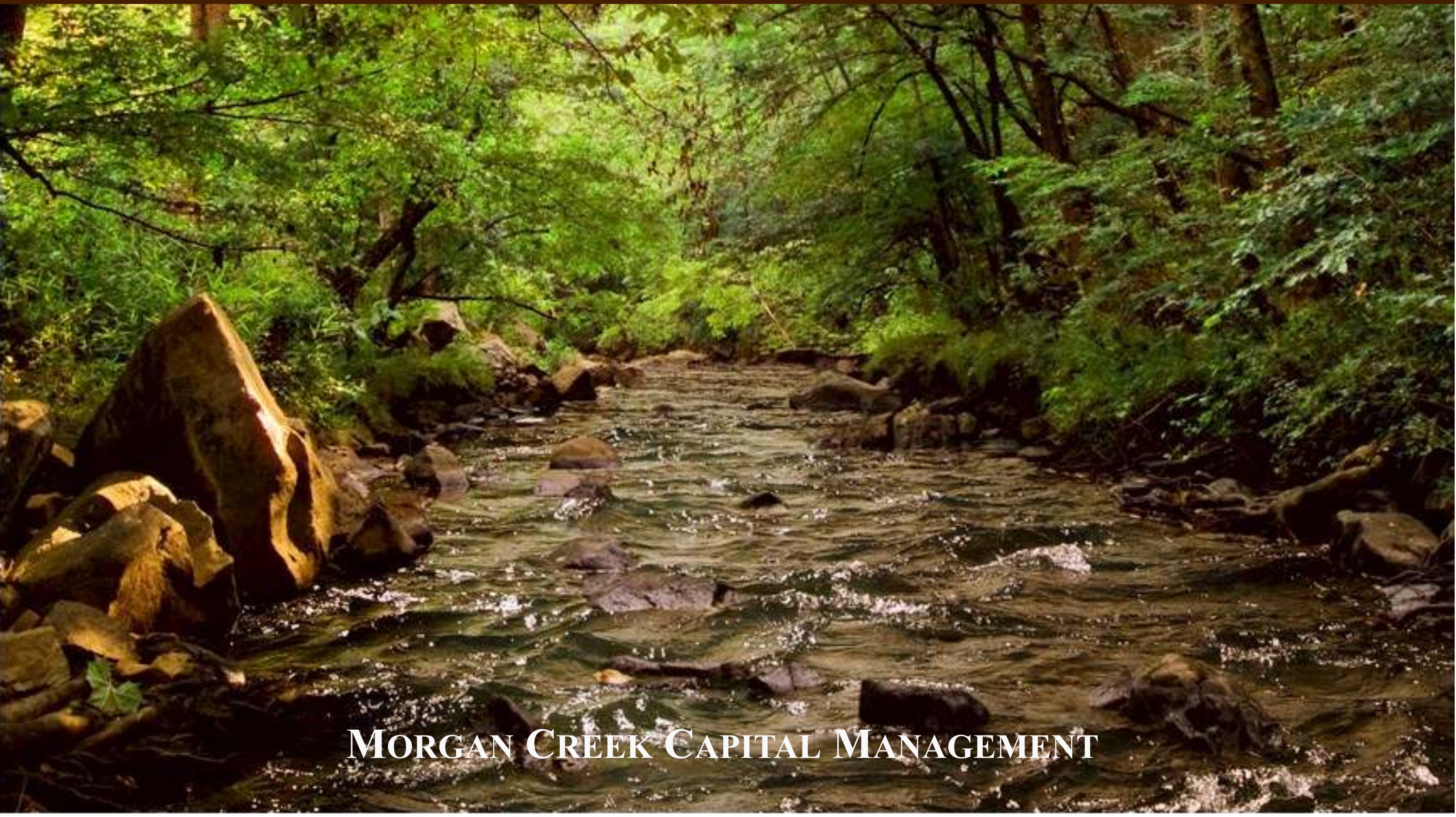
Alternative Liquidity Fund Limited

Portfolio Update

Published December 4, 2015



Morgan Creek Capital Management

Description

Alternative Liquidity Fund Limited ("ALF" or the "Company") is a Guernsey domiciled, London Stock Exchange-traded closed ended investment company. Morgan Creek Capital Management is appointed as the Investment Manager with a mandate to realise ALF's investments in an orderly and timely manner and return cash to investors.

