

March 2006

**A decision on investment should not be taken until the Memorandum of Offering has been reviewed with your advisors**



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## Letter from the Chairman

Thank you for considering subscription to Eurasian Private Equity Group's EPEG Small Company Buyout Fund. We have brought together some of the leading Russia-focused investment professionals under the EPEG banner. Our experience and past success provides international investors an excellent opportunity to access exciting new opportunities in Russia and the former states of the Soviet Union. The launch of the Fund marks our first European Union-regulated investment vehicle aimed at Western sophisticated investors.

In this booklet you will find information on who we are, how we invest and our history. EPEG looks forward to taking its investment experience and history of superior returns and offering it to a wider audience.

According to the Center of Macroeconomic Analysis and Short-term Forecasting, over the next four years Russia will attract \$83 billion in direct foreign investment. This volume is roughly twice the previous 11 years combined. Russia's gross national product is expected to nearly double over the next ten years. EPEG and its participating shareholders are well situated to profit from the strength of Russia's growing economy.

Read the enclosed information carefully, review the Memorandum of Offering with your advisors and give us a call, we look forward to hearing from you.

Best,

A handwritten signature in black ink, appearing to be 'Igor V. Kostikov', written over a horizontal line.

Dr. Igor V. Kostikov  
Chairman of the Board  
EPEG Small Company Buyout Fund



## Who is Eurasian Private Equity Group?

Eurasian Private Equity Group Ltd. (“EPEG”) is the responsible entity for the EPEG Small Company Buyout Fund based in Saint Petersburg, Russia.

EPEG brings together several investment professionals with significant Russia-specific experience investing in the buyout and property categories. Individually and jointly, we have consistently completed investment projects with exceptional returns on investment. We deliver trusted investment services and personal service through the success and wisdom of each individual manager.

### Our Five Principles

- Aggressive but Disciplined: an investment philosophy that produces the highest returns while effectively managing risk
- Specialization: focused on specific market opportunities
- Sourcing: identify opportunities before they are available to others
- Adding Value: adding the skills and resources necessary to maximize deal worth
- Results with Integrity: superior results while maintaining our good name and the good name of our investors

The collective history of EPEG’s management team spans the breadth of the financial markets from buyouts to bonds. Coming together, our main focus is to leverage the tremendous opportunities in the lower-mid-market buyout, takeover and property sectors of the Russian market by building real value in the assets we acquire.

With a highly focused concentration in small company buyouts, privatizations and real estate acquisition and management, EPEG combines Western management techniques with localized knowledge and a singular focus in the areas of its expertise. Our exceptional multi-national team brings a dynamism to our operations which, we feel, provides a unique opportunity for our investment partners. To find out more, visit us on the web at [www.eurasianequity.com](http://www.eurasianequity.com).

## About the EPEG Small Company Buyout Fund

The Fund is intended to provide institutional and high net worth individuals with an opportunity to invest in the most dynamic aspects of the small company buyout and property markets of selected countries in Russia and the former states of the Soviet Union. The Fund focuses on arbitrage opportunities in multiple segments of the market by pursuing assets at a discount through consolidation of shares of former Soviet enterprises, purchasing assets at government auction and obtaining commercial property investments with substantial capital appreciation potential and steady cash flow returns from leases.

## Why invest with EPEG?

Here at EPEG we often refer to the buyout and property markets of Russia as the ‘new Klondike’. There has been a virtual ‘gold rush’ of deal makers and investment into Russia over the last three years. Recently announced investments include:

- ❖ Raven Limited of the United Kingdom announcing a US\$875 million fund to buy and build warehouses and logistics centers in Russia over the next two years;
- ❖ China’s Shanghai Foreign United Investment Company’s Baltic Pearl Investment Project in Saint Petersburg, a US\$1.25 billion project to build over 2 million m<sup>2</sup> of retail and commercial space on 200 hectares creating an entire new city district;

- ❖ Toyota's agreement with Saint Petersburg to build an industrial park. Anticipated total foreign investment of nearly US\$1 billion to include car and car parts factories;
- ❖ Ford's \$150 million Vsevolozhsk factory, General Motors Chevrolet-Avtovaz joint venture and Daimler-Chrysler's recent decision to produce the Mercedes 'S' class in Northwest Russia;
- ❖ as well as the many investments that have already succeeded by companies including Coca-Cola, Pepsi, Wrigley, Cadbury, Kraft, Nestle, McDonalds, IKEA (Swedwood), and Proctor & Gamble (Gillette).

A number of major financial services companies have entered or returned to the Russian market seeking to capitalize on the current M&A, public offering and consumer credit booms, including Citibank, Deutsche Bank, JP Morgan (Chase Manhattan), Societe Generale, Svenska Handelsbanken, and Raiffeisenbank among others.

The number of large investors, investment funds, banks and deal makers entering can only be a positive for Russia. We expect that it will continue to fuel the increasing stability, economic activity and liquidity in the equity, bond and real estate markets by helping companies grow, providing access to lower-priced loan and debt instruments and increase the securitization of assets.

