

**FundLogic Alternatives plc**

**Salar Convertible Absolute Return Fund**

**SIMPLIFIED PROSPECTUS**

**8 February 2011**

This Simplified Prospectus contains key information in relation to Salar Convertible Absolute Return Fund (the “Sub-Fund”), a fund of FundLogic Alternatives plc (the “Company”). The Company was incorporated on 28 April 2010 and is an umbrella open-ended investment company authorised by the Central Bank of Ireland (the “Central Bank”) under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (Statutory Instrument No. 211 of 2003) as amended, supplemented, consolidated or otherwise modified from time to time (the “Regulations”). The Company currently has five other sub-funds, namely the Emerging Markets Equity Fund, the MS PSAM Global Event UCITS Fund, the MS Algebris Global Financials UCITS Fund, the Indus Select Asia Pacific Fund and the Indus PacifiChoice Asia Fund.

Potential investors are advised to read the Prospectus of the Company dated 27 July 2009 and the Supplement dated 8 February 2011 (together the “Prospectus”) before making an investment decision on whether or not to invest in the Sub-Fund. The rights and duties of the investor as well as the legal relationship with the Company are laid down in the Prospectus. If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or an independent financial advisor. Words and terms defined in the Prospectus have the same meaning in this Simplified Prospectus, unless the context otherwise requires.

Capitalised terms used herein (but not defined herein) have the meanings attributed to them in the Prospectus.

The base currency of the Sub-Fund is US Dollar.

<b>Investment Objective:</b>	The objective of the Sub-Fund is to generate capital growth, whilst seeking to preserve capital, through exposure to the convertible bond markets.
<b>Investment Policy:</b>	<p>The Sub-Fund will seek to achieve its objective by investing in a reference portfolio (the “<b>Reference Portfolio</b>”) through a total return swap (the “<b>Portfolio Total Return Swap</b>”). In addition, the Sub-Fund expects to purchase Funding Assets and transfer the economic interest in such Funding Assets to the Approved Counterparty under a total return swap (the “<b>Funding Swap</b>”). The performance of the Sub-Fund will primarily be determined by the performance of the Reference Portfolio.</p> <p>The Portfolio Total Return Swap will give the Sub-Fund the economic exposure to the Reference Portfolio in exchange for a floating rate of return being paid by the Sub-Fund. This will be provided by the Approved Counterparty. The Sub-Fund expects to purchase Funding Assets and transfer the economic interest in such Funding Assets to the Approved Counterparty pursuant to the Funding Swap in exchange for a floating rate of return being received by the Sub-Fund from the Approved Counterparty. This floating rate of return shall in turn be paid to the Approved Counterparty under the Portfolio Total Return Swap referred to above.</p> <p>The Reference Portfolio is a notional portfolio representative of a dynamically managed portfolio primarily consisting of convertible bond positions which will be made by Ferox Capital LLP (the “<b>Investment Manager</b>”) in implementing its absolute return strategy. Absolute return strategies aim to produce a positive return on capital regardless of the direction of financial markets. The Reference Portfolio will generally be made up of a strategic mix of long convertible bond positions and</p>

synthetic short equity positions in the underlying equity (the "**Ferox Investment Strategy**"). The Reference Portfolio will be comprised primarily of such positions in convertible bonds and listed and unlisted convertible preference shares. These convertible securities will be issued by investment grade, sub-investment grade and unrated companies, governments and supra-national issuers from any country or jurisdiction globally.

In addition to convertible securities, the Reference Portfolio may include (either as a hedge or as an outright position) listed and unlisted equities (in any market globally including emerging markets) and debt securities (which may be below investment grade and be either fixed or floating and government or corporate). Debt securities will be deemed to be below investment grade, if they have a rating BB+ and/or lower by Standard & Poor's, or an equivalent rating by any of the other principal rating agencies or, if unrated, are determined to be below investment grade by the Investment Manager. While it is not currently expected that the Reference Portfolio will have significant emerging market or below investment-grade debt exposure, there are no limits to the extent that such investments might be included in the Reference Portfolio if deemed appropriate by the Investment Manager. The Reference Portfolio may, but is not obliged to, include exposures through derivative instruments for investment or efficient portfolio management purposes including equity and bond options (listed and OTC) and asset swapped convertible option transactions ("**ASCOTs**") which provide exposure to the equity option component of a convertible without the credit and interest rate exposure, currency forward exchange contracts and non deliverable forward contracts for cash management and foreign exchange hedging purposes, bond futures to hedge interest rate risk, over-the counter ("**OTC**") credit default swaps to hedge credit risk and total return swaps, warrants, contracts for difference, interest rate swaps and interest rate futures to hedge interest rate risk. Derivative instruments may be exchange-traded or OTC.