About Morgan Creek

Founded in 2004

$3.5 billion[1] AUM SEC Registered Investment Advisor

Global footprint & industry network to gather market insight

Philosophy incorporates diversification, alternative thinking, active management

Experienced, multi-asset investment team

Board of Directors

The Board comprises three Directors, all of whom are non-executive and independent of the Investment Manager. The Directors are responsible for the determination of the Company's investment policy and the overall supervision of the Company. The Directors are as follows:

Quentin Spicer (Chairman): Mr. Spicer is a resident of Guernsey. He qualified as a solicitor with Wedlake Bell in 1968 and became a partner in 1970 and became head of the Property Department. He moved to Guernsey in 1996 to become senior partner in Wedlake Bell Guernsey specialising in United Kingdom property transactions and secured lending for UK and non-UK tax resident entities. He is Chairman of a number of companies including F&C UK Real Estate Investments Limited, Quintain Guernsey Limited, Summit Germany Limited and the Guernsey Housing Association LBG. He is also a non-executive director of several other property funds including Phoenix Spree Deutschland Limited. He is a member of the Institute of Directors.

Dr. Richard Berman: Dr. Berman is a UK resident. He has been involved with the investment management sector since 1989 as Managing Director of Sabrecorp Limited. He was previously a Manager with Orion Bank Limited, Treasurer of Andrea MerzarioSpA, Group Treasurer of Heron Corporation plc, joint Managing Director and co-founder of Pine Street Investments Limited, and CEO and co-founder of Signet Capital Management Limited. He is a non-executive director of SaintyHird & Partners Limited. His experience includes advising on the establishment, regulation and management of funds and fund management companies in a range of jurisdictions. He has a PhD in History from the University of Exeter and an MA in Economics from the University of Cambridge. He is a Fellow of the Chartered Securities & Investment Institute, a Fellow of the Association of Corporate Treasurers and is a Visiting Research Fellow at Oxford Brookes University.

Anthony Pickford (Chairman of the Audit Committee): Mr. Pickford is a resident of Guernsey. He qualified as a Chartered Accountant in 1976. He moved to Guernsey in 1978 as an Audit Senior with Carnaby Harrower Barnham & Company (now Deloitte). In 1986 he joined Chandlers as a partner with a specialism in insolvency matter and advised a range of financial services companies and trading companies on insolvency matters as well as acting as financial adviser to local entities. He became Managing Director of the firm in 2000 and assumed the role of Chairman in 2004 until his retirement in 2008. He has previously been a non-executive director of several listed companies and is currently a Director of the Glanmore Property Fund Limited and a director of The Catholic National Mutual and the Mutual for the Catholic Church in England. He chairs the Audit Committee of the Catholic National Mutual and has served on the Investment Committee for many years.

1) Estimated total assets under management as of October 1, 2015.

Summary of Investments[1]

As of September 30, 2015

Fund	Weight	Currency	Residency of Manager
Vision Funds	**29.9%**	**BRL**	**Brazil**
Vision FCVS RJ Fund	13.4%	BRL	Brazil
Vision SCO ELT Fund	10.9%	BRL	Brazil
Vision FCVS PB Fund	4.1%	BRL	Brazil
Vision Tercado, Piaui and Chapadao Funds	1.5%	BRL	Brazil
Ubique Funds	**22.1%**	**UAH**	**Ukraine**
Ubique Cornerstone Fund	15.3%	UAH	Ukraine
Ubique Gallois Fund	4.1%	UAH	Ukraine
Ubique Green Fund	2.6%	UAH	Ukraine
Growth Management & Growth Premier	15.4%	USD, EUR	United Kingdom
Abax Arhat Fund	9.1%	USD, RMB	Hong Kong
SFL Clover Ltd	5.6%	CZK, INR, UAH	N/A—SPV
3DPropCo Ltd	4.4%	SGD	Singapore
South Asian Real Estate LTD	4.3%	INR	UK and India
GLG Emerging Markets Growth Fund	1.5%	USD	United Kingdom
Argo Special Situations Fund	1.4%	USD, EUR	United Kingdom
Cash	4.3%		
All Others	2.0%		

1) Positions listed by decreasing AUM exposure by underlying manager. This table represents ALF exposure to underlying funds whose weight exceeds 1% of AUM as of 30 September 2015. Percentages may not equal 100% due to rounding.

Fund Descriptions & Updates

Vision Funds - 29.9% of NAV

Brazil Macro Comment

Interest rates at six year highs (14.25%) and the weakness in the exchange rate of the Brazilian Real (BRL) have been a significant headwind for ALF's holdings of Brazilian assets. As of November 17, 2015, the Real had depreciated by 44.15% against the USD year-to-date. The low was Sept. 25th when the currency traded at 4.16 Reais to the Dollar, it has appreciated slightly since then to 3.87 today (December 2). The volatility of the Brazilian Real is likely to remain a significant driver of the value of ALF's Brazilian holdings (especially Vision).