This influx has increased competition for large company accounts, M&A and securitization projects and investment projects. It is EPEG's opinion that the lower end of the market for these same services has been neglected. Our previous investment projects and planned future projects focus on buyouts, property development and asset securitization of small companies and properties that are ignored by larger players. In developed markets these companies and properties would be possible investments for boutique financial services firms, small business and individual investors. We see the same stratification with extreme domestic wealth disparity; a small upper class and a large lower-middle and working class. Thus many projects go unfunded by the lack of domestic investment sources and the deal size prerequisites of large financiers. We seek growth-stage equity transactions from \$3-10 million including debt, takeovers of failing ex-Soviet companies from \$2-8 million including debt and a mix of smaller privatized properties and large development projects in partnership with our strategic partners.

EPEG retains several characteristics which we believe reduces risk and provides potential for increased returns.

Russia is similar to other developing countries where personal relationships play an outsized role. The members of our management team maintain a high level of connectedness with the people that matter in business, local politics and within government organizations. Our mix of international and Russian managers keeps us better attuned to, as they say here, 'underwater stones' including rule of law issues, property rights and corruption risks. While this is often given lip service by international funds, a quick review of some of the more spectacular foreign investment project failures highlights the need to 'live your market'. We differ from other funds that trade securities on Russian exchanges by investing in physical assets, including lower-mid-market growth companies, real estate and companies with significant physical assets who are underperforming due to poor management and undercapitalization. It is our opinion that we can add real value, reflected in the bottom line, to these companies before exiting rather than being hostage to an event driven stock exchange. The Russian real estate market is subject to the pressures of any property market. However we see it as a market that is fundamentally undervalued due to the recent transition to a market economy. We foresee less volatility as the markets rise to more proper valuations.

EPEG's niche means we are one of very few investment funds bringing Western 'know-how' and best practices to the low end of market. By concentrating on

neglected strata of the market and avoiding saturated areas such as the Moscow real estate sector, we feel EPEG is a unique opportunity for Western investors to access a lucrative class of assets.

Beyond all else, an investment in EPEG is an investment in a distinctive management team. Dr. Kostikov brings one of the preeminent investment resumes in Russia to bear on the performance of the Fund. Formerly the chief regulator of the Russian financial markets, he holds exceptional insight into the opportunities and pitfalls of this exciting market. Mr. Letino, Mr. Zmyshko and the rest of the management staff add sterling results on previous small company and buyout projects coupled with the energy of a new generation of Russia-specific investment managers. An integral part of our team, our legal counsel, Mr. Pechesky, has a distinguished history spanning nearly the entirety of Russia's market transition.

## Benefits of the Fund

The Fund offers an effective way of investing in small companies and real estate neglected by the behemoths of private equity and property management. Benefits include:

- ❖ access to the expertise and experience of seasoned Russian investment professionals;
- ❖ the potential to realize capital growth;
- ❖ diversification of investment exposure to a strategic mix of unlisted assets through both asset class and regional diversification;
- ❖ exposure to assets which have the potential to deliver lower volatility of returns than an investment solely in listed Russian securities;
- ❖ low entry costs and management fees, no exit costs;
- ❖ increased liquidity compared to investing directly in property.

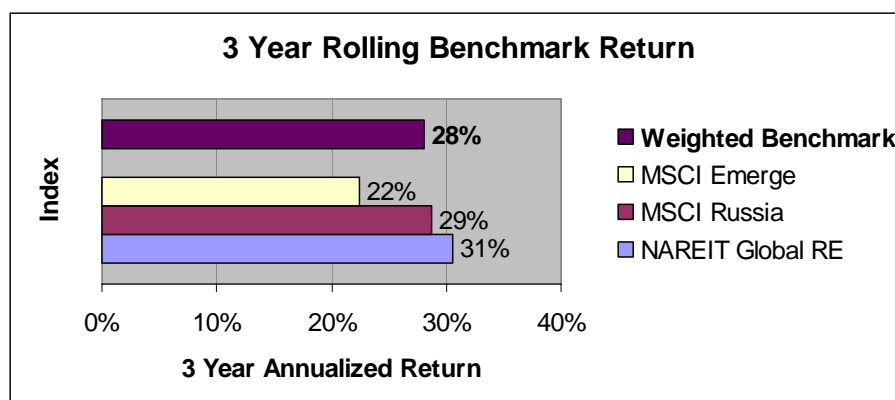
Please note that as well as benefits, all investing involves risks. These risks relate to all aspects of the Fund including the value of your investment, the amount of capital appreciation you may realize, the investment manager's ability to deliver investment returns, risks specific to the countries in which the Fund invests, asset-specific risk and general risks applicable to all investments. Please refer to the Fund Memorandum of Offering for more information on risks.

## What is the investment objective of the Fund?

The investment objective is to provide investors with higher than developing market listed equities and global listed property returns in terms of capital appreciation. The Fund seeks to provide these returns while maintaining an investment profile of lower risk and volatility through investing in physical assets.

Measures of success are:

- ❖ providing competitive returns after costs and before tax with a lower risk coefficient than developing market listed securities;
- ❖ delivering a total return on a 3-year rolling basis, after costs and before tax, in excess of the weighted return of the indices listed below (using the weightings indicated) with reduced risk and volatility:
  - FTSE EPRA/NAREIT Global Real Estate Index – 50%
  - Morgan Stanley MSCI Russia Index – 25%
  - Morgan Stanley MSCI Emerging Markets Index – 25%



Note:  
Values calculated in USD  
Values are rounded  
Three year rolling return Jan 1, 2002-2005

Investors will be notified of any change to this investment objective.