### **Ferox Investment Strategy**

The Ferox Investment Strategy will aim to take a range of positions in convertible bonds, of which some will benefit from the underlying share prices rising and some will benefit from the underlying share price falling. As these trades have an asymmetric profile - the potential gains are greater than the total risk at the time of the trade's inception - it is hoped that gains will outweigh losses on a consistent basis. Equally, it will look to establish positions where an apparently low valuation of a convertible bond can be arbitrated or held until the valuation normalises. Where a convertible bond appears overvalued, the Investment Manager would seek to do the opposite and establish a position which would benefit from falling valuations.

The Ferox Investment Strategy uses convertible bonds and short positions in equities to execute three types of trade:

- Bond floor trades (long positions in convertibles) - the Investment Manager would select convertibles close to their bond floor. The bond floor is the theoretical value of the convertible bond if it did not include an option to convert into shares. Thus, the Ferox Investment Strategy will take a long position in a convertible bond where there is a low (or no) value attributable to the option element of the convertible bond. The value of the option element of the convertible bond will increase in rising equity markets resulting in gains. If the underlying stock falls, ie in falling equity markets, the bond floor protects the performance of the convertible bond on the downside. It should be noted, however, that if the issuing company's credit quality has deteriorated, the convertible bond's minimum value will fall accordingly.
- Long positions in convertible bonds where the value of the option element of the convertible bond is significant in relation to the overall value of the

convertible bond, with a corresponding short position in the underlying equity. In such circumstances, if the value of the underlying equity falls, the gains made from the short position in the equity should outweigh the fall in value of the bond itself.

- Long positions in convertible bonds with short positions in the underlying equity which are designed to benefit from movements up or down in the underlying equity value.

The Investment Manager intends to blend these strategies to build a portfolio to produce absolute returns.

### **General**

While the Sub-Fund will hold an unleveraged exposure to the Reference Portfolio (ie the Sub-Fund will not expose more than 100% of its Net Asset Value to the Reference Portfolio), investors should note that the Reference Portfolio itself will be leveraged. The Sub-Fund's global exposure (which will include the leverage inherent in the Reference Portfolio) is subject to an advanced risk management process. In compliance with the Regulations, the Sub-Fund's risk management process aims to ensure that on any day the absolute VaR of the Sub-Fund will not exceed 20% of the Net Asset Value of the Sub-Fund using a confidence interval of 99% and a holding period of one month. The leverage of the Sub-Fund will not exceed 150% of Net Asset Value of the Sub-Fund. The leverage of the Sub-Fund is calculated based on the net leverage of the strategy ie the market value of the long convertible bond positions less the underlying equity market value of the synthetic short equity positions divided by the net assets of the Sub-Fund and including the leverage of any other investments held by the Sub-Fund.

The Sub-Fund may enter into financial derivative instrument ("FDI") transactions, such as forward currency exchange contracts for efficient portfolio management purposes. FDI can be used to hedge against the risk of adverse currency movements between the Currency Hedged Share Classes.

### **The Total Return Swap**

The Sub-Fund uses two total return swaps, the Portfolio Total Return Swap and the Funding Swap (together, the "**Swaps**"). The sole Approved Counterparty in respect of the Swaps described above will be Morgan Stanley & Co International plc (the "**Approved Counterparty**"). There are two strategic components to the Swaps: (1) to gain exposure to the economic performance of the Reference Portfolio; and (2) to transfer the economic interest in the Funding Assets to the Approved Counterparty.

It is not accordingly anticipated that the Sub-Fund will be exposed to the performance or risks of the Funding Assets other than in the event of a default by the Approved Counterparty under the terms of the Funding Swap.

#### *(i) The Portfolio Total Return Swap*

The Portfolio Total Return Swap will give the Sub-Fund the economic exposure to the Reference Portfolio in exchange for a floating rate of return being paid by the Sub-Fund. This will be provided by the Approved Counterparty.

#### *(ii) The Fund Swap*

The Sub-Fund expects to purchase Funding Assets and transfer the economic interest in such Funding Assets to the Approved Counterparty pursuant to the Funding Swap in exchange for a floating rate of return being received by the Sub-Fund from the Approved Counterparty. This floating rate of return shall in turn be paid to the Approved Counterparty under the Portfolio Total Return Swap.

