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## First Reporting Letter to Investors - February 24, 2010

### NOTICE

**The Receiver is relying upon records and information available from the Belmont Fund and from third parties. The Receiver's review of this information does not encompass an audit of the financial position or operating results of the Belmont Fund. In addition, any financial information presented by the Receiver is preliminary and the Receiver is not yet in a position to project the outcome of the administration of the receivership. The Receiver may refine or alter its observations as further information is obtained or is brought to its attention after the date of this report.**

Dear Sir or Madam:

### **RE: RECEIVERSHIP OF BELMONT DYNAMIC GROWTH FUND (THE "BELMONT FUND")**

We are writing to update you on certain matters regarding the receivership of the Belmont Fund, in our capacity as Court-appointed Receiver and Manager of the Belmont Fund (the "Receiver"). All capitalized terms used herein and not otherwise defined are as defined in the Receiver's First Report to the Court dated October 19, 2009 (the "First Report"). A copy of the First Report is available for review at [www.kpmg.ca/belmontfund/](http://www.kpmg.ca/belmontfund/).

### **Segregated Portfolio**

The principal assets of the Belmont Fund are the Forward Contracts, the values of which vary directly with the market value and return of the Segregated Portfolio. As a result, the value of the Belmont Fund is tied to the value and ultimate recovery from the Segregated Portfolio. The Segregated Portfolio is itself presently in wind-up, with Harcourt Investment Consulting AG ("Harcourt") overseeing the winding up. A number of factors affect the value, timing and entitlement to any potential recoveries from the Segregated Portfolio. Two significant factors are a) the nature of the underlying investments of the Belmont Fund and b) the priority of distributions from the Segregated Portfolio.



a) Investments of the Segregated Portfolio

From our review of information received from Harcourt and discussions with Harcourt, we note that the Segregated Portfolio is invested in cash and five funds of hedge funds that are also managed by Harcourt (the "Belmont Fund of Funds"). The Belmont Fund of Funds are invested in approximately 90 funds (the "Underlying Funds"), which are not managed by Harcourt. We understand from Harcourt that a majority of the dollar amounts invested in the Underlying Funds are invested in illiquid assets.

The Receiver has also been advised by Harcourt that there are three basic types of investments held in the Underlying Funds: 1) high yield fixed income instruments for which there are currently no buyers for the loans and/or where any recoveries from the sale of any assets supporting the loans may not, given the current market conditions, cover the amount of the loan; 2) equity positions in small-cap companies which have not been able to obtain financing to buy out the existing investors; and 3) private loans for which refinancing is not available.

Harcourt has provided the Receiver with a liquidity analysis, dated September 30, 2009, which forecasts recoveries from the Underlying Funds through to November 2012 and beyond. The Receiver understands that the liquidity analysis is prepared by Harcourt from information received directly or indirectly from the administrators of the Underlying Funds.

Harcourt has limited ability to assess the accuracy of the valuations received directly or indirectly from the administrators or portfolio managers of the Underlying Funds. Furthermore, the values received from the Underlying Fund Managers may consist of estimates only. Due to a number of factors, including the uncertainty of future events, there can be no assurance that the value at which an investment is recorded in the accounting records of a particular Underlying Fund at any particular time will not later be reduced, or that a fund will be able to liquidate the investment at that value or at any other amount.

The Receiver obtained the Net Asset Value ("NAV") statement for the Segregated Portfolio for the period from January 1, 2009 to November 30, 2009 from Harcourt on January 28, 2010. According to these financial statements the NAV of the Segregated Portfolio as at November 30, 2009 is US\$10.1 million, calculated as follows:

Investments (Cost US\$11,340,681)	US\$8,455,622
Cash	9,910
Dues from brokers	3,054,718
Receivable from Belmont ABL**	<u>827,985</u>
Total Assets	12,348,235
Other payables and accrued expenses	(34,680)
Payable to Vontobel for Repurchase of Participating Shares*	<u>(2,262,900)</u>
Net Assets	US\$10,050,655

\*The November 30, 2009 financial statement treats the Second Vontobel Redemption Request, discussed below, as a priority payment to Vontobel.