## Subscriptions and Redemptions

### Subscriptions

Participating Shares are available for issue on any Dealing Day (normally the last Business Day of each week) at the Subscription Price then prevailing. Subscription funds must be received before 3.00 p.m. (Cyprus time) two business days before Dealing Day and subscription applications must be received before 3.00 p.m. (Cyprus time) one business day preceding Dealing Day. Funds and applications received after such times will be dealt with on the next following Dealing Day. The Subscription Price will be based on the Net Asset Value per Participating Share calculated per the Memorandum of Offering on the relevant Dealing Day.

Subscriptions for Participating Shares may be subject to a "placement fee" payable to the fund to cover the costs of placement.

### Redemptions

Participating Shareholders will have the right to require all or, subject to the minimum holding requirements, a portion of their Participating Shares redeemed on a Redemption Day (normally the last day in each calendar quarter) at the Redemption Price then prevailing. The Redemption Price will be based on the Net Asset Value

per Participating Share calculated per the Memorandum of Offering on the relevant Redemption Day. Redemptions of Participating Shares shall not be subject to a redemption charge. The Fund has a minimum holding period of five years. It is expected that the Fund will seek a listing on a major stock exchange after its third year of operation to provide limited investment partners with greater liquidity.

## What does the Fund invest in?

### **Investment areas**

The Fund will pursue growth opportunities through a limited number of expansion-stage equity investments in established small companies and takeovers of failing ex-Soviet enterprises. The Fund will also undertake the development of commercial real estate assets obtained through takeovers of failing ex-Soviet enterprises, distressed asset sales or via city, regional or federal privatizations. This includes the licensing of land for resale, project construction and development, property management and real estate acquisition and resale.

### **Investment strategy thesis**

With the continuing economic development of Russia in mind, only in the last few years has there been a noticeable level of M&A activity, growth financing and securitization, of which, the majority have been large companies. Small- and Medium-size Enterprise (SME) development has been the purview of domestic business groups. It is the opinion of the Investment Advisor that significant wealth has been generated through consolidation versus real addition of value from optimization of operations. Access to this area for foreign capital has been severely limited and beneath the radar of most traditional private equity industry players.

SME's in the region are characteristically denied access to public capital markets because of their size, and are unable to obtain long-term financing at affordable rates from commercial banks. Even if financial institutions are willing to lend money, they generally demand collateral that the companies are unable to provide. Often, collateral demands for one loan leave nothing left to pledge against further financing. The wide gap between the supply of and demand for capital creates investment opportunities for the Fund.

Suitable investment targets will have very high growth potential, which is usually made possible by operating in a niche market that it can dominate, or because it has some comparative advantage to exploit. The business must be scaleable; injecting equity capital or a combination of debt and equity into a company that is starved for growth capital can unleash this growth. The Fund believes there are upwards of 15,000 SME's which are privately held in which it may be possible to invest with the intention of developing and possibly listing domestically or internationally. A key Fund investment strategy is educating entrepreneurs on the benefits of ceding ultimate control, welcoming outside investors and altering the way they run their businesses in order to prosper and grow.

The Fund also seeks to purchase and develop assets which can be purchased at a discount to their book value through takeovers of failing ex-Soviet enterprises, distressed asset sales or via city, regional or federal privatizations. Possible fund investments include the consolidation of shares of former Soviet enterprises, the purchase of assets at government auction and commercial property investments with substantial capital appreciation potential and steady cash flow returns from leases. It is expected that the fund will obtain companies and assets for securitization on domestic or foreign exchanges. Acquisition of property for licensing and supply to developers and the acquisition of communal housing buildings for renovation and resale are anticipated. It is expected that a small number of larger development projects will be undertaken. According to current available information, capitalization rates of Russian commercial real estate are approximately twice the historical average of the United States market. It is the Investment Advisor's opinion that

Russian commercial real estate has higher appreciation prospects compared to US and European properties. The Fund will use leverage in order to enhance returns and take advantage of investment opportunities.

Exposure to developing market properties and assets is designed to give investors access to, and the diversification benefits of, an expanded market with a broader range of risk characteristics and property activities than are available in a developed market economy alone.

Sector	Strategic Investment Range	Benchmark	Expected Project Location
<b>Small Companies (growth)</b>	30-50%	35%	Russia & CIS
<b>Small Cos. (takeover/turnaround)</b>	}	50-70%	Russia
<b>Privatizations</b>			Russia
<b>Land tracts/Development</b>			European Russia
Cash	0-5%		

Small companies suitable for securitization or sale to strategic buyers will be sourced as available throughout Russia, Eastern Europe and Central Asia.

Companies for share consolidation for acquisition or sale as minority stakes will be sourced throughout Russia.

Land tracts for licensing and sale to developers for country house and suburban housing developments and resorts will generally be sourced outside of Moscow, Saint Petersburg and in likely tourist destinations such as the Finnish Gulf, Black sea and Caspian sea.

Warrants and derivative instruments as well as listed securities may be used as the Investment Advisor deems prudent.

Leveraging will be used to increase Fund returns and the maximum amount may equal or exceed Fund assets.

Investors will be notified before any changes in this investment policy.



## Our Team

### **Dr. Igor V. Kostikov**

Chairman of the Board and Investment Director

Dr. Kostikov has recently returned to the private sector after holding a Cabinet position in the Russian government as Chairman of the Federal Commission on the Securities Market (2000-2004). As Russia's chief financial regulator, Dr. Kostikov had a profound impact on the development and maturation of the Russian securities markets. Under his guidance, several important reforms were implemented including the adoption of the Corporate Governance Code and legislation creating the Russian mutual funds markets.

