



MARGIN OF SAFETY FUND

Société d'Investissement à Capital Variable
R.C.S. B 88649

Audited annual report

as at 31/12/17

MARGIN OF SAFETY FUND

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Subscriptions can only be received on the basis of the latest prospectus accompanied by the latest annual report as well as by the latest semi-annual report, if published after the latest annual report.

MARGIN OF SAFETY FUND

Management and Administration

REGISTERED OFFICE

5, Allée Scheffer
L-2520 Luxembourg

MANAGEMENT COMPANY

Pastel & Associés S.A.
17, Rue de Miromesnil
F-75008 Paris

DEPOSITARY AND DOMICILIARY AGENT

CACEIS Bank, Luxembourg Branch
5, Allée Scheffer
L-2520 Luxembourg

CENTRAL ADMINISTRATION

CACEIS Bank, Luxembourg Branch
5, Allée Scheffer
L-2520 Luxembourg

AUDITOR

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Board of Directors

Chairman of the Board

Mr. John MILLS, Managing Director, Maitland & Co. S.a.r.l.

Members of the Board

Mr. David PASTEL, CEO of Pastel & Associés S.A.

Mr. Yves-Pascal PELCENER, Member of the Board of Pastel & Associés S.A.

MARGIN OF SAFETY FUND

Manager's Report

Investment performance Margin of Safety Fund

Total annual returns (in percentage)

	Margin of Safety Fund (P class)	Margin of Safety Fund (I class)	MSCI World (USD) dividends reinvested
1998*	2.5	2.5	21.0
1999	42.0	42.0	24.9
2000	15.1	15.1	(13.2)
2001	5.7	5.7	(16.8)
2002	(13.4)	(13.7)	(19.9)
2003	43.8	36.7	33.1
2004	23.9	22.5	14.7
2005	5.3	5.2	9.5
2006	20.9	20.7	20.1
2007	(4.0)	(3.8)	9.0
2008	(40.1)	(39.6)	(40.7)
2009	69.9	71.4	30.0
2010	16.2	17.3	11.8
2011	(19.7)	(19.0)	(5.5)
2012	20.8	21.8	15.8
2013	31.2	32.5	26.7
2014	(8.8)	(7.9)	4.9
2015	(20.8)	(20.0)	(1.8)
2016	29.8	31.1	7.5
2017	15.7	16.8	22.4
Cumulative performance	445.6%	461.2%	212.8%
Annualized performance	8.9%	9.0%	5.9%

Fund's inception on February 2nd, 1998

Margin of Safety Fund's underlying investment portfolio has been managed according to the same value-oriented investment methodology since the fund's inception on February, 2nd, 1998. From March 26th, 2013 onwards, the fund has been a feeder fund to Valeur Intrinsèque, a French UCITS, which has also been managed according to the same methodology applied by Pastel & Associés.

I class shares were first offered to investors on August, 16th 2002. As a result, the performance figures provided herein and related to periods prior to this date are those of the P class shares.

MARGIN OF SAFETY FUND

Manager's Report (continued)

Evolution of the portfolio structure in 2017

As of December 29th, 2017, Margin of Safety Fund is invested at 99.7% in its Master Fund Valeur Intrinsèque.

In 2017, the structure of the Master Fund portfolio underwent a number of changes.

- Partial or complete disposal of positions : Cummins (USA), Deere (USA), DS Norden (Denmark), IBM (USA), Leucadia (USA), Sports Direct (UK), Subsea 7 (Norway), Ternium (Luxembourg) and TGS Nopec (Norway).
- New or reinforced positions : Bed, Bath & Beyond (USA), Debenhams (UK), Diamond Offshore (USA), Fairfax Financial (Canada), Loews Corp (USA), Markel Corp (USA), Next Group (UK) et Rowan Companies (USA).
- The "cash" position was up at 33.4% of the portfolio as of December 29th, 2017, versus 27.1% at the end of 2016.

As of December 29th, 2017, the breakdown by industry sector of the equity portion of the Master Fund portfolio was as follows. As a reminder, this breakdown is not based on a sector allocation that was decided ex-ante. It is merely the result of our "bottom-bottom" approach.

