

## 6910.25 Considerations in Evaluating Whether Certain Liabilities Constitute "Debt" for Purposes of Assessing Whether an Investment Company Must Present a Statement of Cash Flows

*Inquiry*—Financial Accounting Standards Board (FASB) Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale*, an amendment of FASB Statement No. 95, exempts investment companies (both registered and unregistered) from the requirement to provide a statement of cash flows, if all of the following conditions are met:

- a. During the period, substantially all of the enterprise's investments were highly liquid (for example, marketable securities and other assets for which a market is readily available).
- b. Substantially all of the enterprise's investments are carried at market value.<sup>1</sup>
- c. *The enterprise had little or no debt, based on the average debt outstanding<sup>2</sup> during the period, in relation to average total assets. (emphasis added)*
- d. The enterprise provides a statement of changes in net assets.<sup>3</sup>

As footnote 2 of FASB Statement No. 102 specifically states that *covered options written* would generally not be considered debt for purposes of determining whether an investment company meets these conditions, does that imply that *uncovered options* and *short sales of securities and reverse repos* must, by inference, be treated as debt? If not, under what circumstances may they be excluded from *debt* in determining whether the investment company must present a statement of cash flows?

*Reply*—Although presented in the liabilities section of the statement of assets and liabilities, options sold/written (whether covered or uncovered), short sales of securities, and other liabilities recorded as a result of investment practices are not necessarily debt; rather, their classification depends on the nature of the activity. Certain transactions (for example, securities lending, mortgage dollar rolls, or short sale transactions) may have a practice of being entered into solely for operating purposes (similarly to unsettled purchases of securities) or as an investing strategy (similarly to covered options written), and the investment company either retains the proceeds in cash accounts or uses them to invest in securities that are cash equivalents under FASB Statement No. 95, *Statement of Cash Flows*. In such cases, the proceeds from the transaction would not be considered debt for purposes of assessing whether the conditions in FASB Statement No. 102 are met.

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<sup>1</sup> Securities for which market value is determined using matrix pricing techniques, which are described in the AICPA Audit and Accounting Guide *Audits of Investment Companies* would meet this condition. Other securities for which market value is not readily determinable and for which fair value must be determined in good faith by the board of directors would not. (FASB Statement No. 102, paragraph 7, footnote 1)

<sup>2</sup> For the purpose of determining average debt outstanding, obligations resulting from redemptions of shares by the enterprise, from unsettled purchases of securities or similar assets, or from covered options written generally may be excluded. However, any extension of credit by the seller that is not in accordance with standard industry practices for redeeming shares or for settling purchases of investments shall be included in average debt outstanding. (FASB Statement No. 102, paragraph 7, footnote 2)

<sup>3</sup> Paragraph 7.64 of the AICPA Audit and Accounting Guide *Investment Companies* permits investment partnerships to combine the statement of changes in net assets with the statement of changes in partners' capital, if all required information is presented.

## **.26 Additional Guidance on Determinants of Net vs. Gross Presentation of Security Purchases and Sales/Maturities in the Statement of Cash Flows of a Nonregistered Investment Company**

*Inquiry*—Under what circumstances, if any, may purchases and sales/maturities of securities presented in the operating section of the statement of cash flows of a nonregistered investment company be shown on a *net*, rather than a *gross*, basis?

*Reply*—Paragraph 7.68 of the AICPA Audit and Accounting Guide *Investment Companies* states:

Cash flows from operating activities should include the fund's investing activities. Cash flows from operating activities include (***bold italic*** added for emphasis)—

- a. Interest and dividends received.
- b. Operating expenses paid.
- c. ***Purchases of long-term investments*** (at cost).
- d. ***Sales of long-term investments*** (proceeds).
- e. ***Net sales or purchases of short-term investments***.
- f. Cash flows for other types of investing activities related to changes in margin accounts and collateral status, such as written options, financial futures contracts, securities lending, and so forth.

TIS 6910.20 provides the following guidance:

In general, a nonregistered investment partnership should present purchases and sales/maturities of long-term investments (securities purchased with no stated maturity or with a stated maturity of greater than one year at the date of acquisition) on a gross basis in the statement of cash flows pursuant to Statement of Financial Accounting Standards No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale*, and in accordance with the requirements in paragraph 7.63<sup>4</sup> of the AICPA Audit and Accounting Guide *Investment Companies*, although the nonregistered investment partnership may consider the provisions in Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*, paragraph 13<sup>5</sup> in determining whether or not certain purchases and sales/maturities qualify for net reporting.

