

# Nordic Commodity Funds

*Nordic Power Fund*

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## CONTACT INFORMATION

Address: Nordic Commodity Funds AB  
Riddargatan 12 B, 4tr  
114 35 Stockholm  
Sweden

Tel. +46 (8) 611 37 60  
Fax +46 (8) 611 57 27  
E-mail [info@nordiccommodity.se](mailto:info@nordiccommodity.se)  
Org. nr. 556708-2465

## DISCLAIMER

Nordic Power Fund is managed by Nordic Commodity Funds AB and is a so called Special Fund governed by the Swedish Investment Funds Act (lagen (2004:46) om investeringsfonder (LIF)) and does not comply with the provisions of the UCITS Directive. The legal name of the fund is Nordic Power Fund. Nordic Commodity Funds AB has, in no other country besides Sweden ensured that the purchase of units in Nordic Power Fund is in accordance with applicable laws. Any dispute, controversy or claim arising out of, or in connection with Nordic Power Fund or information regarding Nordic Power Fund shall be settled according to Swedish Law exclusively by Swedish Courts. The information presented in this sheet should not be seen as a recommendation by the fund management company to invest in Nordic Power Fund. All potential investors should make a judgment of an investment in Nordic Power Fund and the risks associated thereby. There are no guarantees that an investment in Nordic Power Fund will deliver a positive return despite a positive trend in the financial markets. There are no guarantees that an investment in Nordic Power Fund will not lead to a loss. Historical performance is no guarantee for future returns. The invested funds in Nordic Power Fund can both rise and fall in value and it is not certain that the entire invested capital will be repaid on redemption. Investors should be aware that the investment could lose 100% of initially invested capital. The full legal documentation should be read before any investment decision is made.

## THE COMPANY

### GENERAL

Nordic Commodity Funds AB (NCF) was founded by Managing Director Fredrik Bodecker and Head of Trading Filip Lindberg. It is a Swedish limited company (öABö) based in Stockholm. The company became operational in January 2007 and got the license from the Swedish Regulatory Authority for the Financial Services to manage funds and discretionary trade individual accounts in March 2007.

### OFFERING

Nordic Commodity Funds offers commodity funds and managed accounts with very low correlation to equity, bond and currency markets.

### VISION

Nordic Commodity Funds aims to be the leading Nordic management company for commodity based funds and managed accounts.

### FUNDS

The company presently manages the following funds: *Nordic Power Fund* ö a hedge fund trading Nordic power, *Nordic Power Index* ö an index fund that profits from rising Nordic power prices, *Nordic Power Index Short* ö an index fund that profits from falling Nordic power prices. The company plans to launch *Vindfonden* (öThe Wind Fundö) ö an equity fund investing in companies related to wind production, and *Råvarufonden* (öThe Commodity Fundö) ö an equity fund investing in global commodity companies. This document describes the Nordic Power Fund in some detail. For a more detailed description of all the funds, see the prospectus.

### MANAGED ACCOUNTS

NCF give larger clients the alternative of managed accounts instead of investing in the funds. In some cases this is preferable for tax, legal, risk level or other reasons. The managed accounts are traded under the same organization, risk management policies, independent surveillance, compliance, etc. as the funds.

### LEGAL STRUCTURE

NCF, the Funds and the permission to manage accounts are regulated by the Swedish Regulatory Authority for the Financial Services (öFinansinspektionenö or öFIö). The Funds are so called Special Funds (öspecialfonderö) governed by the Swedish Investment Funds Act (2004:46). All assets are held by and controlled by the Custodian (Skandinaviska Enskilda Banken). The Custodian furthermore ascertains that all instructions given by NCF are in line with the regulations stated in the Investment Memorandum. The assets are administrated (including NAV calculations) by the Administrator (Wahlsted Sageryd Financial Services).

### AUDITING, INDEPENDENT SURVEILLANCE & COMPLIANCE

Auditing company is PricewaterhouseCoopers AB. Authorised auditor is Johnny Svenander. Responsible for independent surveillance is KPMG Bohlins with Lena Stämmgård and Niklas Lundblad as reviewers.