Management Fees

Total fees across all Vision credit vehicles (FCVS RJ, FCVS PB and Eletrobras) have been capped at US$3.5million per year declining materially over the next three years, plus incentives of 0-3% payable upon cash distributions to investors dependant upon asset specific targets. This is a decrease from a previous run rate of US$10 million per year, and relates to US$600 million of NAV managed by Vision. Vision is no longer accruing management fees on the farmland related funds.

Administrator Change

In their effort to contain fund costs, Vision decided to employ a local fund administrator, Socopa, to replace BNY Mellon with regards to the Paraiba (PB) portfolio. Socopa is well known and regarded in Brazil and is an expert in the "credit receivable" sector. Their fee represents a 75% decrease from BNY Mellon's fee. Subsequently, BNY Mellon gave 90 day notice to resign from its role as administrator to Vision's offshore funds. Vision and the funds' directors are in the process of finding a replacement for BNY Mellon in relation to the offshore funds, four proposals have been received and are currently being analysed, the likely maximum potential cost (of a new Admin) would be 8bps of the funds' NAV, annually.

Recapitalization

Due to the extended period of illiquidity experienced by the Vision Funds' underlying assets, several of the funds are now very low on cash with which to pay expenses including management fees, which are as much as a year in arrears. Vision and the funds' directors have approached several existing investors to seek to secure a bridge loan which would be repaid by cash realisations of fund assets. The negotiations are ongoing.

Novation— an explanation of the process, key to unlocking value in the Vision holdings

The process of novation begins with the submission of documents listed in Article 2, Resolution 351/2013 of the Ministry of Finance to the Brazilian bank, Caixa (Economica Federal). Upon receipt of the documents, Caixa must forward the process to the Controladoria General da Uniao (Federal General Accounting Supervision Office—CGU). The CGU must then issue an opinion regarding the ownership, the amount, the enforceability and the certainty of the credit against the submitting entity. Following this opinion the GCU moves the process to the Secretaria do Tesouro Nacional (National Treasury Bureau—STN). Upon receipt of this process, the STN shall communicate to the submitting entity an estimated period for finalization of the process with a request that the submitting entity supply a manifestation of their interest in the execution of the novation agreement.

1) Novation Process provided as a summary of information gathered from communication with Vision

Up to this point in the process the steps are not bound by any specific time period. Once the STN receives the process they have sixty days to communicate with the submitting entity as outlined above. An eighteen month period for the novation payment will begin concurrently to the sixty day period. STN must also verify the submitting entity vis-à-vis the Federal Government and federal entities, elaborate a draft of the novation agreement, and issue an opinion regarding the convenience and opportunity of the submitting entity's debts' novation. This step is allotted 270 days, but the sixty day period is included within this period, as this period similarly is included into the aforementioned eighteen month period. The STN shall then forward the process to the Treasury General Attorney's Office (PGFN) also included in the overarching eighteen month period. The PGFN shall then issue an opinion regarding the legality of the novation transaction, and shall submit such opinion to the Ministry of Finance. After the execution of the novation agreement, the PGFN shall forward to the STN a copy of the novation agreement and shall ensure that the agreement is published in the Federal Office Gazette. At this step the Novation agreement is executed. The principal and interest amounts of the novated credits (cash portion) with due regard to the characteristics of public bonds shall be paid in cash on the first business day of the subsequent month of the execution of the novation agreement. After the receipt of the novation agreement the STN shall register the public bonds (bond portion) in the name of the submitting entity at the system organized by the CETIP S.A. - Mercados Organizados and shall forward a copy of the novation agreement to Caixa.

Vision FCVS RJ Fund -13.4% of NAV

Brief Background

FCVS (the Fundo de Compensação de Variações Salariais or Compensation Fund For Salary Variations) was originally created to manage the discrepancy between amounts repaid and amounts owed on mortgage loans made through the Brazilian real estate finance system. In the 1980's, the Brazilian Mortgage Bank, the group responsible for FCVS management, went bankrupt. In 2000, the obligations of the FCVS fund were securitised into FCVS credits, which the Brazilian government backed with its full faith and credit.

The Vision FCVS RJ Fund holds FCVS claims against the government of Rio de Janeiro. The Rio (RJ) credits were acquired directly from the state government in 2007 for approximately 65% of face value. The portfolios were purchased with the goal of guiding the credits expediently through to novation. Unfortunately, the federal processing agent completely overhauled its internal systems in 2008, which, in conjunction with the global financial crisis, caused the process to slow to a halt. Since 2012, Vision has been in negotiation with Caixa, the federal agent, regarding the possible disposal of the portfolio at a price in line with current NAV. However, given the current Brazilian economic situation, this sale now looks very unlikely. Vision currently projects novation to occur in three years.