One of the requirements of paragraph 13 is that the original maturity of assets and liabilities qualifying for net reporting is three months or less. However, paragraph 8 of FASB Statement No. 102, which amended FASB Statement No. 95, permits “banks, brokers and dealers in securities, and other enterprises [that] carry securities in a trading account” to classify cash receipts and cash payments from such activities as operating cash flows, while cash flows from transactions in “available for sale” securities are reported gross as investing activities.<sup>6</sup> In other industries, operating cash flows relating to trading account securities typically are reported on a net basis.

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<sup>4</sup> Paragraph 7.68 of the AICPA Audit and Accounting Guide *Investment Companies* with conforming changes as of May 1, 2007.

<sup>5</sup> Paragraph 13 states:

Items that qualify for net reporting because their turnover is quick, their amounts are large, and their maturities are short are cash receipts and payments pertaining to (a) investments (other than cash equivalents), (b) loans receivable, and (c) debt, providing that the original maturity of the asset or liability is three months or less.

<sup>6</sup> The complete guidance of paragraph 8 of FASB Statement No. 102 is as follows:

If a nonregistered investment company presents a statement of cash flows, the investment company's trading style, investment objectives stated in its offering memorandum, and portfolio turnover should be the primary determinants of net vs. gross reporting. Where the investment company's overall activities comport with *trading*, as discussed in FASB Statement Nos. 102 and 115<sup>7</sup>, netting is permissible; otherwise, gross reporting of purchases and sales/maturities is required.

Regardless of whether net or gross reporting is appropriate based on the stated criteria, an entity should separately report its activity related to long positions from activity related to short positions; that is, changes/activity in account balances reported as assets should not be netted against changes/activity in account balances reported as liabilities.

#### **6910.27 Treatment of Deferred Fees**

*Inquiry*—The governing documents of an offshore fund provide that the investment adviser may elect to defer payment of its management fee, incentive fee, or both. Based on the documents, the deferred fees that are payable to the investment adviser do not take the form of a legal capital account and are settled exclusively in cash. Under this arrangement, the fund retains the fee amount and is obligated to pay the investment adviser the deferred fees at a later date adjusted for the fund's rate of return (whether positive or negative). How should the deferred fees and the appreciation or depreciation on the deferred fees be presented on the statement of assets and liabilities, on the statement of operations, and on the financial highlights? What additional disclosures, if any, should be included in the financial statements or the notes to the financial statements?

*Reply*—In accordance with guidance from paragraph 35 of FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, the fund should record the cumulative deferred fees as a liability. The indexing

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Banks, brokers and dealers in securities, and other enterprises may carry securities and other assets in a trading account. Cash receipts and cash payments resulting from purchases and sales of securities classified as trading securities as discussed in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, shall be classified pursuant to Statement 95 (as amended) based on the nature and purpose for which the securities were acquired. Cash receipts and cash payments resulting from purchases and sales of other securities and other assets shall be classified as operating cash flows if those assets are acquired specifically for resale and are carried at market value in a trading account. Cash flows from purchases, sales, and maturities of available-for-sale securities shall be classified as cash flows from investing activities and reported gross in the statement of cash flows.

<sup>7</sup> Paragraph 12a of FASB Statement No. 115 defines *trading securities* as follows:

Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time)...Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price."

Although investment companies do not apply FASB Statement No. 115 and, therefore, do not normally categorize securities as trading, available for sale, or held to maturity, the concepts of whether the securities are held for trading purposes and whether the related cash flows would be classified as operating cash flows under paragraph 8 of FASB Statement No. 102 are relevant in determining whether cash flows from purchases and sales of securities should be presented gross or net by investment companies.

