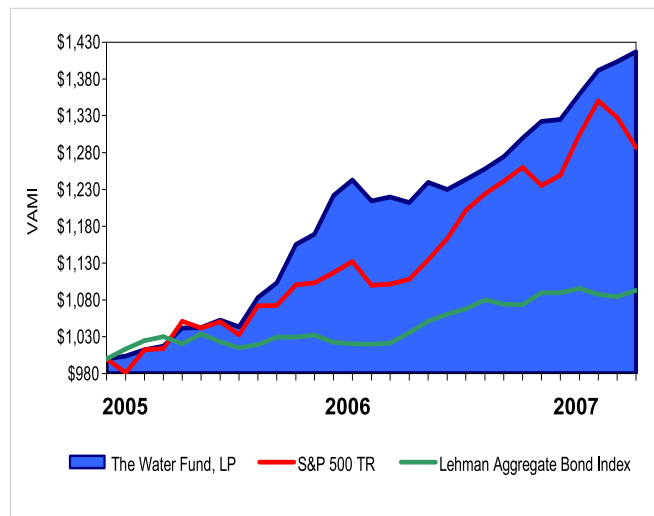


## WATER



Growth of USD 1million since fund inception 1, Apr.05 -31, July07

Source: The Water Fund, LP

## THE WATER FUND OFFSHORE LTD.

**Focus:** Exposure to companies that are in water: utilities, technology, services and own water rights as a significant asset; and water related products and services

**Strengths:** • Expertise and in-depth know how in water-led investing that spans all the sub-sectors

- Follow a highly disciplined, value-oriented approach to investing
- Offers investors the flexibility of participating in private equity opportunities within the water space (up to 20%)

**Weaknesses:** • Pursue a long - term investment management and construction (During events such as a global recession/ severe market dislocation in the US - performance could be periodically challenged)

**Opportunities:** • Water is a unique resource with no substitute

- Demand and supply imbalance is constantly increasing
- A large deficit in maintenance capital expenditure has led to the deterioration of many water systems
- New water standards (quality, environmental etc.) need to be met
- Water is twice as capital intensive as electricity
- Regulation (economic and environmental) can be of material significance in the case of some water companies
- Privatisation broaden the investment opportunities in the water space

**Threats:** • Political instability

## Risk Management

Low Low / Moderate Moderate Moderate to High High

- Not immune to idiosyncratic risks (negative) at the sector level
- Liquidity:
  - Ability to short - source of performance
  - 1/3 of the assets on the portfolio can be liquidated in a day (requires a max. of 4 weeks to unwind the entire portfolio)
- Volatility:
  - At fund level 5.5%-6% (annualised, since inception)
  - Portfolio is turned over every once approx. every 1.5 years

- Valuation (in keeping with long term value oriented objective investment objective being pursued): **Conservative and opportunistic**
- Portfolio construction skills: "Marginal ideas tend to lead to marginal returns"
- Currency risk: ☐ ☐ ☐ ☐ ☐
- Leverage used: **None**
- Key man risk: ☐ ☐ ☐ ☐ ☐
- Key investor risk: **Currently, poses no threat**

## Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- No. of positions: **25 -35 on avg.**
- Diversification:
  - Geographic: **US bias**
  - Sub-sectors (net) – eg. US utility: 20%, int. utility: 15%, US filtration: 13% US infrastructure: 10%
  - Company's market capitalisation: **weighted avg. USD500-700mn**
  - Securities traded: **can invest in fixed income securities**

- Ability to perform in:
  - Bear markets: **fund has exhibited relative outperformance to the S&P500**
  - Bull markets: **fund has shown relative underperformance to the S&P500**
  - Sideway trending markets: **fund exhibits relative outperformance to the S&P500**
- Since inception, consistency in delivering returns: **Reliable**
- Annual expense ratio: **78 basis points**

## Outlook

- Barriers to entry: **High; water sector investing, from a global perspective, is highly complex - calls for a unique skill set**
- Threat posed by competition: **Unique as they offer investors the flexibility to invest in private equity opportunities in the space**
- Scope for a water fund: **Upside**
- Scope for The Waterfund Offshore Ltd (long term): **Upside**
- Correlation to: (for July 07)
  - S&P 500: **-3.10%**
  - Lehman Agg. Bond Index: **0.83%**
- Ability to deliver returns:
  - over the next 3-5 years: **Realistic**

## Investment

- Current AuM: **USD 52mn**
- Targeted AuM: **USD 300-350 mn (to stay nimble)**
- Targeted at: **Endowments, HNWI – broad based**
- Base currency: **USD**
- Legal /geographic restrictions: **None**
- Recommended holding period: **3 years**
- Transparency provided: **High**
- Fund's investment advisor: **Is registered with the SEC**

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APPENDIX

THE WATER FUND OFFSHORE LTD.