The Managing Director is responsible for legal compliance. Supporting the compliance function is Helen Hallåker from KPMG Bohlins. Legal advisory in license questions and other laws and rules connected to fund management is the firm Advokat Björn Wendleby AB. Other legal advisory is handled by Strömberg & Partners AB.

### CLEARING BROKER

The company has chosen to use a clearing broker to minimise administration and costs from trading multiple markets and exchanges. This means getting one counter part and one system for all transactions. NCF has chosen BHF Bank as clearing broker to access the futures, forwards and options at exchanges Nord Pool, EEX och ICE.

### CUSTODIAN

The funds assets are deposited at Skandinaviska Enskilda Banken AB (Publ) that acts as Custodian. The Custodian is acting independent of the fund managers and explicitly in the interest of the share owners of the funds. The main assignment of the custodian is to keep the fund assets, transfer margin requirements to the clearing broker, handle share purchase and sales and supervise that the fund managers are acting according to laws, regulations and fund prospectus.

### FUND ADMINISTRATION

NCF has chosen Wahlsted Sageryd Financial Services AB (WS) as Fund Administrator. WS has long experience as fund administrator and personnel resources to administrate purchase and sales of fund shares, calculate net asset values and reporting to Finansinspektionen.

### ADMINISTRATION & IT-SERVICES

All Together Now AB (ATN) performs administration like book keeping, salaries and invoicing. ATN has established routines and personnel resources to provide a far more economical and optimised service than an in-house solution.

All IT-services, hardware and software, network, firewalls, virus protection, etc. is handled by Arete Datastöd AB. Arete has long experience and many reference customers in the financial industry. Software is under remote surveillance during all business hours and professional personnel can be on-site within one hour.

## **BOARD OF DIRECTORS**

*The board of directors consists of the following people*

POA STRÖMBERG (chairm.), born 1960. Poa former lawyer and partner of the firm Klint, Engstrand & Strandberg that later became the law firm Nordia. Poa is founder and former managing director of All Together Now AB and founder and managing director of the legal firm Strömberg & Partners.

FREDRIK BODECKER, born 1968. Fredrik is founder and managing director of NCF and owner of Echelon Trading AB, the owner of NCF. Fredrik has more than 10 years experience in trading and risk management in nordic and european power markets. He held the position as risk manager at derivATEL, Head of Origination at Scandic Energy (later Electrabel Nordic), responsible of the Nordic Portfolio at RWE Trading GmbH and recently Head of Trading at Alfa Kraft, that manages the hedge fund Alfa Energy Fund.

FILIP LINDBERG, born 1968. Filip is Head of Trading at NCF and coming from the position as senior trader at Alfa Kraft. Before Alfa Kraft he was senior trader at TXU Nordic Energy OY. Filip started his career as a currency trader at Handelsbanken 1992. He worked for Handelsbanken in London between 1995 and 1997.

GUSTAF SEHLSTEDT, born 1969. Founder and managing director of the advertising firm LEBUREAU. Gustaf has profound experience of the advertising business and several distinctions. Among others one öGuldäggö and two öSilveräggö.