of this liability to the fund's rate of return represents a hybrid instrument that has a host debt instrument with an embedded derivative, which has attributes of a total return contract. Although paragraphs 12 and 185 of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, require the embedded total return contract to be bifurcated from the host debt instrument, the Securities and Exchange Commission staff has previously indicated<sup>8</sup> that the bifurcation requirements of FASB Statement No. 133 do not extend beyond measurement to financial statement presentation, if the embedded derivative and host debt instrument, together, represent the principal and interest obligations of a debt instrument. While the fund should fair value the embedded return component of the deferral arrangement according to the guidance from paragraph 17 of FASB Statement No. 133, generally, the fair value of such return component would be the same as the appreciated or depreciated return of the fund because (1) the fund fair values all of its investments, whether assets or liabilities, which generally represent substantially all of its net assets, and (2) if the deferred fee liability was transferred, the transfer would likely be transacted at the current net asset value.<sup>9</sup> The deferred fees and the embedded total return contracts associated with deferred fees that are at an appreciated or depreciated position as of the reporting date may be presented as one amount titled "Deferred incentive fees payable" on the statement of assets and liabilities. AICPA Audit and Accounting Guide *Investment Companies* paragraph 7.39 provides that "the objective of the statement of operations is to present the increase or decrease in net assets resulting from all of the company's investment activities, by reporting investment income from dividends, interest, and other income less expenses, the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency denominated assets and liabilities for the period." Because the fund directly earns or incurs the income, expenses, net realized gains or losses, and unrealized appreciation or depreciation on the deferred fee retained in the fund, such amounts should be presented within their respective line items in the investment company's statement of operations. The net change in unrealized appreciation or depreciation on the total return contracts associated with the deferred fees should be reported in earnings; that is, reflected as an expense (appreciation of deferred fees) or negative expense (depreciation of deferred fees) of the fund rather than as an allocation of earnings or losses and, following the guidance from FASB Statement No. 57, *Related Party Disclosures*, should be presented separately from the current period management or incentive fee.

Statement of Position (SOP) 03-4, *Reporting Financial Highlights and Schedule of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships* (ACC sec. 10,890), paragraph .12, states that "the caption descriptions in the per share data should be the same captions used in the statement of operations...to allow the reader to determine which components of operations are included in or excluded from various per share data." SOP 03-4, paragraph .13a, adds "generally, the determination of expenses for computing those ratios should follow the presentation of expenses in the fund's statement of operations." The per share information, net investment income ratio, and net expense ratio included in the financial highlights should

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<sup>8</sup> Twenty-Eighth Annual National Conference on Current SEC Developments December 4–6, 2000, Remarks by E. Michael Pierce.

<sup>9</sup> All concepts of FASB Statement No. 157, *Fair Value Measurements*, should be considered.

reflect the amounts presented on the statement of operations including the adjustment associated with the deferred fee amount. In order to reflect the effect of the adjustment on the fund's expense ratio, the fund may also present an expense ratio that excludes the amount of deferred fee expense or negative expense reported in the statement of operations. Consistent with guidance from chapter 7 of the guide, the fund should disclose the nature of the deferred fee arrangement, including the priority of claim in the event of liquidation, the current period and cumulative amounts deferred, the cumulative earnings or losses on the deferral, the terms of payment, the date that the deferral payments commence (or the next payment date), and the manner in which the deferral will be invested.

The following is an illustration of a deferred incentive fee presentation in the financial statements and the related disclosures:

*Statement of Assets and Liabilities*

**Assets**

Cash and cash equivalents	\$ 206,000
Investments, at fair value	166,585,000
Total assets	<u>\$ 166,791,000</u>

**Liabilities**

Management fee payable	\$ 400,000
Redemptions payable	1,000,000
Accrued expenses	100,000
Deferred incentive fees payable	4,800,000
Total liabilities	<u>6,300,000</u>
Net assets	<u><u>\$ 160,491,000</u></u>



*Notes to Financial Statements*

*Note X – Investment Management and Incentive Fees*

Pursuant to an investment advisory agreement, the Fund pays to the Adviser a quarterly management fee of  $\frac{1}{4}$  of 1 percent (1 percent per annum) of the net assets of the Fund on the last day of each quarter. The Adviser also is entitled to an annual incentive fee equal to 20 percent of the net profits attributable to each series of common shares, subject to a loss carry forward. If there is a net loss for the year, the incentive fee will not apply to future years until such net loss has been recovered, adjusted for redemptions.

The Adviser may elect to defer receipt of all or a portion of the management or incentive fees earned for a particular fiscal year, and such amounts will be indexed to the Fund's return. In the event of liquidation of the Fund, any deferred amount, as adjusted for the appreciation or depreciation resulting from indexing, the deferred fee to the Fund's return has a priority claim over the interests of the equity holders of the Fund.