Dr. Kostikov is one of the original participants of the Russian financial markets. In 1990 he founded and headed 'Mark Ltd', one of the first Russian financial consulting companies for participants of the securities markets. In 1993 he founded the investment company «AVK» (Saint Petersburg), which was an underwriter of municipal obligations for the Saint Petersburg Municipal Administration. Dr. Kostikov is credited as being the founder of the municipal bonds markets in Russia. AVK is one of the largest operators in the Russian equities markets as a broker, dealer, depository, financial consultant for public institutions and trust asset manager. AVK Securities & Finance Ltd. holds the highest reliability rating, AA, by the National Association of Stock Market Participants (NAUFOR). Since leaving public service Dr. Kostikov has undertaken several significant investment projects for groups of private investors.

He holds a dual PhD from the Institute of the World Economy and International Relations of the Academy of Sciences in "World Economy" and "Finances and Credit". He is a graduate of the economic faculty of St. Petersburg State University and completed training at the International Service School, Georgetown University as a Pew Foundation Fellow and at Oxford College.

Dr. Kostikov regularly delivers lectures in leading American and British universities on topics including macroeconomics and the Russian economy, Russian securities markets development, promoting corporate governance norms and improving the investment climate in Russia.

He is a member of the academic council of the Institute of the World Economy and International Relations, a member of the Expert Council of the Russian Institute of Directors, Chairman of the Trustee Council of the Institute for Stock Market and Management and Vice President of the Russian Union of Industrialists among others.

### **Jeffrey M. Letino**

Managing Partner

Mr. Letino joined Eurasian Private Equity Group in June 2004 as Managing Director. Prior to joining EPEG, Mr. Letino was the founder and General Director of Aboard Trade Group, a multi-national international trade concern specializing in creating and serving export markets for Russian-produced goods. Mr. Letino previously served as a special assistant to Vladimir Litvinenko,

## Behind the Scenes

### **Andrei Zmyshko**

Investment Manager  
Eurasian Private Equity Group

Andrei Zmyshko comes to EPEG having been lead investment manager for Teorema Holding Group since 2000. With Teorema, he oversaw several successful buyouts, share consolidations and property acquisitions for development. Some of Saint Petersburg's best known business centers were built on premises that he acquired. Mr. Zmyshko managed Teorema's multi-million dollar investment portfolio and was responsible for the identification, vetting and implementation of each investment project. Previously a Special Economic Advisor to the Saint Petersburg City Congress, Mr. Zmyshko holds a BS with Honors in Economics from the Saint Petersburg Engineering Economics Academy and a Russian Federation "Hostile Corporate Takeover" training certificate. He joined Teorema after a successful career as a stock & bond trader at Balt-Group.

### **Dmitry Dudin**

Operations Manager  
Eurasian Private Equity Group

Mr. Dudin is responsible for daily operations of the fund and individual projects. Prior to joining EPEG, Mr. Dudin served as Vice President of Aboard Trade Group, an international trade collective. With a BS in electrical engineering and an MA in Public Relations, Mr. Dudin brings a multi-functional insight into the evaluation of EPEG projects and their physical assets. At Aboard Trade Group, Mr. Dudin was responsible for multi-million dollar Russian export trade accounts including all sourcing, clearance and delivery aspects of shipments. He currently is lead liaison with local governments and is responsible for EPEG's lobbying efforts with local and regional officials. He hails from Ashgabat, Turkmenistan and lives with his wife in Saint Petersburg.

### **Special Advisor to the Fund**

#### **Konstantin Pechesky**

Konstantin Pechesky Legal Bureau

Mr. Pechesky serves as a Special Advisor to the Fund for risk management, transaction structuring and real estate transactions. Mr. Pechesky works closely with the Fund to plan, evaluate and complete transactions and assists with real estate deal flow and fulfillment. His knowledge of the Russian market, Russian legal system and depth of experience in Russian real estate are an asset to the Fund. Mr. Pechesky is one of Saint Petersburg's leading lawyers. He has

rector of the Saint Petersburg State Mining Institute, as an advisor on international relations and project development. Dr. Litvinenko is a leading member of several Russian Federal government organs and a close personal colleague of Russian President Vladimir Putin who completed his doctoral dissertation at the Mining Institute. It was during Mr. Letino's time at the Mining Institute that he assembled the knowledge and contact base that eventually led to his original investments into Russia, ultimately leading to the establishment of the Fund in concert with Dr. Kostikov. As Managing Director he currently manages private equity investment projects in Russia.

A native of Hammonton, New Jersey, Mr. Letino trained as a nuclear engineer in the US Navy and served on the Los Angeles class submarine SSN 709 Hyman G. Rickover. His engineering background has been a strong complement to his financial expertise. Mr. Letino received a bachelor's degree in political science and sociology from the State University of New York and was a Scottish Rite Fellow at The George Washington University graduating with an M.A. with a specialization in International Business and Finance. Mr. Letino received an International Language Certificate in Russian Language from Moscow State University and completed two years of graduate-level study in Russian and Russian Economy at Novgorod State University and The Saint Petersburg State Mining Institute.

A life-long entrepreneur, Mr. Letino has been working and living in Russia since 1997. He is fluent in Russian and English and lives in Saint Petersburg with his Swedish wife and their two young boys.