Sectors	Weight
Oil and gas services	26.0%
Diamond Offshore Drilling Inc	
Rowan Companies Plc	
Subsea 7	
TGS-NOPEC Geophysical	
Transocean Ltd	
Holdings	19.6%
Fairfax Financial Holdings Ltd	
Leucadia National Corp	
Loews Corporation	
Markel Corp.	
Capital goods	6.2%
Deere & Company	
Non-food retailing	4.9%
Bed Bath & Beyond Inc	
Next Group plc	
Sports Direct International	
Heavy industry	3.6%
Tenaris	
Ternium SA	
Financial services	3.1%
American Express	
Other(s)	3.2%
Randstad	
Thermador Groupe	
Cash (€)	33.4%

MARGIN OF SAFETY FUND

Manager's Report (continued)

Outlook

Assuming the CSSF visa being obtained and the shareholders having voted in favor of liquidating the SICAV, the current portfolio, invested as of the writing of this report, as prescribed by the SICAV's current prospectus, will, in all likelihood, be liquidated and the proceeds net of all expenses be distributed to shareholders of record.

Regards,

David Pastel,
Pastel & Associés S.A.



KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholders of **MARGIN OF SAFETY FUND**
5, Allée Scheffer
L-2520 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Margin of Safety Fund (“the Fund”), which comprise the statement of net assets and the statement of investments and other net assets as at December 31, 2017 and the statement of operations and the statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Margin of Safety Fund as at December 31, 2017, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (“Law of 23 July 2016”) and with International Standards on Auditing (“ISAs”) as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier* (“CSSF”). Our responsibilities under the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of “Réviseur d’Entreprises agréé” for the Audit of the Financial Statements » section of our report. We are also independent of the Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2 and Note 9 of the financial statements, which describe that the Board of Directors of the Fund will propose to the Extraordinary General Meeting of the Shareholders to be held by the end of May 2018 the dissolution and liquidation of the Fund. As a consequence, the use of the going concern assumption is no longer appropriate for the preparation of these financial statements and these financial statements have been prepared on a liquidation basis. Our opinion is not modified in respect of this matter.



KPMG Luxembourg, Société coopérative
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Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

Other information

The Board of Directors of the Fund is responsible for the other information. The other information comprises the information stated in the annual report but does not include the financial statements and our report of “*Réviseur d’Entreprises agréé*” thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of Board of Directors of the SICAV for the financial statements

The Board of Directors of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the Fund determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Fund is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d’Entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of “*Réviseur d’Entreprises agréé*” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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Internet: www.kpmg.lu

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SICAV's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund.
- Conclude on the appropriateness of the Board of Directors of the Fund's use of the liquidation basis of accounting. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Luxembourg, April 11, 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



Patrice Perichon

MARGIN OF SAFETY FUND

- Fund 1

MARGIN OF SAFETY FUND - Fund 1
Financial Statements as at 31/12/17

Statement of net assets as at 31/12/17

Expressed in USD

Assets			12,295,688.94
Securities portfolio at market value	Note 2, 8		12,178,073.19
<i>Cost price</i>			8,606,650.29
<i>Unrealised profit on the securities portfolio</i>			3,571,422.90
Cash at banks and liquidities			77,615.75
Other assets	Note 9		40,000.00
Liabilities			86,471.99
Accrued management company fees	Note 4		25,353.95
Liquidation provision	Note 9		40,000.00
Other liabilities			21,118.04
Net asset value			12,209,216.95

Changes in number of shares outstanding from 01/01/17 to 31/12/17

	Shares outstanding as at 01/01/17	Shares issued	Shares redeemed	Shares outstanding as at 31/12/17
Class I Capitalisation shares	2,068.91	0.00	0.00	2,068.91
Class P Capitalisation shares	166.02	2.00	58.00	110.02

Key figures relating to the last 3 years

	<i>Year ending as at:</i>	31/12/17	31/12/16	31/12/15
Total Net Assets	USD	12,209,216.95	10,720,204.46	9,622,393.20
Class I		USD	USD	USD
Capitalisation shares				
Number of shares		2,068.91	2,068.91	2,399.91
Net asset value per share		5,611.19	4,803.12	3,664.13
Class P		USD	USD	USD
Capitalisation shares				
Number of shares		110.02	166.02	228.09
Net asset value per share		5,455.08	4,716.20	3,633.77