For the [year/period] ended December 31, 20XX, payment of 50 percent of the incentive fee incurred by the Fund was deferred for X years. Cumulative deferred incentive fees as of December 31, 20XX totaled \$3,850,000, and cumulative net appreciation on such amounts totaled \$950,000. The net change in appreciation or depreciation of deferred incentive fees is recorded on a separate line item under "Expenses" within the statement of operations. Distributions of 20XX and prior year deferred incentive fees are scheduled for the period from [DATE RANGE]. During the year ended December 31, 20XX, the distribution of previously deferred incentive fees amounted to \$500,000.

The following is an example disclosure of a roll forward of deferred incentive fees payable, which is a best practice disclosure.

The deferred incentive fees payable balance as of December 31, 20XX is comprised of the following:

Deferred incentive fees payable at January 1, 20XX	\$3,310,000
Appreciation on deferred incentive fees for the year ended	
December 31, 20XX	650,000
Incentive fees deferred for the year ended December 31, 20XX	1,340,000
Deferred incentive fees paid for the year ended	
December 31, 20XX	<u>(500,000)</u>
Deferred incentive fees payable at December 31, 20XX	<u>\$4,800,000</u>

*Note X – Financial Highlights*

The following represents the per share information, ratios to average net assets, and other supplemental information for the year ended December 31, 20XX:

	<b>Class A</b>	<b>Class B</b>
	<b>Initial series</b>	<b>Initial series</b>
Per share operating performance:		
Beginning net asset value	\$ 1,130.35	\$ 1,123.80
Income from investment operations:		
Net investment income	11.01	6.76
Net realized and unrealized gain from		
investment activities	141.50	145.64
Total income from operations	<u>152.51</u>	<u>152.40</u>
Ending net asset value	<u>\$ 1,282.86</u>	<u>\$ 1,276.20</u>

Ratios to average net assets:

Expenses other than incentive fee	1.43%	1.46%
Incentive fee	1.46	1.49
Total expenses	<hr/> 2.89	<hr/> 2.95
Change in net appreciation on deferred		
incentive fees	(0.40)	(0.43)
Total expense excluding change in net appreciation	<hr/>	<hr/>
on deferred incentive fees	2.49%	2.52%
	<hr/>	<hr/>
Net investment income	1.12%	1.09%
	<hr/>	<hr/>
Total return prior to incentive fee	17.07%	16.93%
Incentive fee	(3.58)	(3.37)
Total return after incentive fee	<hr/> 13.49%	<hr/> 13.56%

The per share operating performance and total return are calculated for the initial series of each share class. The ratios to average net assets are calculated for each class taken as a whole. An individual investor's per share operating performance, total return, and ratios to average net assets may vary from these per share amounts and ratios based on participation in new issues and different management fee and incentive fee arrangements and the timing and amount of capital transactions.

### **6910.28 Reporting Financial Highlights, Net Asset Value (NAV) Per Share, Shares Outstanding, and Share Transactions When Investors in Unitized Nonregistered Funds Are Issued Individual Classes or Series of Shares**

*Inquiry*—Some unitized nonregistered funds issue a separate series of shares to each individual investor in the fund, which remains outstanding so long as the investor maintains its investment in the fund and is not closed until the investor fully redeems. These series may be issued within multiple classes of shares with each series within a class bearing the same economic characteristics. The shares are legally issued and outstanding until redemption (that is, they are not notional interests), but will not be converted or otherwise consolidated into an identifiable “permanent” series of shares in a “series roll-up.”<sup>10</sup> Essentially, these unitized funds apply partnership accounting.

<sup>10</sup> A series roll up typically occurs at the end of the year when a temporary series of shares has increased above its high watermark (for example, the highest level in value a series has achieved, adjusted for subscriptions and redemptions) at which time the outstanding shares of a temporary series of shares are converted (or rolled up) into the permanent series of shares.

How should financial highlights (per share data, ratios, and total return) be presented in this situation, and how should each series of shares outstanding at period-end and share transactions during the period be disclosed in the financial statements?