A recipient of multiple awards and commendations during his military service, Mr. Letino has been recognized by Russian president Vladimir Putin for his efforts on President Putin's 2000 election campaign and from former Head of the Russian Federation Council (Russia's upper chamber of congress), Igor Stoev, for his efforts on Russian economic issues in the Saint Petersburg Economic Forum.

### **Harris Stavrinides**

Independent Director

Harris Stavrinides was one of the first executives that participated in the setup of the Athens Derivatives Exchange (ADEX), offering derivative products to the Greek financial services industry for the first time. Additionally Mr Stavrinides was also involved in the introduction of mutual funds in Cyprus. He holds a Market Maker Certificate for ADEX and a Derivatives Advisor Certificate, credentials needed for trading and advising on derivative products.

Mr. Stavrinides has extensive experience in a wide range of investment products and has worked in banking, insurance and asset management for over 15 years. Harris holds an equity trader license for the Cyprus Stock exchange and is an INTERTRUST Mutual Funds training program graduate. He is certified by the Ministry of Finance and the Securities & Exchange commission to act as Head of Asset Management Department, a credential needed by all investment firms that operate in Cyprus and/or in the European Union. He is a board member of the Cyprus Association of Directors (CyAD) and Chairman of the CyAD Financial Services Committee. Harris holds a BS in Business, an MBA with Distinction in Financial Management and an MS in Finance.

represented Dirol, Philip Morris, Jensen Group, Almaz-Antey, and Thompson Broadcast among others and has taken part in many high-profile cases including the well-known Isotope Case between Russia and the United States, projects for the Ilim Pulp Company, Novokuznetsky Aluminum Plant, Sestroretsky Instrument Plant, Vasileostrovskaya Fabrika, Radisson Vladimirskaya with the EBRD, responsibility for full due diligence on the proposed St. Petersburg-Moscow toll road as well as many projects in the real estate field.

### **Thomas Stansmore**

Head of Representative Office  
Pepeliaev, Goltsblat & Partners

Mr. Stansmore and Pepeliaev, Goltsblat & Partners work with EPEG providing tax planning and analysis. Mr. Stansmore is a veteran of tax planning in Russia having spent nine years with Deloitte & Touche Russia as a tax advisor.

### **Medwell Holdings Limited**

A Consulco Financial Services company  
Fund Administrator

Established in 1993, Consulco is a leading tax advisory and asset management company in the Republic of Cyprus. Consulco was recently recognized as the best International Company of Cyprus for 2003 in the 'services' category by the Cyprus Ministry of Finance and Chamber of Trade.

Consulco is a correspondent member of audit group RSM International. Consulco presently employs over 120 professionals in the fields of law, finance, audit and banking. Its managers regularly contribute to publications including: Forbes, The Wall Street Journal, Financial Mirror, Kommersant, etc. Consulco sponsors the North-Western Interbanking Conference in Saint Petersburg covering ways of attracting foreign investments, reinvesting and tax planning.

Consulco provides tax advisement, business formation, bookkeeping, fund administration and other backend functions to the Fund.

### **Hellenic Bank**

Fund Custodian

Hellenic Bank Trust and Finance Corp. Ltd, a wholly owned subsidiary of Hellenic Bank serves as the Fund Custodian. The Custodian holds the majority of the Fund's assets. Hellenic Bank has more than 20 years of experience in servicing investment funds. It provides special services for custodianship and acts as trustee via its subsidiary, Hellenic Bank Trust and Finance Corp. Ltd.

## How does the Fund strategy differ by sector?

### **Growth stage equity financing**

The Fund does market research to determine areas with great fragmentation and high prospective growth rates where growth can be secured both organically and through additional acquisitions. There are a vast number of companies that, if invested in, can be prepared for an eventual public listing domestically or on an international exchange. Securitization rates in Russia are extremely low and the securitization process has only existed in earnest for 2-3 years. The Fund seeks straightforward businesses that are easy to understand. Currently, the Fund has evaluated the leasing, tourism, logistics, food service, packaging, consumer services and retail sectors as particularly attractive.

A typical company has been in operation for greater than two years and has experienced large growth which may have stressed the financial, management and human resources of the company. A key transaction variable is the quality of the management team. The operating management team will have a common vision for the future in line with the Fund's expectations or the Fund will be able to bring in qualified management who can create, articulate and execute a strategic plan and who have demonstrated the ability to guide the growth of a company. The company has meaningful competitive advantages and may be a larger player in a niche market. The Fund's evaluation of the company and its growth position is based on increasing demand from favorable market conditions and trends or the Fund's potential to add value outside of capital contribution including management team enhancement, strategic planning, utilization of our in-house resources, management experience, political and business connections, etc. We are ideally seeking companies which have continually strong free cash flow characteristics to fuel additional expansion. The company platform is capable of supporting growth through acquisitions.

### **Takeovers**

The Fund will undertake both management-led and hostile takeovers by targeting companies where consolidation of illiquid scattered share holdings allows it to build a majority stake and take over management of the company. A Fund buyout is typically done through acquiring minority shares while negotiating with management and major shareholders for sale of a majority stake. The Fund seeks to obtain majority control and then redeploy assets.

With the fall of the Soviet Union, the Privatization process gave control of thousands of small enterprises to their management and employees. Many opportunities remain to consolidate minority blocking and/or majority share packets to resell or take control of the enterprise. EPEG continually obtains and evaluates private research on such enterprises, reviewing government registration documents, shareholder rosters and other information to uncover situations where a wide dispersal of shareholders, management conflict, majority shareholder exit or sale of a government share packet presents an attractive investment opportunity.