Valuation Methodology

The Fund's local administrator is responsible for valuing Vision's FCVS portfolios. The administrator follows a well-established procedure to value FCVS credits. Based on their assessment of a prolonged expected time to monetisation, the FCVS credits owned by Vision funds have been marked down on a number of occasions. We note that we are not aware of a liquid market for these assets. Hence, the value inferred by the model might differ significantly from prices achieved when transacting on an individual basis with private equity buyers. On average, Rio FCVS credits are valued at approximately 58% of face value and currently approximately 90% of them accrue at TR (monthly CD rate) +6.17%.

Vision SCO ELT Fund - 10.9% NAV

Brief Background

Eletrobrás is a publicly listed but government controlled entity. Beginning in the mid 1990s, several industrial consumers from which Eletrobrás collected payments in the form of compulsory loans alongside customers' monthly electricity bills, decided to file lawsuits against Eletrobrás. The suits claimed that the conversion methodology Eletrobrás used to calculate the inflation component of the loan repayment was flawed and led to the lenders receiving much less than they were entitled. The Vision Funds acquired the Eletrobrás legal claims from the industrial consumers in 2007 and assembled a legal team, including the former Chief Justice of the Brazilian Supreme Court to streamline the legal case against Eletrobrás **and** created the Vision Special Credit Opportunities Electrobrás Fund (Vision SCO ELT Fund). In February of 2011, a decision against Eletrobrás was published and deemed official; unfortunately the local civil law system does not attach the same weight to precedent as in common law systems. Therefore delays continue to occur as the courts issue independent rulings for each case. Additionally, Eletrobrás has been using delay tactics to avoid making cash payments against the claims, which include attempting to change the venue of the court, pay the claims with stock rather than cash, and challenging the assignability of the claims. These factors have caused delays in the realization of cash by the Vision Funds.

The monetisation process is characterised by three stages: early, advanced and execution. In 3Q13 a number of claims moved from the advanced stage to the execution stage. Also, during 3Q13 judges ordered the payment of the undisputable amount of a number of "lesser notional" claims. This is interpreted positively by the manager, who started at this point to see a more systematic application of the repetitive regime induced by the Brazilian Supreme Court decision by the local courts.

October 2015 Update

Administrative workers in the Brazilian Federal Justice system went on strike seeking inflationary pay adjustments beginning May 25, 2015. Although judges have continued work, the overall work of the courts has been slowed considerably due to the lack of administrative support.

V4 FIDC made an important withdrawal on October 30, 2015 of approximately BRL 13.8 million This withdrawal underwent a more complicated process than usual given the administrative strikes in the court and banking systems. The fund took advantage of a break in the bank strikes to withdraw cash. After paying fifty percent of the claim to Vitorian liability and covering lawyer fees, the net cash flow to the fund will be BRL 6,759,722.

Valuation Methodology

The Vision Eletrobrás Fund portfolio has a current face value of BRL1bn. They are currently held/valued at approximately 60% of face.

With regards to the portfolio, 30% is undisputed, and is expected to be paid in 2016. However as noted above in the October 2015 update paragraph, upon novation, the Eletrobrás Fund must first repay a BRL70mm liability (the Vitorian liability). Proceeds above this amount are expected to be distributed to investors.

The administrator's valuation methodology calculates mark-to-model values based on observable characteristics such as face value, breakdown between undisputable and disputable, and current judicial phase. Each of the 15 judicial phases has a unique discount rate associated with it, decreasing as a claim advances from phase to phase –see table on the following page. The investment manager believes that the new model is an improvement from the previous time discount model from a theoretical standpoint. However, their criticism is that the discount parameters are excessive. For instance, there is a divergence between the model's MTM and actual amounts received for the last two undisputable amounts received by V4 FIDC.

Face Value Calculation Per Judicial Phase

		Mark to Model - % of Face Value		
Judicial Phase (English)	**Judicial Phase (Portuguese)**	**Undisputable**	**Disputable (No Court Expert Calculation)**	**Disputable (With Court Expert Calculation)**
Lawsuit Filed	Ajuizado	32%	20%	
Parties Summoned	Citado	35%	22%	
Pending Judgment of Defendant's Answer	Contestado	37%	23%	
Pending Judgment of Plaintiff's Reply	Republicado	38%	24%	
First Instance Decision Issued	Sentenciado	48%	30%	
Pending Judgment of Appeal	Apelado	49%	31%	
Filed with the Federal Regional Court	Distribuido	53%	33%	
Preliminary Settlement	Acordado Primariamente	62%	39%	
Pending Judgment of a Motion to Clarify	Embargado	64%	40%	
Finally Settled	Acordado em Definitivo	65%	41%	
Final Decision not Subject to Appeal Issued	Transito em Julgado	75%	47%	
Calculated	Calculado	81%	51%	64%
Challenged	Impugnado	84%	53%	67%
Undisputable Amount Received	Incontroverso Recebido	100%	62%	79%
Disputable Amount Received	Controverso Recebido	100%	100%	100%

Note(s): Chart created by BNY Mellon at the time the firm was responsible for administration of the Vision Funds. The administrator has since been changed.