*Reply—*

### Presentation of Financial Highlights

The issuance of a separate series of shares to each individual investor is done for operational purposes because this enables a fund to allocate profit and loss to each investor in the same manner as a limited partnership allocates profit and loss to an individual partner's capital account. Statement of Position (SOP) 03-4, *Reporting Financial Highlights and Schedules of Investments by Nonregistered Investment Partnerships: An Amendment to the Audit and Accounting Guide Audits of Investment Companies and AICPA Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships (ACC sec. 10,890)*, anticipated the maintenance of an identifiable "permanent" series of shares, which would be expected to represent a relatively broad segment of the fund's capital. According to SOP 03-4, "permanent series of a class of share should be the basis for which that share's financial highlights are determined and presented." When a separate series of shares is issued to each individual investor and remains outstanding until the investor fully redeems, reporting the financial highlights for each outstanding series of shares could result in financial highlights presented for up to 500 investors and would be the substantive equivalent of presenting the financial highlights in a limited partnership for each limited partner. This presentation is not consistent with the intent of either the AICPA Audit and Accounting Guide *Investment Companies* or SOP 03-4 for nonunitized partnership interests. SOP 03-4 was not intended to create an incremental requirement for unitized funds in this regard.

The financial highlights should be presented at the aggregate level for the entire permanent series of shares from which the individual series of shares has been issued. Because the fund operates like a partnership, the financial highlights should include only those financial highlights applicable to a partnership, which are the ratios to average net assets and total return, but not per share data.

When a separate series of shares is issued to each individual investor and remains outstanding until the investor fully redeems, the permanent series of shares will be the fund as a whole, excluding managing investor interests, if the shares otherwise have substantially similar terms. There are situations when a fund will issue multiple classes of shares, which contain multiple series of shares, due to differing fee arrangements or restrictions affecting an investor's ability to participate in the profits and losses generated by "new issue" securities. When a fund issues multiple classes of shares, and in each class of shares, a series of shares is issued to each individual investor and remains outstanding until the investor fully redeems, financial highlights should be presented at the aggregate level for each permanent class of shares from which the individual series of shares have been issued. For example, if a fund has outstanding, at year-end, Class A shares, Series 1–40, which have a 1 percent management fee; Class B shares Series 1–300, which have a 2 percent management fee; and Class C shares, which are only held by the managing investor, the fund would present financial highlights information for Class A, taken as a whole and Class B, taken as a whole. There is no requirement to present financial highlights for

Class C because SOP 03-4 requires financial highlights to be presented only for nonmanaging investors.

It would be acceptable for a fund to present supplemental financial highlights data for a single series of shares, which the fund determines to be “representative.” Such financial highlights may be labeled as representing supplemental information and may only be presented in addition to those financial highlights that are required. Factors to consider when determining the representative series of shares include the following:

- 1) The series of shares was outstanding for the entire fiscal period (or, if all units of a series of shares outstanding at the beginning of the fiscal period were redeemed during the period, the series of shares at period-end outstanding for the longest period of time).
- 2) The fees and other offering terms of the series of shares most closely conform to those which may be described in the fund’s offering documents.
- 3) The series of shares represent the largest ownership interest in the fund.

The basis of presentation of the financial highlights and the criteria used to determine the most representative series of shares should be disclosed in a note to those highlights and should be consistently applied.

If appropriate, a fund may present other supplemental information if determined to be informative and not misleading.

#### Presentation of Shares Outstanding and Share Transactions

Paragraph 5.29 of the guide indicates that net asset value per share and shares outstanding should be reported for each class. Because a fund which issues a separate series of shares to each investor operates like a partnership, presenting the net asset value per share and the shares outstanding for each series of shares would be the substantive equivalent of presenting each partner’s capital balance in the financial statements of a partnership, which is not required by the guide or SOP 03-4 for nonunitized partnership interests. Paragraph 7.34*a* of the guide requires unitized funds to disclose units of capital, including the title and par value of each class of shares, and the number of shares authorized, outstanding, and dollar amount of such shares. Paragraph 7.63*d* of the guide requires disclosure of the number and value of shares sold, the number and value of shares issued in reinvestment of distributions, the number and cost of shares reacquired, and the net change in shares. For funds which issue a separate series of shares to each investor, such funds should satisfy the disclosure requirements in paragraphs 5.29, 7.34*a*, and 7.63*d* by presenting such disclosures on an aggregate share basis. For funds which issue multiple classes of shares which contain multiple series of shares, such disclosure requirements should be presented at the aggregate level for each permanent class of shares from which the individual series of shares have been issued.