### **Privatizations, land formation, real estate investment and development**

Privatizations of government holdings on the city and regional levels continue to be attractive. The Fund believes that tremendous profit opportunities exist in the formation of land for and the development of suburbs through the construction of single-family homes and townhouses outside of Saint Petersburg. The development of projects to support the growth of factory towns established by Finnish companies directly inside the Russian border, usually clustered around a Customs point holds great promise.

## More about takeovers and privatizations

### Target companies

EPEG monitors sales of companies or majority shareholder holdings to identify prospective companies that are ideal to be restructured and sold to strategic investors or which can be combined with competitors to create larger holdings for restructuring and securitization. Being active buyers in the market with a known reputation, we are constantly in the deal flow. Though the country covers two continents and includes 150 million people, the size of the active deal flow in sales of low- and mid-cap companies is very personal and limited. We actively search for companies which are for sale or which are amenable to negotiation. There are thousands of small companies of significant value run by 'Red Managers' left in place from Soviet times who haven't adapted to capitalist market methodologies and lack the understanding and training or desire to unleash the full value of their assets.

EPEG seeks to identify companies for further study by running each company reviewed through an initial sourcing/vetting process. The process includes:

1. obtaining registration records from government property registries and from subject companies (when possible);
2. starting a 'company deal card' compiling:
  - a. registration information;
  - b. shareholder register information/analysis of share dispersion;
  - c. government registration documentation for company property (ownership or long-term rent);
  - d. registered judgments against and registered debts of the company;
  - e. ownership history of company;
  - f. property acquisition date and cost.
3. obtaining constitutional documentation on the company to include:
  - a. company officers;
  - b. constitutional documentation;
  - c. addendums to the Articles of Incorporation.
4. FSFR (Federal Service of Financial Markets) report containing filed company financial reports and company bylaws, firm privatization plan, etc;
5. IMNS (Inspection of the Ministry of Tax Service) report and history;
6. evaluation of recent changes to capitalization, registration and shareholder register;
7. company and asset appraisals;
8. initial financial analysis of project.

### Smaller buyouts and share consolidation

With the fall of the Soviet Union, Privatization gave control of thousands of small enterprises to their management and employees. Organized as Open Stock Companies, the last decade has been a period of consolidation where top management or individual investors bought out the interests of the hundreds or thousands of individual minority employee shareholders to solidify control. Many opportunities remain to consolidate minority blocking and/or majority share packets to resell or take control of the enterprise. EPEG continually obtains and evaluates private research on such enterprises, reviewing government registration documents, shareholder rosters and other information to uncover situations where a wide dispersal of shareholders, and/or a conflict situation between majority shareholders and/or a management/ownership team seeking to exit and/or large government share packets going up for auction present an attractive investment opportunity. We compile information on companies with significant assets who fail to produce commensurate profits on an ongoing basis. We enter each project with a far-

reaching plan on how to acquire, rehabilitate and exit with an excellent return on investment.

We have seen an increasing role by municipal and regional governments filling the project pipeline. In St. Petersburg as an example, the government has started implementing far-reaching plans to move hundreds of industrial companies out of the historic city center to the surrounding areas. This process is bringing to market valuable properties in the city as well as creating a demand for new industrial park-style premises. EPEG is poised to benefit from both as we start buyouts of large, illiquid companies in the outskirts with substantial improved land holdings and obtain city properties for development. The lack of land for development in the city, Saint Petersburg's status as Russia's number one foreign tourist destination and the influx of major international retailers makes these properties tremendous investment values for those with proper plans for their redevelopment and resale.

### **Privatizations**

Federal and municipal governments retain a large number of properties from Soviet times. These properties are auctioned on a regular basis and include apartment buildings, communal apartment buildings, office buildings with land plots, building plots, retail space, business centers and share holdings in companies. With the lack of small investors and administrations which perform no significant valuation work before offering the properties, they are an excellent opportunity to invest in assets at artificially deflated prices and renovate the properties for further sale. The large majority of objects of interest are centrally located in the most valuable districts of large cities. We work with two large realtors who offer specific consulting services in working with the government property offices. Our realtors assist in creating a property board, valuing the physical condition of each offered property including access to infrastructure and city services and the surrounding area of each individual property. Together, we then analyze the renovation and resale prospects and create target purchase, renovation and resale prices. Legal counsel then drafts documents in which the realtor guarantees a minimum selling price. After purchase we deploy a construction team to renovate the property in concert with the project manager who sees to the municipal and federal licensing requirements for the property. From purchase to offering for sale generally takes 3-9 months depending on the project licensing demands.

We additionally search for similar properties in poor condition. The uneven development of city real estate has left many abandoned properties and communal apartment buildings (similar to permanent dormitories) in prime locations. We relocate tenants and renovate the property as commercial space or elite apartments for sale to Russia's burgeoning upper class. Truly the 'new Klondike'.

### **Privatization in the former states of the Soviet Union**

With the fall of communism, states started a process of privatization that shifted control of many state assets, often non-functional or bankrupt, to the hands of the employees of an enterprise. Many upper management groups in place unfairly took control of the enterprises at the expense of the lower-level employees who received smaller 'packets' of shares pursuant to the position in the company they occupied.

