00 is exposed to the Pre-Tax performance of the Company allocated against future performance fees.

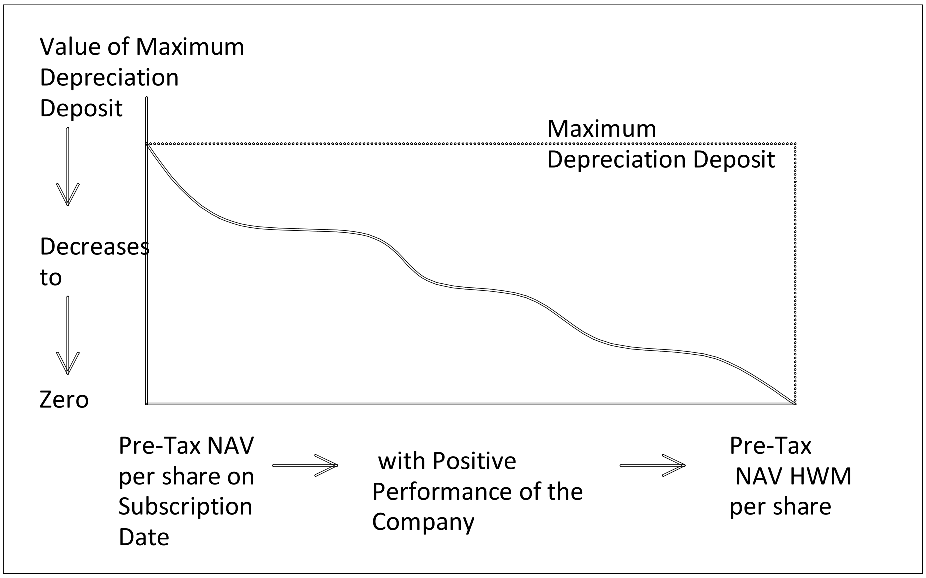
The Depreciation Deposit is issued concurrently with the issue of the relevant shares, and is a liability owed by the Company to the new shareholder. It is lodged and invested at risk with the Company and therefore will change in value pro-rata with the Company's performance.

The Maximum Depreciation Deposit decreases linearly in value to zero pro-rata with an increase in the Pre-Tax NAV to the Pre-Tax NAV HWM . The Maximum Depreciation Deposit can never increase in value in excess of its initial value. At the end of each subsequent Performance Calculation Period, if the value of the Maximum Depreciation Deposit is less than the value at the end of the previous Performance Calculation Period then a fee is payable. The Maximum Depreciation Deposit will then be set at its reduced value. The Maximum Depreciation Deposit cannot increase in value above this subsequently reduced Maximum Depreciation Deposit. The Maximum Depreciation Deposit will be reduced in full (to zero) if the Pre-Tax NAV of the Company returns to or exceeds the Pre-Tax NAV HWM at the end of a Performance Calculation Period.

When a performance fee is payable, the difference between the previous Maximum Depreciation Deposit and the newly reduced Maximum Depreciation Deposit is deducted from the existing Depreciation Deposit for fees payable to the Manager. To the extent the value of the remaining Depreciation Deposit is higher than the newly reduced Maximum Depreciation Deposit, this excess will be allocated to the issue of bonus shares (Depreciation Deposit Crystallisation as described below).

In the example above, when the Pre-Tax NAV meets or exceeds the Pre-Tax NAV HWM, the Company will have paid to the Manager a performance fee relating to the new shareholder of $4,000.00 (exclusive of GST) which is the performance fee on the return on the funds invested: i.e. a 20% return on $100,000.00 x 20% performance fee = $4,000.00.

Figure 1. The Depreciation Deposit +



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Depreciation Deposit Crystallisation occurs when fees are payable by the shareholder at the end of a Performance Calculation Period. As the shareholder's Depreciation Deposit is exposed to the Pre-Tax performance of the Company, the value of that Depreciation Deposit will exceed the Maximum Depreciation Deposit when fees are payable due to the growth in the Company. At that point, the excess in value of the Depreciation Deposit after fees over the newly reduced Maximum Depreciation Deposit will be applied to the issue of bonus shares for the shareholder at the prevailing After-Tax NAV per Share. Additional bonus shares will be issued on increases in the Pre-Tax NAV per share after fees are paid at the end of subsequent Performance Calculation Periods until the Maximum Depreciation Deposit has

+ The Maximum Depreciation Deposit declines linearly which the positive performance of the Company, the chart demonstrates a non-linear decline to diagrammatically demonstrate variability in the Depreciation Deposit with changes in the performance of the Company been reduced to zero.