Vision FCVS PB Fund – 4.1% of NAV

Brief Background

The FCVS Paraiba (PB) portfolio was acquired in an auction in 2006 for approximately 40% of face value. The portfolio was purchased with the goal of guiding the credits expediently through to novation. As with RJ Fund, the federal processing agent completely overhauled its internal systems in 2008, which, in conjunction with the global liquidity crisis, causing the process to slow to a grinding halt. Paraiba credits' novation process was resumed and the majority of credits were presented to the national agent for novation. Following analysis and approval of the national agent, the credits will be passed to the National Treasury for settlement.

October 2015 Update

These credits can be categorized in three tranches. The investment manager expected Tranche 1 (approximately 62% of the portfolio) to be sent to the Treasury for novation before the end of 2015, however due to the administrative delays, They currently project novation for Tranche 1 to occur by June 2016. Caixa unofficially provided positive feedback, and Tranche 1 is expected to be sent to the CGU any time for final novation. Tranche 2 (26% of the portfolio) is currently targeted for novation by Vision in Q2 2017. Tranche 3 (12% of the portfolio) has been rejected for novation by Caixa, and Vision is evaluating whether or not to litigate its claim with respect to this tranche.

Valuation Methodology

The Fund's local administrator is responsible for valuing Vision's FCVS portfolios. The administrator follows a well-established procedure to value FCVS credits. Based on their assessment of a prolonged expected time to monetisation, the FCVS credits owned by Vision funds have been marked down on a number of occasions. We note that we are not aware of a liquid market for these assets. Hence, the value inferred by the model might differ significantly from prices achieved when transacting on an individual basis with private equity buyers. On average, PB FCVS credits are valued at approximately 60% of face value.

Vision Tercado, Piaui and Chapadao Funds – 1.5% of NAV

Brief Background and Current Situation

In 2008-2009, the Fund purchased farmland in the Brazilian states of Maranhão, Piauí and Tocantins in support of a long-term investment thesis that the value of undeveloped farmland in Brazil would rise over time. However, in purchasing Tercado and Piaui, the Fund employed Paulo Golin, a well-known land owner with significant knowledge of the region and relationships with important producers in Brazil. Mr. Golin assisted in identifying and negotiating acquisitions. Subsequent to Vision's dealings with Mr. Golin, the trustee in the infamous Boi Gordo Ponzi alleged that Vision's land purchases involved assets that had been misappropriated from the Boi Gordo bankruptcy. (Grupo Golin, an entity controlled by Mr. Golin, acquired control of the share capital of Boi Gordo in 2003, prior to its 2004 bankruptcy).

Pending litigation of the trustee's claims, which Vision unequivocally denies, the farm's registers and bank accounts have been frozen by the Brazilian courts. Liquidity and realization of the value of the assets owned by the fund will depend on resolution of the litigation.

With regards to Chapadao, there is a current expansion program of the National Parks, 100% of the land owned by Chapadao is affected by this expropriation. The local governments are claiming that none of the private farm sales were legal—relying on a law from 1815 and therefore they are reclaiming them as national land. Apparently this is purely a political move by local governments to receive National Park status and the compensation that the National Government would therefore have to provide. All farm land owners affected by this including Vision are legally disputing these claims. The outcome is uncertain to predict and Vision is no longer accruing fees on any of its farmland assets.

Ubique Funds - 22.1% of NAV

Brief Background

The Ubique Funds exist as three separate entities: the Cornerstone Fund (13.9% of NAV), the Gallois Fund (3.7% of NAV), and the Green Fund (2.4% of NAV). The funds gained ownership of the title to several real estate projects and the land through a settlement with the original local co-owners of the properties. The main asset is a residential real estate development located in Nikolaev (near Odessa), in South-Western Ukraine. Completed units are currently being sold, which provides the capital for the continuing development costs. The manager oversees and co-ordinates the financing and completion of unfinished units. The manager reported that a total of over 200 apartments have been sold between October 2010 and July 2013 for the equivalent of approximately USD 6.5 million. Once the financing of the final developments is secured, the sales of the Nikolaev units shall provide the bulk of the money to repay investors in the Funds. Timing of these sales is contingent on several factors and will probably be spread over three to four years. Political and economic uncertainty have caused difficulty in determining the total expected recovery and timing. The manager is actively looking for co-financing that could speed up the completion and realisation of the project.