A special parliamentary committee conducted an analysis of privatization from 1992 through 1996. According to the report only \$20 billion has been raised from the sell-off of about 70 percent of all state enterprises in Russia.

*'Privatization became a symbol of destruction, injustice, robbery and violence, moving people to misery and tears.'* AsiaTimes

Employees were given 'packets' of shares in their company creating a dispersed holding of privately-held shares of Russian companies.

### **Working with employees to rebuild companies**

EPEG has largely been successful in buyouts due to the enthusiasm which employees of target companies welcome a change in management. They see the tangible benefits of forward-thinking management building their company to be competitive and prosperous in this new era of democracy and capitalism. Our target markets have great growth potential for developing companies to meet market demands benefiting EPEG, company employees and society.

### **Bankrupt companies?**

The Soviet planned economy allocated real estate to support party goals instead of using real estate to maximize economic rents. In classical economics, "rent" referred to a specific kind of income received by the owners of inputs such as land. Modern neoclassical economics has generalized this theory to suggest that the owner of any kind of input can receive economic rent due to the unique qualities of that input (such as location, location, location!!) EPEG looks at the value of the current operations compared to the value of the underlying assets such as capital equipment and real estate. The value of these assets coupled with the economic potential of the company is used to evaluate each opportunity.

### **In summary**

EPEG targets ex-Soviet companies with:

- ❖ Weak management
- ❖ Minority shareholder discontent
- ❖ No financial resources
- ❖ Significant physical assets and economic potential

These companies produce minimal profit despite having significant assets such as real estate, equipment, and intellectual property. EPEG buys a majority stake in these companies and rehabilitates the enterprise by instituting Western management practices, providing capital and know-how. We then make a decision on selling the real estate and relocating the company and hold, sell or take the company public. EPEG target markets boast high demand for prime real estate and large numbers of under-performing firms. EPEG succeeds due to its local expertise, legal acumen and world-class management team.

## The Fund's performance and size

If you are interested in up-to-date information on the Fund, its investments, performance history, performance relative to the benchmark, or size please contact us.

The Fund seeks an initial closing of approximately \$50 million in aggregate subscriptions for non-voting, participating shares. The Fund expects additional closings will bring total assets under management to above \$150 million.

Your investment is not a deposit or a liability of Eurasian Private Equity Group Ltd, Medwell Holdings Limited or any other Fund service provider. None of these entities stand behind the capital value and/or the performance of the participating shares or the assets of the Fund. Your investment is subject to investment risk, including but not limited to possible delays in repayment and loss of capital appreciation or principal invested. For more information on investment risks, please refer to the Fund's Memorandum of Offering.

## What are the costs?

This table shows the fees and other costs that you may be charged. These fees and costs may be deducted from your money or from the returns of your investment or from the Fund as a whole. The following table makes no allowances for fees you may be responsible for in your domicile.

You should read the Memorandum of Offering and fully understand the ability of the below costs to impact your investment.

Type of Fee or Cost	Amount	How and when
Fees when your money enters and leaves the Fund		
<i>Buy/Sell spread:</i>	Nil	
<i>Establishment Fee:</i>	Nil	
<i>Subscription Fee:</i>	*	
<i>Redemption Fee:</i>	Nil	
Management and Performance Fees		
<i>Annual Management Fee:</i>	2.1%	Quarterly
<i>Performance Fees:**</i>	20%	Quarterly – Booked

\* Per agreement

\*\* Over a high water mark of the highest Net Asset Value on which a performance fee has already been paid.

## What are the risks?

Investors should be aware that the value of participating shares in the Fund may fall as well as rise. Investment in the Fund involves significant risks. Whilst it is the intention of the Fund Investment Advisor to implement strategies which are designed to minimize potential losses, there can be no assurance that these strategies will be successful. It is possible that an investor may lose a substantial proportion or all of its investment in the Fund. As a result, each investor should carefully consider whether it can afford to bear the risks of investing in the Fund. For more information on risk factors, investors should review the Fund's Memorandum of Offering in concert with their legal, tax and investment advisors.

## Tax and Dividends

Investing and dealing with investments has tax implications that can be complex, and are invariably particular to your circumstances. It's important that you seek professional advice before you invest or deal with your investment.

It is the present intention of the Directors not to declare or pay any dividend. Income earned by the Fund will be reinvested and reflected in the value of the participating shares. If the Directors decide to declare dividends, such dividends may be distributed from net income and/or net realized and unrealized capital gains.

## How do you invest?

Participating shares are available for issue on any Dealing Day (normally the last Business Day of each week) at the Subscription Price then prevailing. Subscription funds must be received before 3.00 p.m. (Cyprus time) two business days before Dealing Day and subscription applications must be received before 3.00 p.m. (Cyprus time) one business day preceding Dealing Day.

Applications should be made on the Application Form and sent to the Administrator. Copies of the Application Form are available from the Administrator and/or Eurasian Private Equity Group.

The minimum subscription for each applicant (including an existing Participating Shareholder) is \$100,000. Thereafter shares can be subscribed for in multiples of \$10,000, provided that the additional investment is not below \$50,000.

Application monies may be paid in US dollars or any other currency acceptable to the Investment Advisor. Application monies in other than US dollars will be converted into US dollars and all bank charges and other conversion costs will be deducted from the application monies prior to investment in participating shares.

The Investment Advisor or the Directors reserve the right to reject any application for participating shares in whole or in part.

