



**LLF Financial SA**  
23, Rue Aldringen  
L-1118 Luxembourg  
Tél : (352) 46 67 74  
Fax : (352) 46 67 76  
yal@llff.lu

March 10, 2022

Dear Investors,

We would like to inform you that the Russian Federation First Mercantile Fund is to remain closed for the foreseeable future. The Russia-Ukraine conflict is an incredibly tragic event that has already caused unprecedented disruptions spreading in all directions from its epicentre and will likely result in profound changes in the economic and security architecture throughout the whole of Europe. The Russian Federation First Mercantile Fund ("**RFFMF**", "**Fund**") faces new challenges and, in similar fashion following the market drawdowns of 1998 and 2009, the Manager will work diligently to overcome these difficulties in order to regain the portfolio's value and capitalise on the market mispricing and arbitrage opportunities that will surely lie ahead.

In May 2021, the Fund became an innocent victim in a dispute between the Financial Conduct Authority ("**FCA**") in the UK and the Fund's custodian and was forced to suspend official net asset value ("**NAV**") calculation and dealing. Please see the following notice from the Fund's directors in June 2021:

*By way of background, the Financial Conduct Authority in the UK has imposed restrictions on Dolfin Financial (UK) Ltd. ("**Dolfin**"), the Fund's custodian, stopping Dolfin from carrying on regulated activities. As a result of this action, the Fund has been unable to execute any transactions on the account at Dolfin, including withdrawal of any securities or cash from the account. It is important to point out that the restrictions imposed on Dolfin are completely unrelated to the activities of the Fund. We believe that the assets of the Fund held at Dolfin are properly segregated and protected from any action against Dolfin. We are taking steps to have the Fund's assets transferred to an account held with another custodian but in the meantime, in order to preserve the interests of the Fund and its investors, the temporary suspension has been imposed.*

The Fund continued to perform informal calculations of the NAV. While this suspension is in place, the Fund is unable to issue or redeem any shares or pay any redemption monies. The progress of transferring the Fund's assets to a new custodian has been slow as Smith & Williamson, the appointed Joint Special Administrators ("**JSA**") of Dolfin, have spent considerable time and money reconciling Dolfin's client accounts.

The Manager has actively invested in Russian securities since 1995. Fearing the potential for market risks due to the developing conflict in Ukraine, the Manager has since early November requested that Smith & Williamson de-risk the Fund's portfolio entirely by selling down to zero all Russian securities. At the most recent meeting between the Manager and Smith & Williamson in London on 17 February 2022, the request to de-risk the Fund's portfolio was again discussed along with the timeframe for the transfer of the Fund's assets out of Dolfin. During the meeting, JSA informed the Manager that it has little to no technical capabilities to trade securities and would revert as soon as possible. Unfortunately, the Manager received a written reply from the JSA on 28 February 2022 confirming its concerns that the Fund's assets were not liquidated:



*You will appreciate that there is a very real risk that all clients could have various reasons to liquidate assets and in doing so add a significant cost burden to the special administration process. The JSAs role is simply to safeguard and return client assets in the form they adopted them on 30 June 2021.*

Clearly, the JSA did not adequately “safeguard” this client’s assets.

On 28 February 2022, the American and global depositary receipts of Russian issuers were suspended from trading on the London Stock Exchange and therefore market pricing for these securities is currently not available. These depositary receipts are equivalent to local shares but are denominated in US dollars and Euros and trade(d) on many stock exchanges in Europe and the US. The Fund held all its Russian securities in form of ADRs and GDRs due to the US dollar pricing and superior liquidity in London and New York trading. In the event that London trading does not resume soon, these ADRs and GDRs will need to be converted into their local, underlying shares. The underlying shares are denominated in Russian roubles and trade primarily on the Moscow stock exchange, Moscow Exchange MICEX-RTS. Currently, the extreme price volatility, illiquidity and settlement uncertainty prevent NAV calculation or dealing in the Fund’s shares. It is also currently not possible to liquidate large portions of the Fund’s portfolio.

During the time that the Fund has been restricted from managing its cash and securities, the Manager has paid for all the running expenses of the Fund, including administration, legal, audit and other costs. The Manager will continue to fund the operating costs of the Fund until the Fund’s assets are transferred to its primary custodian bank, Bank J. Safra Sarasin, London. The Manager has engaged legal counsel in London to expedite the release of the Fund’s assets.

Once RFFMF secures the transfer of its assets out of Dolfin to its primary custodian, the Manager’s near-term objectives would be to move the Fund’s equity positions to the most liquid share trading markets and grow the value of the portfolio through active trading by capitalising on market mis-pricings and arbitrage opportunities. Additionally, the Manager will propose to the Fund’s Board of Directors the following administrative and cost-cutting measures:

- Convert the Manager’s outstanding short-term loan to the Fund (the mechanism through which the Manager has paid for all the running expenses of the Fund since Dolfin ceased carrying out regulated activities) into an investment in the Fund once the NAV is calculated.
- Waive the management fee until further notice, including accrued fees from 1 January 2022.
- Implement a cost savings programme that will include negotiating reductions in administration, custody and other costs charged to the Fund.
- Discuss options for the reorganisation of the Fund into a closed-ended investment fund with NAV calculations made on a monthly basis to allow for interested investors to buy and sell shares of the Fund on secondary markets.

The Manager is a significant investor in the Fund, owning the majority of the Fund’s total assets. We assure you that we are committed to complete transparency throughout the process of navigating the current difficult situation on behalf of all Investors. Our lines of communication remain open and we would be happy to address any specific questions or concerns you may have.

Sincerely,  
Yuriy Lopatynskyy



LLF Financial SA, Manager of the Russian Federation First Mercantile Fund