In late summer of 2014, a third party convertible loan arrangement was negotiated to help expedite the completion of the Nikolaev construction projects. The first loan drawdown was made in September 2014. The active construction process was re-started in September 2014. Since then, nearly all general construction work relative to buildings #16 and #12, as well as a significant part of reconstruction for buildings #13 and #14 have been completed. Up till now, 70% of the construction costs were funded by sales proceeds, while the remaining 30% were financed through the loan. Construction on the project is currently scheduled to be completed by mid 2016, with sales expected to continue into 2018.

Despite the difficult political and economic situation in the country, overall sales have exceeded the manager's expectations. Apartments in building #16 and #12 have been listed for sale. As of February 2015, 56 apartments in those two buildings were sold, for USD 1.5mm. 57% of the sales proceeds were received as down payment, and the remainder is expected to be collected by July 2015. The manager anticipates that, once the buildings are fully completed, the price of the properties will appreciate, as typically the price of completed real estate is 20% - 30% higher than that of apartments sold prior to completion.

The volatility of Ukraine's national currency (UAH) has increased to new historical levels in 2015, currently (Nov 11) the currency has devalued 43% YTD. This depreciation actually had a positive effect on real estate demand and real estate UAH prices. Over the last 11 months, the UAH/USD exchange rate has moved from 15.5 to 30 (now at 22.5), while the average sales price in Hryvna increased 1.5 times. However, currency-related fluctuations caused a reduction in the average USD price per square meter (down from $600 to $473), triggering a significant mark down during 1Q15. Construction costs in dollars also decreased (from $500 to $414 per square meter) partially dampening the negative effect on sales prices.
Starting January 2015, management fees were lowered to 1% and performance fees were abolished.

Growth Management Limited
& Growth Premier Fund IC
15.4% of NAV

We have signed a restrictive confidentiality agreement with this manager.

Brief Background

In October 2008 Growth Management Limited and Growth Premier Fund IC (both of which are Jersey-based feeder funds into a single fund holding investments) suspended subscriptions and redemptions and have subsequently pursued an orderly run-off of assets, having made 24 compulsory redemptions of shares up to October 2015. Such compulsory redemptions have distributed approximately 63% of original AUM at the time of suspension in October 2008. The only difference between Growth Management Limited and Growth Premier Fund IC is the level of fund management fees charged.

For the three months ended September 30, 2015 the performance of Growth Management Limited has been +1.31% and the performance of Growth Premier Fund IC has been +1.33%. On a year to date basis through September 30, 2015, the performance of Growth Management Limited has been +3.54% and the performance of Growth Premier Fund IC has been +3.59%

Valuation Methodology

Valuation methodologies depend on the nature of the assets. The manager has shared a precise description of the pricing principles and inputs. Recently disposed assets were monetized at a price in line with or greater than their carrying value.

Asset Disposal Strategies

Currently, the main exit strategy consists of the natural disposal of the assets through their standard monetization process as conducted by the manager.

Abax Arhat Fund – 9.1% of NAV

Due to confidentiality agreements, we are limited in what can be shared regarding Abax Arhat in this update.

Background

There are four remaining positions in the portfolios that are subject to an NDA. They include debt and private equity positions in various Chinese companies, including a pipeline company, two manufacturing companies and a technology company.

Valuation Methodology

All underlying companies' valuations are based on liquidity and/or listing criteria specified in Abax's pricing manual, all of the above mentioned securities are valued by the independent valuation team at the investment bank Houlihan Lokey. The independent valuations use a combination of publicly available information on listed companies and non-public disclosures from private companies. Standard techniques are applied for security valuations (e.g. DCF model for equities, credit spread to swaps for straight debt, Black Scholes Merton model for warrants, etc) with reference to the valuation multiples and credit spreads/ implied default probabilities of comparable publicly available securities.

October 2015 Update

The Abax Arhat Fund ("Abax") declined 7.42% during the third quarter of 2015 due to mark downs to two of the investments in the portfolio. The markdowns were related to operations that underperformed relative to expectations, and declining comparable valuations in China's A-share market. Both companies are taking steps to execute reverse mergers with the intent of relisting in the A-share market, but the process is ongoing, and Abax management does not have a concrete expectation of when it will conclude. There is ongoing litigation with respect to the other two portfolio investments. Abax is a senior creditor to both companies.