If the shareholder requests the Company to buy-back Shares before the Depreciation Deposit has been fully applied (has a zero value) then the outstanding value of the Depreciation Deposit less any unpaid performance fees in the current period to date is repaid.

For partial Share buy-backs, the value of the Depreciation Deposit is reduced pro-rata: the value of the Depreciation Deposit multiplied by a fraction, the numerator of which is the number of shares being bought-back and the denominator of which is the number of shares held by the shareholder immediately prior to the buy-back.

If the Pre-Tax NAV HWM is adjusted down due to the rolling 3-year Pre-Tax NAV HWM window, then if the new Pre-Tax NAV HWM is below the Pre-Tax NAV at which the current Maximum Depreciation Deposit was set, then the entire outstanding value of the Depreciation Deposit is applied to the issue of bonus shares. If the new Pre-Tax NAV HWM is above the Pre-Tax NAV at which the current Maximum Depreciation Deposit was set, then the Maximum Depreciation Deposit is reduced pro-rata to the ratio of the percentage excess of the reduced Pre-Tax NAV HWM over the Pre-Tax NAV at which the current Maximum Depreciation Deposit was set, divided by the percentage excess of the previous Pre-Tax NAV HWM over the Pre-Tax NAV at which the current Maximum Depreciation Deposit was set. To the extent the value of the Depreciation Deposit is greater than the newly reduced Maximum Depreciation Deposit, the difference between the two is applied to the issue of bonus shares.

3.0 Equalisation when a Shareholder subscribes for shares in the Company and the Pre-Tax NAV is above the High Water Mark (the Equalisation Credit)

When an investor subscribes for new shares in the Company during a period that is not at the end of a Performance Calculation Period, and the Pre-Tax NAV is above the Pre-Tax NAV HWM , then a portion of the investor's subscription amount is allocated to an **Equalisation Credit**. The new shareholder receives the Equalisation Credit as compensation for investing in the Company prior to deduction for performance fees at the end of the Performance Calculation Period.

The Equalisation Credit is calculated upon subscription as follows: 20% (the rate of performance fees) of the difference between the **Pre-Tax GAV** and the Pre-Tax NAV HWM . (The Pre-Tax GAV is the Pre-Tax NAV calculated before accrual of performance fees).

Equalisation Credit = (1-Tax Rate) x (Subscription Amount x Ra x 20%)/(1 + Ra)

Where Ra is the percentage that the Pre-Tax GAV is above the Pre-Tax NAV HWM calculated as follows:

Ra = (Pre-Tax GAV / Pre-Tax NAV HWM) -1

And where the Tax Rate is the current statutory corporate tax rate, and Subscription Amount is the total dollar amount that the new investor subscribes for.

The amount of shares issued is calculated as follows:

[Subscription Amount - Equalisation Credit] / After - Tax NAV per Share

As an example, assume that a new shareholder subscribes for $100,000 worth of shares in the

Company when the After-Tax NAV per share is $111.20 and the Pre-Tax NAV HWM per share is $100 or 20% below the Pre-Tax GAV per share of $120:

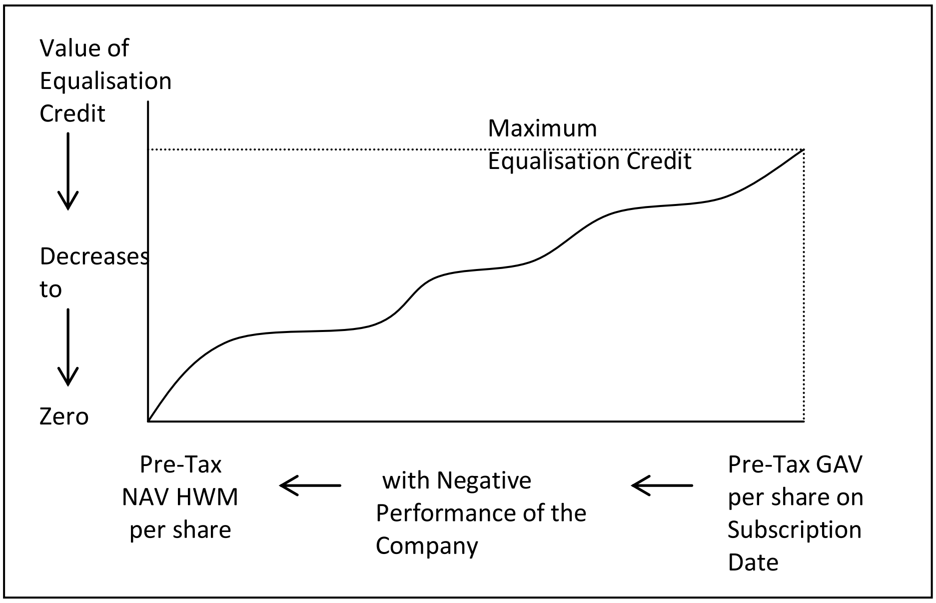
Equalisation Credit Example

1) New shareholder subscribes for $100,000 of shares in the Company at an After-Tax NAV per share of $111.20 with Pre-Tax GAV per share of $120 and the Pre-Tax High Water Mark per share of $100; Ra is 20% [120/100-1]
2) An Equalisation Credit is calculated as $2,3333.33; (1-30%) x ($100,000 x 20% x 20%)/(1+20%)
3) The dollar amount of shares issued is $97,666.67 ($100,000 - $2,333.33).
4) 878 shares are issued for $97,666.67; [$100,000 - $2,333.33] / $111.20
5) Equalisation Credit of $2,333.33 lodged at risk with the Company.

The Equalisation Credit is payable to account for the fact that the new investors subscription amount has been reduced to reflect an accrued Performance Fee to be borne by existing shareholders. It serves as a credit against Performance Fees that might otherwise be payable by the Company, but that should not, in equity, be charged against the new shareholder since no favorable performance has yet occurred for the new shareholder. The Equalisation Credit is convertible into additional shares in the Company under certain circumstances (**Equalisation Credit Crystallisation**) as described below. The Equalisation Credit has a floating value, which will increase or decrease linearly to/from the initial Equalisation Credit calculated at subscription and zero, pro-rata with the Pre-Tax GAV performance of the Company.

The Equalisation Credit decreases in value to zero pro-rata with the decrease in the Pre-Tax GAV to the Pre-Tax NAV HWM. Any subsequent appreciation in the Pre-Tax GAV will result in the recapture of any previous reduction in the Equalisation Credit due to negative performance, but the Equalisation Credit can never increase in value in excess of the **Maximum Equalisation Credit**, set initially at the starting Equalisation Credit value and subsequently reduced (if any) as a result of Equalisation Credit Crystallisation.

Figure 4. Example of Equalisation Credit ^



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^ The Equalisation Credit declines linearly which the negative performance of the Company, the chart demonstrates a non-linear decline to diagrammatically demonstrate variability in the Equalisation Credit with changes in the performance of the Company

Equalisation Credit Crystallisation occurs with reference to the then Pre-Tax GAV, on the last business day at the end of each Performance Calculation Period. If the Pre-Tax GAV is above the Pre-Tax NAV HWM at this time (i.e. a performance fee is paid), the pro-rata portion of the Equalization Credit will be applied to the issue of bonus shares for the shareholder at the prevailing After-Tax NAV per share. The Maximum Equalisation Credit will be reduced by the amount applied to the issue of bonus shares. Additional bonus shares will continue to be issued at the end of each subsequent Performance Calculation Period in the same manner until the Maximum Equalisation Credit has been fully applied to the issue of bonus shares to the shareholder.

If the shareholder requests the Company to buy-back Shares before the Equalisation Credit has been fully crystallised (has a zero value) then the outstanding Equalisation Credit is repaid.

For partial Share buy-backs, the Equalisation Credit repaid is reduced pro-rata: the Equalisation Credit multiplied by a fraction, the numerator of which is the number of shares being bought-back and the denominator of which is the number of shares held by the shareholder immediately prior to the buy-back in respect of which an Equalisation Credit was lodged on subscription.

If the Pre-Tax HWM is adjusted down due to the rolling 3-year HWM window, then the Maximum Equalisation Credit is set at zero, so there will be no further increase in the value of the Equalisation Credit that can be recaptured and applied to the issue of bonus shares in any subsequent appreciation in the Pre-Tax GAV.

4.0 Subsequent Adjustments to the Manager Performance Hurdles.

When the Company issues new shares priced off the After-Tax Net Asset Value per share it can cause dilution of the Pre-Tax NAV per share. This is because any tax liabilities (both current and deferred) are spread over a greater number of shares on issue. For the purpose of calculating Performance Fees that are equitable to new shareholders and the Manager, the following adjustments are made to the Pre-Tax HWM, the Pre-Tax NAV HWM per share, the Pre-Tax GAV per share and the Pre-Tax NAV per share, after a new issue.