MARGIN OF SAFETY FUND - Fund 1

Securities portfolio as at 31/12/17

Expressed in USD

Quantity	Denomination	Quotation currency	Market value	% of net assets
Units of UCITS			12,178,073.19	99.74%
	Units in investment funds		12,178,073.19	99.74%
	France		12,178,073.19	99.74%
3,041.48	VALEUR INTRINSEQUE FCP -M- CAP	EUR	12,178,073.19	99.74%
Total securities portfolio			12,178,073.19	99.74%

MARGIN OF SAFETY FUND - Fund 1

Statement of operations and changes in net assets from 01/01/17 to 31/12/17

Expressed in USD

Income		40,000.00
Other income	Note 9	40,000.00
Expenses		225,934.03
Management company fees	Note 4	96,758.62
Depositary & sub-depositary fees		2,645.00
Taxe d'abonnement	Note 3	5,650.09
Administrative fees		16,361.01
Restructuration fees	Note 2	5,725.63
Domiciliation fees		4,524.83
Professional fees		14,807.10
Bank interest on overdrafts		1.78
Legal fees		21,523.15
Liquidation fees	Note 9	40,000.00
Other expenses		17,936.82
Net loss from investments		-185,934.03
Net realised profit / loss on:		
- sales of investment securities	Note 2	144,121.95
- forward foreign exchange contracts	Note 2	-27,840.00
- foreign exchange	Note 2	-35,054.60
Net realised loss		-104,706.68
Movement in net unrealised appreciation / depreciation on:		
- investments		1,915,993.25
- forward foreign exchange contracts		-35,068.30
Increase in net assets as a result of operations		1,776,218.27
Subscription capitalisation shares		9,823.50
<i>Class P</i>		9,823.50
Redemption capitalisation shares		-297,029.28
<i>Class P</i>		-297,029.28
Increase in net assets		1,489,012.49
Net assets at the beginning of the year		10,720,204.46
Net assets at the end of the year		12,209,216.95

MARGIN OF SAFETY FUND

Other notes to the financial statements

MARGIN OF SAFETY FUND

Other notes to the financial statements as at December 31, 2017

1. General

MARGIN OF SAFETY FUND is a “société anonyme” with the status of a “Société d’Investissement à Capital Variable” under the law of August 10, 1915 on Commercial Companies, as amended. It is also submitted to the Part I of the modified Luxembourg law of December 17, 2010 on Collective Investment Undertakings, as amended.

The Fund is incorporated with limited liability for an unlimited duration.

The Fund was incorporated under the name “Margin of Safety Fund Limited” with limited liability on January 19, 1998 in the British Virgin Islands as an open-ended investment company. The decision to transfer the Fund’s head office to the Grand Duchy of Luxembourg was taken by way of a resolution of the Board of Directors dated May 15, 2002, and the Fund was transformed into a Luxembourg SICAV by way of an extraordinary General Meeting held on August 14, 2002.

The Fund is registered under the number B 88649. Its registered office is in Luxembourg, 5, Allée Scheffer, L-2520 Luxembourg.

The Fund has designated Pastel & Associés S.A. as Management Company in the meaning of article 15 of the Luxembourg law dated December 17, 2010, as amended.

As at December 31, 2017 only the feeder sub-fund MARGIN OF SAFETY FUND - Fund 1 is open.

This feeder sub-fund has issued two classes of shares: Class I (in USD) and Class P (in USD). All classes may be issued as accumulation shares or distribution shares at the investor’s discretion. Class I and P shares are also expressed in EUR for the purpose of subscriptions and redemptions.

The feeder sub-fund is expressed in USD, consequently, the financial statements of the Fund consist in the financial statements of the Fund 1 feeder sub-fund.

As a result of the board considering, since year-end, liquidating the Fund and an agreement request to this effect being filed with the CSSF, it has been decided to switch from a going concern basis to a liquidation basis in order to account for the assets and liabilities of the Fund.

2. Summary of significant accounting principles

The financial statements have been prepared using accounting principles generally accepted for funds in Luxembourg.