SFL Clover – 5.6% of NAV

Brief Background
Clover is a holding company consisting of three primary positions including a loan to a Czech Republic real estate developer (Eurobuild), debt and private equity securities in an Indian hotel portfolio, and Ukrainian assets explained further in our Ubique discussion.

The Czech real estate development accounts for approx. 22% of the portfolio and is backed by two fully completed residential construction projects. The buildings are located in Prague and at Srni, a recreational park area close to the German border. Both real estate developments are being sold at market value, following a unit by unit disposal.

The hotel portfolio in India accounts for approx. 63% of the portfolio. Duet India Hotels' focus on investment in mid-market hotels targeted primarily at business travelers in selected cities in India. The company entered into a joint venture with IHG to develop and own Holiday Inn Express hotels in India which is also the debut of the brand in the country. The natural exit strategy consists of a trade sale or a listing of the company on a recognised stock exchange.

Valuation Methodology
All assets held by Clover are of an illiquid nature. Mark to market valuations do not apply. Eurobuild's valuation is based on the loan's principal amount adjusted for loss provisions. Duet Hotels India valuation relies on annual third party valuations and internal quarterly valuations. Sharp Arrow's valuation (Ukraine assets) is based on external valuation agents marks.

October 2015 Update
Sharp Arrow's sole holding is an investment in Ubique, Cornerstone. The entity will be dissolved and ALF will receive additional shares of Cornerstone.

3DPropCo Ltd – 4.4% of NAV

Brief Background

3DPropCo is an investment structure that holds only one asset, the Bintan Lagoon Resort. The resort is a 42 kilometre beachfront and golf resort that is one hour by ferry from Singapore's Tanah Merah Ferry Terminal. It was initially purchased as a distressed asset and has gradually been turned into a luxury international resort comprising 413 hotel rooms including 395 superior/deluxe rooms and 18 various themed suites, 57 self-contained villas, and two signature 18-hole golf courses with a clubhouse. The facility has its own direct ferry transport from Singapore, which makes it the closest beach resort to Singapore. 3DPropCo had appointed Ernst & Young as its advisor to identify a strategic buyer of the property. An initial sales effort was started in the spring of 2012 and targeted mostly mainstream hotel brands. This initial round failed to attract sufficient interest for the property to be sold at an attractive price. The manager decided to include HVS, a leading hospitality consulting firm, in the process. In October 2012 a second sales effort targeting a wider audience was launched this still did not result in a successful sale. The management of the Fund is assumed by the Board of the Fund.

October 2015 Update

Given the continuing lack of success in selling the resort, the Board and the Investment Manager of ALF have been researching this holding in great detail. A comprehensive report on this investment and recommended next steps has been issued to the Board, however the Board is under a strict NDA and therefore this information is not currently distributable to shareholders. Based on the latest report received, the Valuation Committee has decided to mark down this position to the net estimated recoverable amount, the position is currently held at approximately 50% of NAV.

The Board and Manager continue to make both direct and indirect intervention to expedite the liquidation of this position.

South Asian Real Estate Limited – 4.3% of NAV

Brief Background

SARE originates, owns, develops and operates residential real estate projects in India, with a focus on middle-income housing developments in suburban locations in and around “Tier I” and “Tier II” cities in the region. SARE exercises operational control throughout the project life cycle and does not make passive allocations to third party deals. The real estate portfolio currently includes seven projects in various stages of development. In the medium term, the company is seeking to IPO, but successful completion of the IPO process will depend upon refinancing of the company’s debt as well as improved performance in terms of sales and transfers of homes.

October 2015

SARE experienced its best month in nearly three years in October when it booked 90 sales (versus an average of 30 per month recently). Although October is a seasonally strong month due to Diwali (a Hindu holiday comparable to Christmas) related spending, performance during the month exceeded even seasonally adjusted expectations.

Adjusted NAV per share (the metric most relied upon by management, and based upon the open market value of the firm’s property portfolio) rose 3.8% in the financial year ended March 31, 2015, to £6.25 per share. The company’s performance has suffered recently due to weakness in the Indian residential property market dating to early 2013. In spite of this, SARE has continued to construct and deliver housing units, transferring possession of 655 in the fiscal year ending March 31, 2015. Since inception, SARE has transferred 1,467 homes worth £42 million against cumulative bookings of 5,919 units with a total sales value of £268 million. Construction has commenced on 9.1mln square feet and on average these projects are about 71% complete.