If a new shareholder subscribes when the Pre-Tax NAV is below the Pre-Tax NAV HWM then Pre-Tax NAV HWM is set as Previous Pre-Tax NAV HWM + Subscription Amount x (1+ Rb)

If a new shareholder subscribes when the Pre-Tax NAV per share is above the Pre-Tax NAV HWM per share then Pre-Tax NAV HWM is set as Previous Pre-Tax NAV HWM + (Subscription Amount) / (1+ Ra)

If a new shareholder subscribes when the Pre-Tax NAV per share is equal to the Pre-Tax NAV HWM per share (at the end of a Calendar quarter) then Pre-Tax NAV HWM is set as Previous Pre-Tax NAV HWM + Subscription Amount

Pre-Tax NAV HWM per share is set as new Pre-Tax NAV HWM / (previous Shares on Issue + new Shares on Issue)

Pre-tax GAV becomes as previous Pre-Tax GAV + Subscription Amount

Pre-Tax NAV per share is Pre-Tax NAV / (previous Shares on Issue + new Shares on Issue)

Glossary

After-Tax Net Asset Value (After-Tax NAV) means the total value of assets of the Company (including but not limited to, estimated Deferred Tax Assets, available for sale assets held at fair value, cash, deposit accounts and instruments, securities and the aggregate mark-to-market value of all investment positions constituting assets) less the total value of all liabilities of the Company (including but not limited to the aggregate mark-to-market value of all investment positions constituting liabilities, provisions for payables, Current Tax Payables, Equalisation Liabilities and estimated Deferred Tax Liabilities) calculated by the Administrator, in Australian Dollars and in accordance with Australian Accounting Standards.

After-Tax NAV per Share means the After-Tax NAV divided by the number of shares on issue in the Company, as calculated at the close of the last Business Day of each month and such other times as the Board may determine.

Board means the board of directors of the Company from time to time.

Company means DV01 Mechelle Limited (ABN 95 061 343 959).

Depreciation Deposit means the Equalisation Adjustment made to an investor's subscription when the investor subscribes for shares in the Company and the Pre-Tax NAV is below the Pre-Tax NAV High Water Mark.

Depreciation Deposit Crystallisation means the excess value of a Depreciation Deposit after deducting performance fees payable to the Manager that is converted into additional shares for the shareholder.

Maximum Depreciation Deposit means the initial Depreciation Deposit upon subscription or any subsequently reduced value (if any) as a result of paying performance fees or Depreciation Deposit Crystallisation.

Pre-Tax Net Asset Value (Pre-Tax NAV) means the Company's After-Tax Net Asset Value plus Deferred Tax Liabilities (if any), less Deferred Tax Asset (if any), plus Current Tax Payable (if any), less Current Tax Receivable (if any), plus Equalisation Liabilities (if any), plus Franking Credits (if any), as calculated at the close of the last Business Day of each month and such other times as the Board may determine.

Pre-Tax NAV per Share means the Pre-Tax NAV divided by the number of shares on issue in the Company, as calculated at the close of the last Business Day of each month and such other times as the Board may determine.

Pre-Tax NAV High Water Mark (Pre-Tax NAV HWM) is the highest Pre-Tax NAV as of the end of any previous Performance Calculation Period during the immediately preceding three (3) years for which the Pre-Tax NAV HWM is being calculated, adjusted for dividends, capital redemptions or subscriptions.

Pre-Tax Gross Asset Value (Pre-Tax GAV) is the Pre-Tax NAV calculated before the accrual of the Performance Fee.

Equalisation Adjustment means a mechanism used by the Company to ensure the Performance Fee is levied on any net appreciation made on each Shareholder's Shares during their investment in the Company. The Equalisation Adjustment is either an Equalisation Credit or a Depreciation Deposit.

Equalisation Credit means the Equalisation Adjustment made to an investor's subscription when the investor subscribes for Shares in the Company and the Pre-Tax NAV is above the Pre-Tax NAV High Water Mark.

Equalisation Credit Crystallisation when the Pre-Tax GAV is above the Pre-Tax NAV HWM at the end of a Performance Calculation Period and an Equalisation Credit is converted into additional shares for the shareholder,

Maximum Equalisation Credit means an initial Equalisation Credit upon subscription or any subsequently reduced value (if any) as a result of Equalisation Credit Crystallisation.

Equalisation Liabilities means the aggregate value of all Depreciation Deposit liabilities and Equalisation Credit liabilities owed by the Company.

Manager means DV01 Funds Management Pty Ltd (ABN 82 114 422 758), AFSL number 308697.

Performance Calculation Period means the calendar quarter from the close of the last Business Day of the preceding Performance Calculation Period to the close of the last Business Day in the subsequent calendar quarter.

Subscription Amount means dollar amount an investor is permitted to subscribe for under the offer of shares in the Company, subject to the absolute and sole discretion of the Board.