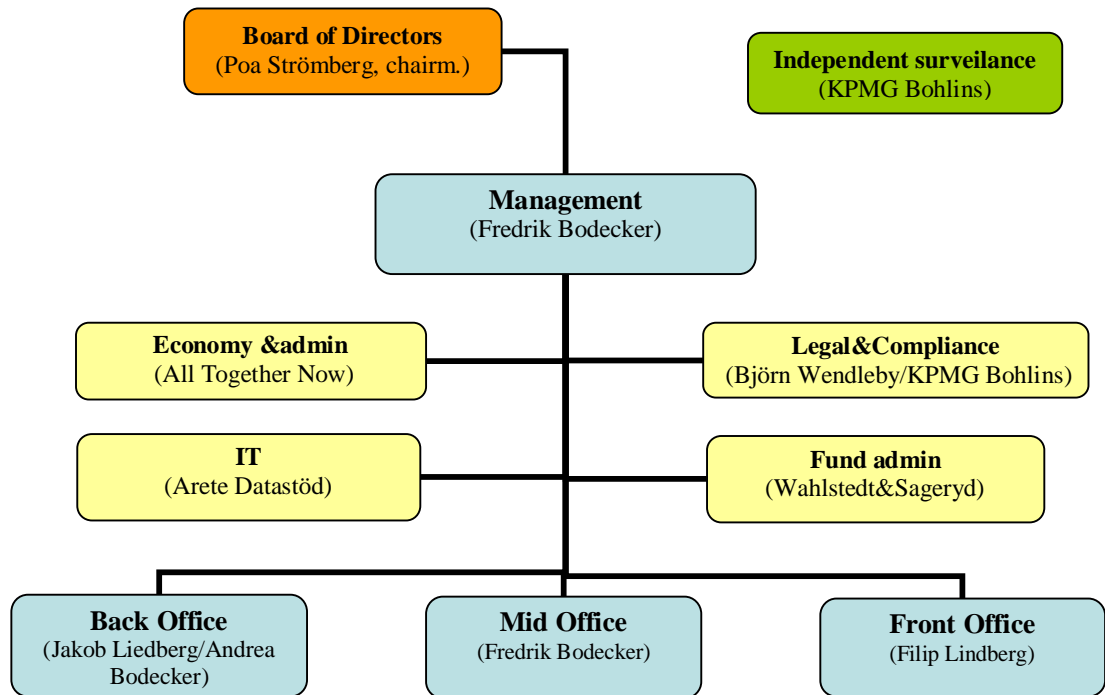
ANDREA BODECKER, born 1975. Andrea has broad experience within back office of energy trading. Andrea has worked with power and weather derivatives at Electrabel Nordic and coal, oil and gas at RWE Trading GmbH.

## COMPANY ORGANIZATION

Managing Director and Risk Manager is Fredrik Bodecker, see description above. Administrative Director and Assistant Risk Manager is Jakob Liedberg, born 1972. Jakob has long experience of contract handling and negotiation from his former position as Marketing Manager at Alfa Laval AB. Jakob is supported in back office and administration by Andrea Bodecker, see description above. Head of Trading is Filip Lindberg, see description above. He is supported by senior traders Kristan Svensson and Tore Lindsö

All company administration like salaries, book

keeping and invoicing is handled by All Together Now AB. NCF has chosen Wahlstedt Sageryd Financial Services AB (WS) for fund administration, some back office and accounting. WS has a much better readiness to handle illness and absence than a small company like the fund manager. The fund will thereby achieve a more cost effective administration and a lower operational risk. All to the benefit of the investors. Arete Datastöd is providing a full coverage of IT-support and KPMG Bohlins handles independent surveillance and supporting the compliance function.



## RISK MANAGEMENT

Trading commodities, especially energy derivatives, takes sophisticated and creative risk management. Price spikes, sudden lack of liquidity and extreme volatility makes long market experience as valuable as advanced tools and models. NCF possess both.

NCF wishes to provide the most attractive investment vehicle for investors looking for commodity exposure. To that end, we recognize that investors face exposure beyond pure market risk. The NCF model is designed to minimize the risk associated with market and leverage, liquidity, credit, currency and operations.

The Board of Directors set, according to the fund regulations, the management and risk taking guide lines for the funds and the managed accounts. They are described in the Risk Policy. That includes routines and systems to analyse, supervise and control risk in individual positions as well as the funds and different managed accounts. The Risk Policy also regulates further risk measurements and tools, not described in the fund regulations.

### Market Risk

Market risk is the risk of loss due to a price movement giving a negative change in value of the position. The fund and the account managers' primary goal is to take this risk. It will be taken under the conditions given by the traders experience, the risk limits and the assessments of the clearinghouses (margin requirements). The managers systematically use derivative leverage and the exposure towards market risk can be higher than in traditional funds. The major tool to handle market risk is never to exceed a margin utilization of 40 percent (using the calculations of the clearing houses). The managers control the risk taking in real time against determined limits on portfolio, sector and individual instrument level.

Leverage can be defined in many ways. Due to the very complex nature of most forward curves in commodities, most of these definitions are difficult to apply. The one universal metric that does apply is margin. Although margin is not a perfect measure of risk, its application is consistent and has been used successfully by commodity exchanges for many years.