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2007	TWF	2.00%	1.75%	0.19%	2.60%	2.34%	0.87%	0.95%						11.43%
2006	TWF	4.73%	1.16%	4.54%	1.69%	(2.27%)	0.45%	(0.62%)	2.21%	(0.74%)	1.07%	1.18%	1.30%	15.63%
2005	TWF				0.39%	0.87%	0.49%	2.38%	0.07%	0.93%	(0.81%)	3.79%	1.86%	10.34%

## LITIGATION- LED INVESTING

### SLATER & GORDON

#### Focus:

- First law firm in the world to list on a stock exchange
- Since 21, May 2007 Slater & Gordon Limited shares have been listed on the Australian Stock Exchange
- The Company operates as an Incorporated Legal Practice
- The practice has explicitly set out in its constitution that its primary duty is to the court, then to clients, and then to its shareholders

#### Strengths:

- 70 year history as a law firm - (over which it has built a reputation for fighting for the rights of ordinary Australians)
- Its listing as a company – financially supports its mergers and acquisitions programme
  - 6 have been completed since March 06
  - Equity has been a key component in transactions
  - Route to build and consolidate a national presence (a consumer law firm, it offers one of the largest national networks of law offices)

#### Weakness:

- Reputation risk: The reputation of the company could be damaged if:
  - It fails to meet client expectations
  - Is involved in a high profile, unpopular or unsuccessful proceeding
- Practice's credibility could be challenged (has built a reputation, fighting for the rights of clients, typically against much bigger opponents)  
(According to Andrew Grech, managing director, the firm is well-prepared to manage potential conflicts of interests between its duties to the court and to clients on the one hand and now to its shareholders)

#### Opportunities:

- Legislative changes have created opportunities in the national personal injuries market (via the route of growth through acquisition) – equity raised will further the firm's on-going acquisition programme
- Long standing relationships (source of new client referrals)
- Scalable systems and processes

#### Threats:

- Conflict of duty:
  - There could be circumstances in which lawyers are required to fulfil their duty to the courts first this could be contrary to other corporate responsibilities and against the interest of the shareholders; pose a set back to the short term profitability of the company
- Changes in Commonwealth, State or Territory Government legislation, guidelines and regulations could adversely affect the company's performance
- A person disqualified from practising as a lawyer may not have any financial interest in an Incorporated Legal Practice (Slater & Gordon has safeguards built into the Constitution to comply with this requirement)

#### Acquisition risk:

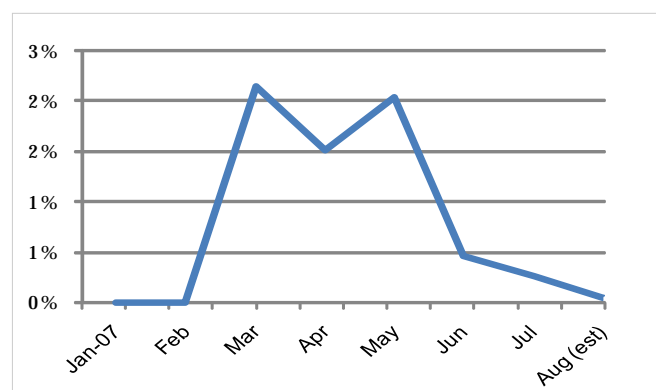
- Inability to complete an acquisition /programme
- Inability to integrate an acquired firm successfully

#### Market:

- The company's practices in its targeted non-personal injury market sectors of commercial litigation, family law, industrial and employment law, wills, probate and estate litigation and commercial advisory services are growing but the company's market share in those sectors remains modest.
- The claimant personal injuries legal market is highly fragmented:
  - The board estimates Slater & Gordon as having the highest share of this market, nationally (being not much greater than 10% of the total market).
  - Litigation work - particularly personal injury work, is less sensitive to the vagaries of business cycles and to prevailing macroeconomic conditions.

(In contrast, non-litigious commercial legal work, comprising mergers and acquisitions, capital raisings and initial public offerings, tends to be dominated by the very large national law firms. Fees generated typically tend to mimic economic cycles)

## ALTERNATIVES



Fund's monthly performance in USD (rolling returns)

Source: Plenum Specialized Commodity Fund

## THE PLENUM SPECIALIZED COMMODITY FUND

**Focus:** • Fund of funds comprises allocations to the shipping and freight sector, energy distillates + uranium, electricity, water +commodity softs - grains and base metals

**Strengths:** • Competitive in terms of asset allocation

- Underlying sectors exhibit "de-correlation" as opposed to the broader financial markets
- Majority of the fund's allocations are in physical instruments

**Weakness:** • Capacity constraint at individual manager level

- **Short term perspective** - universe of skilled managers operating in the space is fairly confined)
- **Long term perspective** - electricity and shipping –related investment capacity may not be scalable)

**Opportunities:** • High barriers to entry - expertise and skills, experience required to manage funds in these sectors

**Threats:** • Peculiar to these sectors (shipping, commodities, energy) is that they have essentially been driven by "physicals" – ie driven by supply and demand issues. Hence an "abundance in activity" triggered by the entry of large financial institution players could pose a challenge