\*\* Belmont ABL is one of the Belmont Fund of Funds



As reported in the First Report, the NAV of the Segregated Portfolio at July 31, 2009 was approximately US\$10.2 million.

b) Distributions from the Segregated Portfolio

In the First Report, the Receiver discussed how the treatment and priority of payments from the Segregated Portfolio, including The Vontobel Group (“Vontobel”) redemption requests (the “Vontobel Redemption Requests”) and the alleged foreign exchange hedge loss claimed by the Counterparty to the Forward Contract (“Counterparty FX Claim”), will affect the amount realized by the Limited Partners.

The Receiver has been in discussions with Vontobel with respect to the priority of the Vontobel Redemption Requests from the Segregated Portfolio, and has reached a proposed resolution (“the Proposed Vontobel Resolution”). The effect of the Proposed Vontobel Resolution would be that Vontobel would not be paid the full amount of the Second Vontobel Redemption Request of US\$2.3 million in priority to other unitholders of the Segregated Portfolio, and that with respect to the Second Vontobel Redemption request, based upon agreed formulas, Vontobel will receive a pro rata share of any distributions to be paid out over time from the Segregated Portfolio. The Receiver will in due course seek approval of the Court for the Proposed Vontobel Resolution. Prior to seeking the approval of the Court, the Receiver will file a report with the Court with further details of the Proposed Vontobel Resolution.

With respect to the Counterparty FX Claim of US\$2.5 million, the Counterparty has filed a claim into the Receivership in respect of this amount, as well as other amounts/fees. The Receiver has been in communication with the Counterparty; however, to date the parties have not reached an agreed resolution to the treatment of the foreign exchange loss. In order to resolve this matter, the Receiver anticipates that it will be seeking the direction of the Court.

**Estimated NAVs for the Belmont Dynamic Growth Fund**

The Receiver has not calculated estimated NAVs for the Belmont Fund. As discussed, above the value of the Belmont Fund is tied to the value and potential recovery from the Segregated Portfolio. The amount of any potential recoveries from the Segregated Portfolio will be affected by the resolution of the Vontobel Redemption Requests and the Counterparty FX claim. In addition, the costs of the receivership and the resolution of the Pre-receivership Claims (as defined below) will also affect the ultimate recovery for the unitholders.

**Claims Process**

While the Receiver is not yet in a position to distribute Belmont Fund assets to creditors/claimants and Limited Partners, the Receiver is taking steps to be in a position to expedite distributions as soon as funds are available to the Receiver. Further to this objective, the Receiver has undertaken a claims process to identify the liabilities of the Belmont Fund as of the Receivership Date (August 6, 2009). The Receiver received six claims (the “Pre-receivership Claims”) and is now reviewing the Pre-receivership Claims to determine (i) whether to admit each claim in whole or in part or to disallow the claim and (ii) the priority of those admitted claims.



With respect to the investments of the Unitholders in the Belmont Fund, the Unitholders are not required to submit proofs of claims. Through a Unitholder Notice, dated October 26, 2009 mailed by RBC to all Unitholders, RBC advised all Unitholders that the Receiver is relying upon the RBC Unitholder Records and that no action was required by the Unitholders. In the Unitholder Notice, Unitholders were invited to contact either RBC or the Receiver if they wished information about their unitholdings as provided by RBC to the Receiver.

**Tax Matters**

As the Belmont Fund is not a taxable entity, each Unitholder is required to include in his or her income or loss for tax purposes, the appropriate share of income or loss allocated to each unitholder for each fiscal year end of the Belmont Fund (December 31, xxxx).

We understand that T5013 forms for the years ended December 31, 2006, December 31, 2007 and December 31, 2008 were provided to the Unitholders prior to the appointment of Receiver. The Receiver is reviewing these T5013s filings in order to prepare the tax filings for the year for the year ended December 31, 2009. The Receiver will be preparing T5013 forms and anticipates forwarding these to unitholders by March 31, 2010.

The Receiver expects to file its next report with the Court within the next two months.

The contact information for the Receiver is as follows:

Email: [belmontfund@kpmg.ca](mailto:belmontfund@kpmg.ca)  
Tel.: 1-866-602-6745

Yours very truly,

**KPMG INC.  
COURT APPOINTED RECEIVER AND MANAGER OF BELMONT DYNAMIC  
GROWTH FUND**

  
Per: Elizabeth Murphy  
Vice President