## Legal relationships

The Fund is managed as a Private International Collective Investment Scheme with limited liability in the Republic of Cyprus. The Fund's constitutional documents provide the framework for the operation of the Fund, and with the Articles of Association and Memorandum of Offering, the International Collective Investment Scheme Act and other relevant laws, sets out the relationship between EPEG Small Company Buyout Fund and participating shareholders. All constitutional documents are available for review upon request.

Some of the provisions of the constitutional documentation are discussed elsewhere in this document. Others relate to:

- ❖ the times when redemptions can be delayed – such as if the Fund is illiquid, realizing assets is not possible, or it is not in the best interests of the participating shareholders;
- ❖ where taxes or other amounts may be deducted from payments to you;
- ❖ when transfers and applications may be refused – this is infrequent;
- ❖ issuing additional classes of participating shares and the rights attaching to those units;
- ❖ the times when EPEG Small Company Buyout Fund and its service providers are not liable to you and a full accounting of fees and to be indemnified;
- ❖ making changes to the constitutional documents;



- ❖ when the Fund can be terminated, and what happens if this occurs;
- ❖ voting rights.

Your liability is limited by the constitution to the value of your participating shares.

Eurasian Private Equity Group Ltd. has been appointed by the Fund as the Investment Advisor. See the Memorandum of Offering for a full account of the legal relationships of the Fund with its service providers and how these relationships can be altered or terminated.

## Investing through a master trust or wrap account

Investors gaining exposure to this Fund through a master trust or wrap account do not themselves become investors in the Fund.

Instead, it is generally the operator of the master trust or wrap account who invests for you and so has the rights of an investor. They may or may not exercise those rights, in accordance with their arrangements with you.

Indirect investors complete the application forms for the master trust or wrap account and receive reports from their operator, not the Fund. Enquiries should be directed to the operator of the master trust or wrap account.

Some provisions of the constitutional documents are not relevant for indirect investors. For example, indirect investors cannot attend meetings or initiate redemptions. Please contact your IDPS operator for information about any cooling-off rights.

## We respect your privacy

EPEG Small Company Buyout Fund and Eurasian Private Equity Group's primary purpose in collecting personal information from you is to enable establishment and management of this Fund. If you choose not to provide the information requested in the application form, they may not be able to process your application.

This information may also be used for related purposes of managing their relationship with you. You may access the relevant privacy policies by contacting Eurasian Private Equity Group or accessing [www.eurasianequity.com](http://www.eurasianequity.com).

## About this product brochure

Please contact us for a paper copy of this brochure. This brochure should not be relied on for basing an investment decision; only thorough review of the Fund's Memorandum of Offering is a basis for making an investment decision.

You should not access this brochure or any information concerning the Fund and the Fund's service providers if accessing such information is illegal in your domicile.

The contents of this brochure have been issued by Eurasian Private Equity Group and it takes full responsibility for all contained therein.

## Keeping in touch

EPEG Small Company Buyout Fund will:

- ❖ confirm every transaction you make;
- ❖ report to you quarterly on Fund performance and on the value of your investment;

- ❖ send you the Fund's annual report;
- ❖ give you a paper copy of any updated information without charge on request;
- ❖ send you any supplementary or replacement product disclosure statements.

For up-to-date information, including details of your investment, the most recent Fund performance and portfolio allocation details (and also information that is not materially adverse and which is subject to change from time to time), please visit Eurasian Private Equity Group's website, [www.eurasianequity.com](http://www.eurasianequity.com), or contact us by phone.

## Contact details

For more information or to speak with us concerning subscription, please contact us at:

Eurasian Private Equity Group  
3 Kaluzhsky Pereulok  
Saint Petersburg 191015 Russia  
[www.eurasianequity.com](http://www.eurasianequity.com)  
[info@eurasianequity.com](mailto:info@eurasianequity.com)  
Saint Petersburg: +7 (812) 324-4685  
London: +44 (207) 993-4444  
New York: +1 (212) 537-6914  
Facsimile: +1 (435) 304-2794  
+7 (812) 324-4685 x299

### Investment Advisor

Eurasian Private Equity Group  
c/o Medwell Holdings Limited  
Consulco House, 25 Aphrodite Street  
P.O Box 26025  
1666 Nicosia, Cyprus  
[www.eurasianequity.com](http://www.eurasianequity.com)  
[info@eurasianequity.com](mailto:info@eurasianequity.com)  
Tel: +357-22 361 300  
Fax: +357-22 752 597

### Local Office

3 Kaluzhsky Pereulok  
Saint Petersburg 191015 Russia  
[www.eurasianequity.com](http://www.eurasianequity.com)  
[info@eurasianequity.com](mailto:info@eurasianequity.com)  
Saint Petersburg: +7 (812) 324-4685  
London: +44 (207) 993-4444  
New York: +1 (212) 537-6914  
Facsimile: +1 (435) 304-2794  
+7 (812) 324-4685 x299

### Fund Administrator

Medwell Holdings Limited  
Consulco House, 25 Aphrodite Street  
P.O Box 26025  
1666 Nicosia, Cyprus  
[www.consulco.com](http://www.consulco.com)  
[info@consulco.com](mailto:info@consulco.com)  
Tel: +357-22 361 300  
Fax: +357-22 752 597

### Registered Office

Consulco House, 25 Aphrodite Street  
P.O Box 26025  
1666 Nicosia, Cyprus