	<p><b>“Funding Assets”</b> will primarily include convertible bonds but may also include equity securities and other securities with equity characteristics, including, but not limited to, preferred stocks, warrants on equities and depository receipts for such securities (ADRs traded in the United States markets and GDRs traded in other world markets), issued by companies worldwide and which may or may not be constituents of the Reference Portfolio. They may also include debt securities which may include, without limitation, government and corporate bonds and notes (fixed and floating interest rate) and commercial paper and may be rated either above or below “investment grade” by Standard &amp; Poor’s and/or Moody’s or, if unrated, determined to be of equivalent credit quality by the Investment Manager. Funding Assets also include other investment schemes having similar investment objectives and policies to the Sub-Fund and exchange traded funds, however, the Sub-Fund will not invest more than 10 per cent of its Net Asset Value in such schemes. The Investment Manager will advise on which securities are included within the Funding Assets.</p> <p>Funding Assets (other than permitted unlisted investments) will be listed or traded on the Markets referred to in Appendix II of the Prospectus. For the avoidance of doubt, the Swaps will not be so listed or traded as they are a permitted unlisted investment.</p> <p>The Approved Counterparty will provide collateral to the Sub-Fund to ensure that the Sub-Fund’s risk exposure to the Approved Counterparty does not exceed the level required by the Central Bank. The collateral will be in the form required by the Central Bank.</p> <p>The Sub-Fund may retain amounts in cash or investment grade cash equivalents (which shall include, but shall not be limited to, short-term fixed income securities including commercial paper and money market obligations such as short and medium-term treasury bills and treasury notes (both fixed and floating rate), certificates of deposit and bankers’ acceptances) pending re-investment, or for use as collateral, arising from the Sub-Fund’s use of FDIs if this is considered appropriate to the investment objective.</p>
<b>Risk Profile:</b>	<p>Investment in the Company carries with it a degree of risk including but not limited to the risks referred to in the section entitled “Risk Factors” in the Prospectus and “Risk Factors” in the Supplement. These risks may include risks associated with the absence of a prior active market; currency risks and normal market fluctuations and other risks inherent in investing in securities.</p> <p>The investment risks described above are not purported to be exhaustive and potential investors should review the Prospectus in its entirety, and consult with their professional advisors, before making an application for shares in the Company.</p>
<b>Performance Data</b>	Not applicable at the date of this document.
<b>Profile of a Typical Investor:</b>	<p><b>Investment in the Sub-Fund is suitable for investors seeking a long-term appreciation of capital.</b></p> <p><b>Shares in the Sub-Funds will be available to both retail and institutional investors.</b></p>
<b>Distribution Policy:</b>	<p>Shares are available either as Distribution Shares or Accumulation Shares. Distribution Shares will pay dividends while Accumulation Shares will not pay dividends. The Directors intend to declare dividends in respect of the Qualifying Shares in respect of substantially all of the net income arising from the assets attributable to such Shares. Dividends are normally expected to be distributed at the end of June and December of each year, where profits are available, or at such</p>

	<p>other times determined by the Directors, in accordance with the provisions of the Prospectus and Memorandum and Articles of Association.</p> <p>The income and gains of the Accumulation Shares will be accumulated in the price of the Shares of the Class. To the extent that a dividend is declared in respect of a Distribution Share (which has not been specified as a Distribution – income Share), it will be automatically reinvested in such further Distribution Shares of the same Class as at a price per Share equal to the most recently available Subscription Price for such Shares.</p> <p>Under the Articles, the Directors are entitled to pay such dividends on any class of Shares at such times as they think appropriate and as appear to be justified out of the profits of the Sub-Fund, being (i) the accumulated revenue less expenses and/or (ii) realised and unrealised gains on the disposal/valuation of investments and other funds less realised and unrealised accumulated losses of the Sub-Fund, provided in each case that dividends may only be paid out of funds available for the purpose which may be lawfully distributed.</p> <p>With respect to the Distribution Shares, the Fund operates a policy known as “income equalisation”. Income equalisation is accrued income included in the price of Distribution Shares purchased and redeemed during the accounting year. The subscription price of the Distribution Shares is deemed to include an equalisation payment calculated by reference to the accrued income of the Fund and the first distribution in respect of any Distribution Share will include a payment of capital usually equal to the amount of such equalisation payment. The redemption price of each Distribution Share will also include an equalisation payment in respect of the accrued income of the Fund up to the date of redemption. Income Equalisation is accounted for as a finance cost in the Profit and Loss Account.</p> <p>Allocation of income to holders of any Shares which are specified as Accumulation Shares will be transferred to the capital assets of the Fund upon declaration and be reflected in the value of Shares on the first Business Day following the end of that period.</p> <p>To the extent that any dividend is declared, it will be paid in compliance with applicable laws. Any distribution of income for Shares that is unclaimed for a period of six years after having become due for payment, shall be forfeited and shall revert to the Fund.</p>
<p><b>Fees and Expenses:</b></p>	<p><b>Initial and Repurchase Fees</b></p> <p>Initial Fee: Up to 5% of the issue price of each Share.</p> <p>The Sub-Fund may impose an anti-dilution levy or adjustment on repurchase of Shares.</p> <p><b>Management Charge</b></p> <p>1.50% of NAV per Class A Share  0.75% of NAV per Class B Share  2.00% of NAV per Class C Share  1.25% of NAV per Class D Share  No management fee is payable in respect of Management Shares</p> <p><b>Performance Fee</b></p> <p>The Investment Manager will also be entitled to receive a annual performance fee (the “<b>Performance Fee</b>”) from the Company. No performance fee is payable in respect of Managements Shares. The Performance Fee will be calculated in respect of each calendar year by reference to the NAV per Share of the Class</p>