#### EXAMPLE

A fund issues Class A and Class B nonvoting shares to investors and, within each class, a separate series of shares is issued to each individual investor. Class A shares have a 1 percent

management fee and a 20 percent incentive fee, while Class B shares are issued to related party investors and, therefore, are not charged a management fee or an incentive fee. Class C voting shares are management shares and do not participate in the profits or losses of the fund. As of December 31, 20X7, there are 15,100 total shares outstanding totaling \$1,517,600. The following shows such amounts outstanding as of December 31, 20X7 by class and series:

Class A Series 1–5,000 shares outstanding, NAV \$500,000  
Class A Series 2–7,500 shares outstanding, NAV \$765,000  
Class B Series 1–2,500 shares outstanding, NAV \$252,500  
Class C–100 shares outstanding, NAV \$100

In the prior year, as of December 31, 20X6, there were 10,100 total shares outstanding totaling \$970,100. The following shows such amounts outstanding as of December 31, 20X6 by class and series:

Class A Series 1–6,000 shares outstanding, NAV \$588,000  
Class B Series 1–3,000 shares outstanding, NAV \$288,000  
Class B Series 2–1,000 shares outstanding, NAV \$94,000  
Class C–100 shares outstanding, NAV \$100

**Example Statement of Assets and Liabilities**

*Statement of Assets and Liabilities*

*December 31, 20X7*

**Assets**

Cash and cash equivalents	\$ 100,100
Investments, at fair value	1,550,000
Total assets	<hr/> <u>\$ 1,650,100</u> <hr/>

**Liabilities**

Redemptions payable	94,000
Management fees payable	4,000
Incentive fee payable	3,000
Accrued expenses	31,500
Total liabilities	<hr/> 132,500 <hr/>
Net assets (based on 12,500 Class A shares, 2,500 Class B shares, and 100 Class C shares outstanding)	<hr/> <u>\$ 1,517,600</u> <hr/> <hr/>

## Example Footnote Disclosures

### Capital Share Transactions

As of December 31, 20X7, 5,000,000 shares of capital stock were authorized. Class A and Class B shares have \$0.01 par value, and Class C shares have \$1.00 par value. Transactions in capital stock were as follows:

<b><u>Class A</u></b>	<b>Shares</b>		<b>Amount</b>	
	<b>20X7</b>	<b>20X6</b>	<b>20X7</b>	<b>20X6</b>
Shares sold	7,500	6,000	\$750,000	\$600,000
Shares redeemed	(1,000)	-	\$(99,500)	-
Net increase	<u>6,500</u>	<u>6,000</u>	<u>\$650,500</u>	<u>\$600,000</u>

<b><u>Class B</u></b>	<b>Shares</b>		<b>Amount</b>	
	<b>20X7</b>	<b>20X6</b>	<b>20X7</b>	<b>20X6</b>
Shares sold	-	4,000	-	\$400,000
Shares redeemed	(1,500)	-	\$(148,750)	-
Net increase	<u>(1,500)</u>	<u>4,000</u>	<u>\$(148,750)</u>	<u>\$400,000</u>

<b><u>Class C</u></b>	<b>Shares</b>		<b>Amount</b>	
	<b>20X7</b>	<b>20X6</b>	<b>20X7</b>	<b>20X6</b>
Shares sold	-	100	-	\$100
Shares redeemed	-	-	-	-
Net increase	<u>-</u>	<u>100</u>	<u>-</u>	<u>\$100</u>

### Financial Highlights

The ratios to average net assets and total return are presented below for each class taken as a whole, excluding managing shareholder interests, for the year ended December 31, 20X7. The ratios and total return are not annualized. The computation of similar financial information for other participating shareholders may vary based on the timing of their respective capital transactions.

Annual ratios to average net assets and total return for the year ended December 31, 20X7 are as follows:

	<b><u>Class A</u></b>	<b><u>Class B</u></b>
Ratios to average net assets:		
Expenses other than incentive fee	2.26%	1.26%
Incentive fee	0.31%	0.00%
Total expenses	<u>2.57%</u>	<u>1.26%</u>
Net investment income	<u>0.93%</u>	<u>1.93%</u>
Total return prior to incentive fee	3.48%	5.02 %
Incentive fee	(0.40)%	(0.00)%
Total return after incentive fee	<u>3.08%</u>	<u>5.02%</u>