However, following the proposal of the Board of Directors of the Fund to put the SICAV in dissolution and liquidation to the Extraordinary General Meeting of the Shareholders, the use of going concern assumption is no longer appropriate for the financial statements preparation and the basis of accounting has been changed from the going concern basis to a liquidation basis.

The use of liquidation basis requires that the assets are valued at their liquidating value and provisions are included in the net assets value calculation to cover all liquidation costs.

In the normal context, the SICAV keeps the books in their respective currency and the financial statements were prepared in accordance with the Luxembourg regulations relating to undertakings for collective investment and in particular using the following valuation rules:

1. The valuation policy of the master fund

The valuation of the feeder sub-fund is based on the last published net asset value of the Master Fund.

2. Realised profit and loss on investments

The profits and losses on sales of investments are determined on the basis of average cost.

3. Forward foreign exchange contracts

Outstanding forward foreign exchange contracts are valued at the closing date by reference to the forward foreign exchange rate applicable to the outstanding life of the contract. The unrealised profit or loss is disclosed in the statement of net assets.

MARGIN OF SAFETY FUND

Other notes to the financial statements as at December 31, 2017 (continued)

2. Summary of significant accounting principles (continued)

3. Forward foreign exchange contracts (continued)

Realised profit and loss on forward foreign exchange contracts is recorded in the Statement of operations and changes in net assets under the item “Net realised profit/loss on forward foreign exchange contracts”.

4. Foreign exchange

The market value of the investments and other assets and liabilities expressed in currencies other than the base currency of the feeder sub-fund have been converted at the exchange rates as at the year-end date.

The costs of investments in currencies other than the base currency have been converted at the exchange rates as at the purchase date. Profits and losses arising on foreign exchange transactions are included in the Statement of operations and changes in net assets.

As at December 31, 2017, the following significant exchange rate was used:

1 EUR = 1.2008 USD

5. Transaction fees

The transactions fees for the year, i.e. fees charged by the brokers and the Custodian for securities transactions and similar transactions are recorded separately in the Statement of operations and changes in nets assets in the account “Transaction fees”. As at December 31, 2017, no transaction fees were paid.

6. Restructuration fees

Fees in relation with restructuration of the Fund are written off over a period of five years.

3. Tax Considerations

Under legislation and regulations currently prevailing in Luxembourg, the Fund is subject to a capital tax on its net assets at an annual rate of 0.05 % (“Taxe d’abonnement”), calculated and payable quarterly on the basis of the value of the net assets of the Fund at the end of the relevant quarter.

4. Management company fees

The Management Company receives a management company fees, payable quarterly, at an annual rate calculated on each class of shares quarterly average net asset value. The annual management company fees are as follows:

Class I: maximum and effective 0.80%

Class P: maximum and effective 1.80%

5. Performance fees

The Fund shall pay to the Management Company an annual performance fee of up to 20% of the annual increase in the aggregate net assets of the Class I shares and Class P shares over a 12% annual benchmark as defined in the prospectus.

For the year ended December 31, 2017, no performance fee was paid by the Fund.

6. Open positions on forward foreign exchange contracts

As at December 31, 2017, there is no outstanding open positions on forward foreign exchange contracts.

7. Statement of changes in Portfolio

The statement of changes in portfolio for the year under review is available free of charge at the Fund’s head office.

MARGIN OF SAFETY FUND

Other notes to the financial statements as at December 31, 2017 (continued)

8. Master-feeder structure

MARGIN OF SAFETY FUND - Fund 1 is a feeder sub-fund of the Fund VALEUR INTRINSEQUE (ISIN : FR0011255231) (the “Master Fund”); a french undertaking for collective investment in transferable securities, qualifying as a “fonds commun de placement” (mutual fund) under French law and organised as a single fund, and will invest at least 85% of its assets in units of this Fund.

The feeder sub-fund may hold up to 15% of its assets in one or more of the following:

- Ancillary liquid assets
- Financial derivative instruments, which may be used only for hedging purposes,
- Movable and immovable property which is essential for the direct pursuit of its business.

The feeder sub-fund will invest its assets solely in the class M of the Master Fund.

The feeder sub-fund holds 100% of the Master Fund class M.