NCF has chosen a margin to capital ratio as its defining metric. Margin will be calculated by the publicly available Standard Portfolio Analysis of Risk<sup>1</sup> (SPAN) engine.

The SPAN system is a highly sophisticated methodology that calculates performance bond requirements by analyzing the "what-ifs" of virtually any market scenario. Developed and implemented in 1988 by Chicago Mercantile Exchange (CME), SPAN was the first system ever to calculate performance bond requirements exclusively on the basis of overall portfolio risk at both clearing and customer levels.

Using SPAN has several advantages:

- Margin can be applied across asset classes
- The engine is robust and the inputs are constantly updated by the exchange to reflect market conditions
- Cross commodity netting applies
- Margin calculation is verified by third party

As a further limit there is a maximum monthly stop loss level of 6 percent per month. This is measured individually as well as on fund and account level. If this level is exceeded the positions must be closed in a controlled manner, maintaining maximum value for the investors. Note that this does not guarantee a maximum loss of 6 percent, only that the manager(s) begin to close positions latest at this level.

### Liquidity Risk

Liquidity risk is the risk of loss due to a temporary difficulty in closing a position at a, under normal circumstances, reasonable price. The difference between buy and sell price is unusually high or put differently; the price of liquidity is high. Exchange traded commodity derivatives sometimes have low liquidity and the managers only invests in derivatives that fulfils the demands on liquidity set by Risk Management. Further there are specific position limits on individual instruments in the portfolios. This limits the risk that a specific instrument cannot be bought or sold without affecting a whole fund or a managed account negatively.

### Credit- and Counterpart Risk

Credit risk is the risk of loss due to the insolvency of a counterpart. NCF only trade exchange traded instruments with clearing houses as counterparts. This means that the clearing organization overtakes the risk that the (true) counterpart cannot deliver according to agreement.

### Currency risks

Currency risk is the risk of a loss due to change in value of the currencies of instruments in the funds or accounts. No speculation is made in currencies and all positions with an exposure to a different currency than the fund (or account) is denominated in will be regularly hedged.

### Operational Risk

Operational risk is the risk of loss due to a failure in internal systems and routines. NCF recognizes that efficient hedge fund investment requires tight internal control. All internal NCF processes are well streamlined and documented. KPMG's unit for internal revision has, on assignment by the board of directors, the responsibility to review and evaluate the operative work and operative systems, based on the targets, strategies and guidelines, given by the board. All assets are held by the Custodian (SEB). The Custodian ensures the compliance of all instructions

given by NCF for the Funds with the By-Laws of the Fund. NCF and the NCF Funds are regulated by the Swedish Financial Supervisory Authority

Further has the company outsourced large parts of the back-office and all fund administration to Wahlstedt Sageryd Financial Services AB to secure that an independent part daily checks that the positions agree with the broker and exchange reports. Wahlstedt Sageryd daily values all assets and calculates indicative NAVs. Wahlstedt Sageryd sets weekly or monthly (according to fund regulations) official NAVs and maintains a register of all share owners of the funds. To ensure a safe and state-of-the art IT-environment, NCF uses Arete Datastöd. Arete

supervises and supports all hard- and software, network, firewalls, virus protection, back-ups etc. NCF has routines to handle power failures, loss of networks and have mobile trading platforms as well as an emergency office prepared.

**Legal risk**

Legal risk is the risk of a loss due to a change in laws for the financial markets. NCF handles this risk with managing director Fredrik Bodecker as responsible for regulations with KPMG Bohlins as support function. KPMG Bohlins has the assignment to continually supervise those legal changes that affect the company and make sure that necessary measures are taken to comply.

## THE NORDIC POWER FUND

The fund invests in derivatives traded on European power exchanges and exchange traded commodities with strong correlation to Nordic power price. The fund is denominated in Euro.

The fund (and the managed accounts) has absolute return strategies and offer very low correlation to equity, bond and currency markets. The Fund has a goal of an average yearly return of 15 to 25 percent with a Sharpe Ratio of above 1.5 (i.e. standard deviation of 10 to 20 percent). It should be an excellent alpha component in portable alpha strategies.