## Risk Management

Low Low / Moderate Moderate Moderate to High High

- Main risk at fund level: **Currently concentration risk**
- Ability identify specialised funds:
- Ability to secure capacity with specialised niche funds:
- Due diligence Skills:
  - Monitoring:
  - Detecting style drifts:



- Portfolio construction: **Opportunistic and concentrated**
- Targeted volatility: **Since inception: 3.5%; (max. allowed: 8%)**
- Leverage used: **None at portfolio level**
- Counterparty risk:
- Currency risk: **(all investments are in USD)**
- Key man risk:



## Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- Portfolio comprises: **Currently 7 managers – it will be scaled up to 12**
- Diversification achieved:
  - Geographic: **Global investment universe**
  - Sectors (approx.) **Shipping& freight 35%; Electricity Nordic &US: 27%, Energy 11, Commodities 16% and Water 12%**
  - By types of instruments traded/invested: **futures, forwards, options, physical, swaps, equities**
  - Avg. duration of underlying instrument traded/invested: **1day to 12months+**
  - Underlying liquidity: **quarterly**

- Portfolio that can be traded on the primary market: **Majority**
- Time required to unwind the portfolio: **shipping related expose: about 1 month; the rest is very liquid**

## Outlook

- Barriers to entry: **High. Sector specific expertise required**
- Scope for specialised commodity fof: **Upside potential**
- Scope for Plenum's specialized commodity fof: **Upside potential**

- Ability to sustain targeted performance over:
  - Next 12 months: **Realistic**
  - Next 3-5 annualised avg.: **Sustainable**
- Fund underperforms when: **Underlying manager is confronted with idiosyncratic risk that is non-diversifiable**

## Investment

- Current AuM: **USD 8.7mn**
- Targeted AuM: **USD100 mn (can grow to 250mn)**
- Fund is targeted at: **Sophisticated investors**
- Fund's base currency: **USD**
- Other currencies it is available in: **Could be catered for**

- Geographic investment-led restrictions: **None**
- To optimise returns, recommended to hold for a min. of: **12 months**
- Transparency provided: **High**
- Fund's manager is regulated by : **Swiss Banking Commission (EBK)**

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## CRUDE OIL FROM OIL SANDS

### IN SITU PROCESS: ENHANCING OIL RECOVERY

The In Situ Combustion Research Team led by Dr. Gordon Moore and Dr. Raj Mehta, has been conducting research on in situ combustion (ISC) method for more than 30 years. Their goal is: "to leave the dirty stuff in the ground and produce higher quality oil on the surface with significantly reduced environmental impacts and pollutants".

Their research team has tested the process more than 320 times in over 80 reservoirs in 10 countries. In the laboratory, they have developed models for all types of reservoirs, including for recovering Athabasca oilsands bitumen.

Moore and Mehta are currently partnering with 22 companies on the project, in Calgary's oil patch. Their work has drawn attention because in situ combustion typically burns up only 10% of the targeted oil, an amount that would be unrecoverable anyway. Besides, there are no other processes yet, that can enhance the recovery under environmental or technological considerations, including on-shore and offshore locations.

#### How does the ISC process work?

The ISC process uses a wall of fire driven by the injection of air or oxygen to force oil through the reservoir toward production wells, where the oil can be recovered.

The underground process doesn't have as many of the pollutants associated with surface combustion, and it does not require transportation of steam where energy losses occur.

#### The anticipated financial impact?

Just a one percent change in oil recovery will have a huge impact on energy reserves. This could mean trillions if not billions of dollars – if they can open up these reservoirs.

#### Advantages of the in situ process:

- It is "cleaner, more efficient and sustainable with less oil wasted in the extraction process".
- Conservation of fresh and ground water supplies - as the process, for water or steam injection, does not need to be fed with large quantities of water
- Results in fewer carbon dioxide emissions per barrel of oil produced than steam injection – reducing its emissions into the atmosphere

#### Peculiarities and Processes:

- In situ combustion is not a thermal recovery process - rather displacement process reactions occur at both low and high temperatures- operating outside these ranges will consume oxygen, but displace very little oil
- The process parameters for light oil are very different to those for a heavy oil
- High thermal efficiency, universal availability of air, low water and natural gas fuel requirement specifications must be met to generate reaction conditions within the bitumen reservoir, which is favourable for in situ upgrading of the produced oil.
  - Such in situ upgrading would eliminate the need to burn huge amounts of increasingly expensive natural gas to generate steam, for steam-assisted gravity drainage recovery and for upgrading the heavy crude in surface facilities.
  - Another advantage is that if pure oxygen is mixed with recycled produced gas and injected for in situ upgrading, the produced gas is relatively pure carbon dioxide that can be transported and used in conventional reservoirs for enhanced oil recovery.
  - Hybrid processes are attractive because of constraints on natural gas, water availability and the increasing cost of natural gas and solvent.



Dr. Gordon Moore (L) and Dr. Raj Mehta (R)

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