	<p>concerned as at the last Valuation Point in that calendar year (a “<b>Calculation Period</b>”). The Directors have the right to change the Calculation Period to each calendar quarter in each year with effect from the start of the calendar year following that in which the Directors determine to make such change subject to giving at least three month’s prior written notice thereof to the Shareholders.</p> <p>The Performance Fee in respect of each Class A Share and Class C Share in any Calculation Period will be equal to 15% and in respect of each Class B and Class D Share in any Calculation Period will be equal to 10% of the appreciation in the Net Asset Value per Share of the Class concerned (before deduction for any accrued Performance Fees and adjusted to take into account any dividend paid during such period in respect of Distribution Shares) during that Calculation Period (or part thereof during which the relevant Share was in issue) above the Base Net Asset Value per Share for that Class in respect of that Calculation Period (or part thereof). The Base Net Asset Value is the greater of the Net Asset Value per Share of the relevant Class at the time of issue of that Share and the highest Net Asset Value per Share of that Class achieved as at the end of any previous Calculation Period (if any) during which such Share was in issue (or the date on which the Sub-Fund commenced business if issued at the end of the Initial Offer Period) (the “<b>Base Net Asset Value per Share</b>”).</p> <p>If an investor subscribes for Shares at a time when the Net Asset Value per Share of the relevant Class is other than the Base Net Asset Value per Share of that Class, certain adjustments will be made to reduce inequities that could otherwise result to the subscriber or to the Investment Manager as set out in the Prospectus.</p> <p><b>Administrative and Operating Fee</b></p> <p>The Promoter will be paid, out of the assets of the Sub-Fund, an aggregate fee which shall not exceed 0.30% per annum of the net assets of the Sub-Fund and will be accrued daily and paid monthly in arrears. The Promoter will, inter alia, pay the fees and expenses of the Administrator and Custodian in full out of this fee.</p> <p>The additional charges and expenses specified in the section entitled “Ongoing Charges and Expenses” in the Prospectus will, save in respect of the fees of the Distributor, be paid out of the assets of the Sub-Fund.</p> <p>Further details of charges and expenses payable out of the assets of the Sub-Fund are set out in the Prospectus under the headings “Management Charges and Expenses” and “General Charges and Expenses”.</p>
<b>Taxation:</b>	<p>The Company is an investment undertaking within the meaning of Section 739B of the Irish Taxes Consolidation Act 1997 and is not chargeable to Irish tax on its relevant income or relevant gains, subject to the exceptions as set out in the section entitled “Taxation” in the Prospectus. No Irish stamp duty is payable on the issue, redemption or transfer of shares in the company.</p> <p><b>Shareholders and potential investors should consult with their professional advisers in relation to the tax treatment of their holdings in the Company.</b></p>
<b>Publication of Share Price:</b>	<p>The latest Net Asset Value per Share will be available on Bloomberg and will be kept up to date.</p>
<b>How to Buy/ Sell Units/Shares:</b>	<p>Investors may, subject to the provisions of the Prospectus, subscribe for Shares, redeem, exchange or transfer shares on any Dealing Day directly through:</p> <p>Northern Trust International Fund Administration Services (Ireland) Limited George’s Court 54-62 Townsend Street</p>

	<p>Dublin 2 Ireland</p> <p>Tel + 353 1 542 2000 Fax + 353 1 542 2920</p> <p>Hours of business: 9 am to 5 pm Monday – Friday</p> <p>The minimum initial subscription and minimum subsequent subscription amount for Shares in the Sub-Fund is as set out in the Prospectus.</p>
<p><b>Additional Important Information:</b></p>	<p>Custodian: Northern Trust Fiduciary Services (Ireland) Limited</p> <p>Administrator: Northern Trust International Fund Administration Services (Ireland) Limited</p> <p>Investment Manager: Ferox Capital LLP</p> <p>Promoter: Morgan Stanley &amp; Co International plc</p> <p>Distributor: Morgan Stanley &amp; Co International plc</p> <p>Auditor: Ernst &amp; Young</p> <p>Additional information and copies of the prospectus, the latest annual and half yearly reports may be obtained (free of charge) from the Administrator at the address above.</p>