SARE currently has seven projects in various stages of development. Across the seven projects 22k residential units are planned in total. There are two projects in Chennai, and one each in Navi Mumbai, Indore, Amritsar, Gurgaon, and Ghaziabad. SARE owns approximately 50% to 100% of the equity of the seven projects. In aggregate SARE’s share of development land on a look through basis has increased to a total of 453 acres, and their share of sellable area is 28.6Mn square feet. In five projects the initial phases of the development are complete and the process of passing unit “title” has passed to purchasers, and the process of taking possession by the purchasers is taking place. For those five projects, subsequent phases are in various stages of conception and completion. Expected gross margins on the projects vary between 25% and 43%, and all phases of the current projects are expected to be completed within a 6 to 9 year remaining time frame, although individual phases are available for sale and occupation during each development life cycle.

Valuation Methodology

Valuation methodology complies with IFRIC 15. In addition, revenue is recognised on transfer of completed homes to customers. DTZ performs an annual valuation at 31 March each year, the date of the audit, and that valuation is used for the purposes of calculating the NAV, which is the performance indicator most relied on by the management team.

GLG Emerging Markets Growth Fund – 1.5% of NAV

Brief Background

GLG has a minority stake in a private company that is one of the largest ultra high-grade anthracite producers in Russia. This position accounts for substantially all of the portfolio's investments. The company has critical mass and an established position in the region. Although the company has faced a difficult environment with the negative pressures on the price of coal, it has continued to operate profitably due to its position as a low cost producer with valuable economies of scale. GLG believes that an IPO is the best avenue for value realization with respect to the position, but none appears to be imminent. GLG eliminated the fund's management fee as of July 2013.

November 2015 Update

Recent weakness in the Russian Ruble has also helped to alleviate pressures on the expense side relative to its prices achieved in export markets. Despite the company's challenging environment, and inability to IPO, it continues to generate profits, and pays roughly 50% of net income as dividends, which has historically provided liquidity to GLG's shareholders on an annual basis. Most recently, in February 2015, the dividend allowed GLG to announce a redemption of 13.5% of the fund's shares at NAV—effectively providing investors with a 13.5% dividend payment. Depending upon the coal miner's continued profitability, we would expect further dividend payments by the company to result in additional share redemptions going forward. The position was marked up by 9.1% in the first quarter of 2015 in recognition of the falling Ruble's effect on the company's cost structure. On November 20, 2015, the manager announced a mark down of 13.1% to reflect a downturn in the realizable valuations of coal mining companies due to falling coal prices and future price expectations

Argo Special Situations Fund – 1.4% of NAV

Background

At June 30, 2015, Argo Special Situations Fund ("ASSF") consisted of five remaining positions, partially financed by loans and a liability accounting for 40% of gross assets. The primary assets were equity and debt interests in an Indonesian petrochemical concern, a Russian bank, real estate holdings in Romania and Ukraine, a Greek telecommunications business and undeveloped land in the Dominican Republic. NAV per share at June 30 was US$ 519.

October 2015 Update

Over the last four months, the estimated NAV has fallen to US $156 per share due to several developments in the portfolio.

Russian bank regulators initiated an intervention with respect to ASSF's bank during the third quarter of 2015 (coming as a surprise to all of the bank's foreign shareholders) and this position was therefore written down nearly 80%. The manager believes there is no likelihood of recovery of value from the ASSF's equity investment (it has already been declared bankrupt in bankruptcy court), but has kept a small value (currently 33% of NAV) due to media attention and potential litigation against the bank for alleged breach of the shareholder's agreement between the bank and its shareholders.

Also during the period, ASSF's petrochemical holding was sold, but for much less than previously anticipated, leading to a further write down. The buyer lowered its bid at the last moment, the management felt that it was the final offer and therefore had no choice but to accept it. The proceeds of the sale were used to repay a portion of the preexisting loan to the fund. A residual claim (30% of October 31 NAV) on the "catalyst" for the plant represents the remaining value of the investment with regard to this position.

In connection with the ongoing liquidation of the ASSF's telecommunications asset, the value of the Fund's investment (7% of NAV at July 30) was written down to zero. However, adding insult to injury, ASSF had provided a loan guarantee to the underlying company, and it is believed likely that this guarantee will be called at such time as ASSF is in position to pay it. The guarantee amounted to nearly 20% of NAV (already reflected as a liability), and 9% of gross assets as of October 31.

The fund's European real estate holdings (held in an underlying fund) were marked up in October from a 75% discount to the underlying fund's adjusted NAV to a 50% discount due to positive developments in Romania.

ASSF's land in the Dominican Republic continues to be held at its assessed value and is listed for sale. Complicating matters is a designation of the land at present as having a special conservational value. Argo maintains cautious optimism that the designation is erroneous, and may be removed at some point in the future. The position represented 67% of NAV at October 31.

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