The feeder sub-fund and the Master Fund are both managed by the same Management Company, Pastel & Associés S.A. 17, Rue de Miromesnil, F-75008 Paris.

The investment objective of the Master Fund VALEUR INTRINSEQUE is to provide capital appreciation over an investment horizon of five years through the discretionary management of a portfolio primarily invested in international equities.

At the level of the Master Fund, the fees, charges and expenses associated with the investments are an operating and management fee covering all the expenses invoiced directly to the Master Fund, with the exception of transaction fees.

As at December 31, 2017, the maximum operating and management fee charged by the Master Fund is 0.15%.

The operating and management fee, as described by the MARGIN OF SAFETY FUND prospectus, may be increased by performance fees, transaction fees and by a part of the income from sale and repurchase agreements.

As at December 31, 2017, the total fees of the feeder sub-fund and Master Fund are as follows:

Feeder sub-fund	Total fees in USD
MARGIN OF SAFETY FUND - Fund 1	184,731.45

Master Fund	Total fees in EUR
VALEUR INTRINSEQUE FCP -M- CAP	14,808.91

Complete information about the Master Fund, including prospectus, KIID, regulations, articles of incorporation and financial reports can be obtained free of charge at the Fund’s registered office.

9. Subsequent event

Since the year end, the board has engaged in discussions about the SICAV's future and perspectives. After taking into account its limited commercial perspectives and past success, the board will propose to shareholders, after obtaining the CSSF approval, to liquidate the SICAV. All the liquidation costs, to a maximum of 40 000 EUR all taxes included, will be recharged to the management Company.

The total NAV of the Fund has been negatively impacted by the change to a liquidation basis for an amount of USD 1,200.80 or 0.01% of the total NAV. This amount is not to be considered material with regard to accounting and regulatory rules and principles.

MARGIN OF SAFETY FUND

Unaudited information

SECURITIES FINANCING TRANSACTIONS AND OF REUSE REGULATION (“SFTR”)

The Fund does not use any instruments falling into the scope of SFTR.

UCITS V: Remuneration disclosure

Pastel & Associés has set up a remuneration policy (the “Remuneration Policy”) which complies with the AIFM and UCITS V directives, as well as with the ESMA guidelines. This Remuneration Policy is meant to define the remuneration principles applicable inside the Management Company.

The Remuneration Policy includes in its fundamental principles that the interests of the investors, of the staff and of Pastel & Associés should be aligned, and applies to every employee of Pastel & Associés.

The remuneration of the Management Company co-workers consists of a base salary equivalent or superior to the “market level” and of a variable part composed of a discretionary portion depending on the company’s results and prospects as well as the co-worker’s personal results, and of a totally discretionary portion taking into account the coworker’s qualitative performance.

Information on the general principles of the Remuneration Policy will be provided annually to the members of the Board of Directors of Pastel & Associés and to the entire staff.

The Remuneration Policy of Pastel & Associés aims to promote a sound and efficient risk management by not encouraging its co-workers to take risk that would be inconsistent with the interests of the Management Company’s clients.

The specifics of the Remuneration Policy of Pastel & Associés are available on the website www.pastel.fr

A hard copy of the Remuneration Policy will be provided to the investors for free within 8 working days upon written request sent to the Management Company’s address:

Pastel & Associés
17 rue de Miromesnil
75008 Paris

Find below relevant complementary information:

- In keeping with the proportionality principle Pastel & Associés, has set up a "Compensation & remuneration committee" in a format that is simplified ("allégé") with respect to the Directive's requirements. The Committee is made up of the Management Company's senior officers as defined by the AMF. Let us mention that the Chief Compliance Officer ("RCCI) is one of these senior officers.
- The staff's fixed compensation terms and amounts have been set according to the nature of their respective assignments and are aligned to those prevailing at comparable market peers'. The variable part of their compensation is discretionary and decided for each year according to a qualitative assesment of the achievement of their respective mission. The variable part of the compensation cannot represent for each individual employee more than a maximum amount of Euro 100,000 per annum.
- All compensation is paid in cash.

THE COMMITMENT APPROACH

The feeder sub-fund MARGIN OF SAFETY FUND - FUND 1 uses the commitment approach in order to monitor and measure the global exposure.