NCF's management team has long experience in successful trading on the Nordic Power Exchange Nord Pool. This experience covers fundamental knowledge of price setting mechanisms as well as market behaviours of producers, end-users and financial players. The team has (together and individually at former employers) produced strong historical results and have proved able to generate high and stable risk adjusted returns in short, medium and long term trading. NCF continually expands the team with individuals meeting the criteria long trading experience, positive track records and disciplined professional attitude to trading.

## INVESTMENT PHILOSOPHY AND RISK PROFILE

The Fund's success comes from dynamically allocating capital to individual traders with positive profit expectancies. Every trader is expected to earn money in the long run and the company does not prefer, recommend or judge any particular method. By limiting consensus trading and supporting trader individualism, we get risk diversification and can focus on allocating capital and manage risk to meet the fund's risk levels.

The management is aiming for absolute return and a long term stable increase of the Fund's assets. This is typically performed by deep analysis of the fundamental power price drivers, the behaviour of the major market participants and utilization of temporary moves away from fundamental levels. In short term though, it is impossible to forecast how the fund value will fluctuate. An investment in the Fund should be seen as a long term investment with a three year investment horizon. The Fund has a goal of an average yearly return of 15 to 25 percent with a Sharpe Ratio above 1.5 (Standard deviation of 10 percent) Thus it should be considered a medium risk fund.

Over the years the return can divert significantly from the long term goal; another reason to see the investment as longer term.

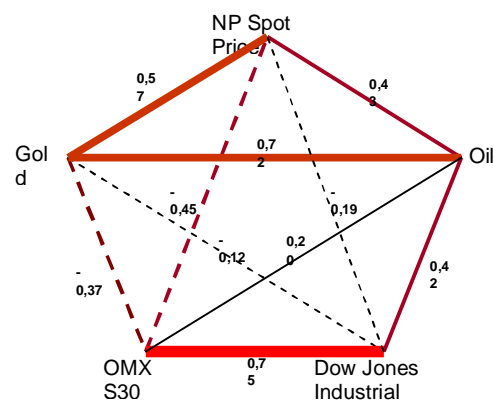
The Fund's total exposure in derivatives can exceed the total Fund value. The Fund can also have positions in derivatives resulting in a negative exposure. The Fund can thus implement short positions with derivatives.

The first level of protection is the maximum over night risk of 2 percent of the Fund's capital, calculated using a daily 95 percent VaR.

The second level is the maximum monthly loss of 6 percent, after which closing of the positions are begun. The Fund's risk level is further limited to make the actual risk level, measured as percentage usage of capital for margins, typically in the interval 15-25 percent on a yearly basis. Maximum margin utilization is 40 percent, using the calculation models of the clearing houses.

The Fund assets can be placed in exchange traded derivatives with correlation to Nordic power price. This means mainly trading on the Nordic power exchange Nord Pool but also German power contracts on EEX and emission allowances on ICE. Investments in coal-, oil- and gas contracts can occur if they are believed to affect Nordic power prices and they fit the strategy.

Correlation between Nord Pool Spot price and other assets 1996-2005



## THE NORDIC POWER MARKET

### Background

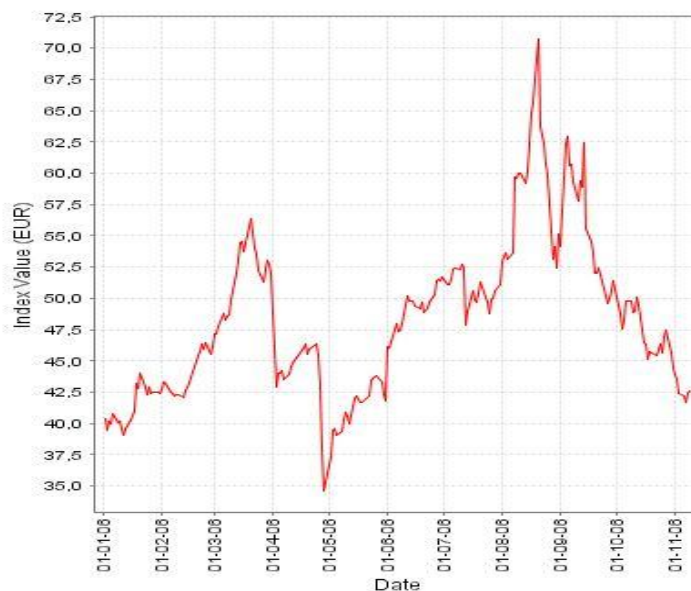
On 1 January 1996, Sweden joined the Norwegian market organised by Nord Pool and the first multinational exchange for trading of electrical power was formed. Finland and Denmark joined 1997 and 2000 respectively, creating a common Nordic power market. The success of Nord Pool as an established and recognized market place can be explained by:

- A large number of market participants and sufficient market concentration to promote competition. Nord Pool presently has over 300 participants, including all larger power producers like E.ON, Vattenfall, Statkraft and Fortum but also names like Merrill Lynch, Morgan Stanley, Tudor, Barclays, UBS, Amaranth, Shell, Semptra and J.Aron. Nord Pool estimates the financial trading to be divided fairly equally between producers, sales companies and financial players.
- The presence of a power exchange that provides the market with a transparent spot price and price forecasts via forwards and futures, up to four years ahead. The market share of the Nordic Power Exchange's spot market is approximately 60% of the total annual Nordic power generation. This gives a high level of transparency. Total annual trade in financial contracts in 2006(2005) was 2,160(2102) TWh (over 5 times Nordic annual consumption) at a value of 79(52) billion Euro.

### Market Characteristics

The Nordic power market is characterised by very high volatility and minimum correlation to equities and bonds. The large dependence on hydro power creates the weather driven volatility. Precipitation (rain and now) affects longer term prices and temperature the shorter term. Nuclear availability and transmission capacities to neighbouring countries are other price setting factors. In recent years have German power prices, coal, gas and oil come to play a very important role. The new market for emission allowances (CO<sub>2</sub>) that highly affects margin production costs from coal and oil has resulted in a very attractive commodity market for speculative trading. The return of large financial players (after the Enron collapse) has further increased volatility (and made the market an opportunity for traders and a challenge to risk managers).

The picture below illustrates the high volatility of the Nordic market with the power index NPN365<sup>1</sup> for 2006.



<sup>1</sup> The index is a price calculated index that mirrors the market prediction of the average price for electricity with a flat load curve for the next 365 days. See [www.nordpool.com](http://www.nordpool.com) for more information.

## **CONTACT LIST SERVICE PROVIDERS**

**PricewaterhouseCoopers AB (Auditor)**

Johnny Svenander, T +46 8 -594 775 24, E Johnny.svenander@se.pwc.com

**KPMG Bohlins**

Lena Stämmgård (Independent revision) +46 8 723 91 00, E lena.stammgard@kpmg.se

Niklas Lundblad (Independent revision) +46 8 723 91 00, E niklas.lundblad@kpmg.se

Helen Hallåker (Compliance) T +46 8 723 91 00, E helen.hallaker@kpmg.se

**Advokat Björn Wendleby AB (Legal advisory - compliance)**

Björn Wendleby T +46 70 325 23 29, E bjorn@wendleby.se

**Strömberg & Partners AB (Legal advisory)**

Poa Strömberg T +46 8 50 30 22 88, E poa@alltogethernow.se

**BHF Bank (Clearing Broker)**

Bettina Schneider T +49 69 718 2567, E bettina.schneider@bhf-bank.com

**Skandinaviska Enskilda Banken AB (Custodian)**

Andreas Thuresson, T +46 8 763 64 00, E andreas.thuresson@seb.se

**Wahlstedt Sageryd Financial Services AB (Fund Administration)**

Mark Algvere, T +46 8 56 260 200, E mark.algvere@ws.se

**All Together Now AB (Company administration)**

Magnus Rönnevall T +46 8 50 30 22 88, E magnus@alltogethernow.se

**Arete Datastöd (IT\_Services)**

Henrik Isacsson, T +46 8 785 23 50, E henrik.isacsson@arete.se