

## Report for July-10

- ◆ **The fund returned +3.18% in July '10 against an MSCI Europe (€) return of +5.06%.**
- ◆ **Performance for the month was predominantly due to our long equity book (+3.66%), with the strongest contribution coming from the banks (+2.13%) led by Barclays (+1.58%), Lloyds TSB (+0.27%) and Bank of Ireland (+0.23%). Other notable performers included BP (+0.83%) and Infineon Technology (+0.21%).**
- ◆ **The short book returned -1.11% after modest gains on positions such as Capita Group and MAN Group were outweighed by the detractors, the worst of which were Next (-0.18%), Liberty International (-0.11%) and British Land (-0.09%). The other significant negative contribution came from our index hedges (-0.34%).**
- ◆ **Elsewhere our corporate bonds (+0.06%), commodities (+0.28%) and cash/currency hedges (+0.79%) all added value but were slightly offset by our short position in government bonds which returned -0.43%.**

## Manager's Report

Remember that at the end of June, the S&P had broken down, creating a dead cross technically which meant the imminent decline in stock markets. One month later and markets have had their best ever month for some time, but the bears can still point to both one year and ten year bonds hitting new highs, to show that nothing has really changed. Thus the bonds and equity markets do seem to be telling different stories.

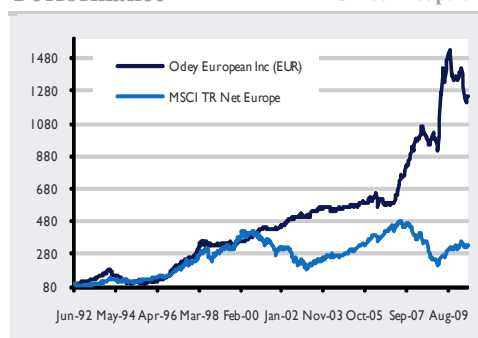
The bond market is going with the double dip, believing 2011 will be a very difficult year for the world, with therefore all the risks to corporate profits. The stock markets believe nothing of the sort.

My view is that whereas I found it hard to sleep from 2005-2007, because no assets yielded me more than 6% gross and I could see consumer spending over-inflated by Ponzi credit, today I look at a world that is half way through its recovery programme. The policy mistakes of 2002-2007 demanded this massive bail out of the banks in 2007-2009 which saw private liabilities taken on by governments. Today the wiser governments are in the process of cutting public expenditure and following a flight path back to stability within 5 years.

Of course it feels quite scary because we are only half way through, but the understanding of the problem is now well known, and most importantly I am now being paid to take risk. My portfolio of shares must be at most on a P/E of 9 times net profits. What July did was to show that the authorities understand the problem. Both Basle III and the stress testing of the

Fund Data	30-Jul-10
€ Class	636.79
\$ Class	294.43
£ Class	241.33
£ B Class	138.15
Fund Size (€m)	1,453.88
Inception Date	01-Jun-92
Index	MSCI TR Net Europe

### Performance Since inception



Source for above table and chart: Daiwa Europe Fund Managers & MSCI. Calculation on a NAV basis as at 30-July-10

Performance	30-Jul-10		
€	Fund	Index	Rel.
1-month	3.2	5.1	-1.9
3-month	-9.9	-1.0	-8.8
1-year	-11.5	16.5	-27.9
3-year	65.9	-26.6	92.5
YTD	-8.7	2.0	-10.8
1yr to 31-Jul-2009	39.3	-18.5	57.7
1yr to 31-Jul-2008	34.5	-22.8	57.3
1yr to 31-Jul-2007	20.4	19.0	1.3
1yr to 31-Jul-2006	7.2	16.1	-8.9
1yr to 29-Jul-2005	4.8	23.3	-18.5
1yr to 30-Jul-2004	1.5	16.7	-15.3
1yr to 28-Jul-2003	9.7	-6.4	16.1
Since Inception	1145.4	237.4	908.0
CAGR since inception	14.9	6.9	8.0

### Performance Statistics 30-Jul-10

	1-year	3-year	5-year	Inc.
Fund annual s.dev.	16.8	21.5	18.0	15.8
Index annual s.dev.	13.1	20.7	17.5	18.5
alpha	-2.2	2.0	1.3	1.1
beta	1.0	0.6	0.5	0.2
Correlation	0.8	0.5	0.5	0.3
Sharpe ratio	-0.7	0.8	0.8	0.7
Fund info ratio	-2.1	1.3	0.9	0.4
Treynor	-11.4	29.1	26.8	51.2
Jensen	-2.2	1.9	1.2	0.9

### Asset Allocation 30-Jul-10

	% NAV
Long Equity	114.5
Short Equity	-22.4
Bonds	-12.6
Commodity	2.2

Source for above 3 tables: Internal unaudited figures. All performance figures quoted are net of fees.

European Banks shared one thing. Banks have got enough capital for the job. This is important because no one has doubted, especially in the UK, the earnings power of these banks since the crisis. My favourites Barclays and Lloyds, trade on 5 times my earnings forecast. Along with BP, they are the highest yielding assets. But my BSKyB is on a 10% yield on my numbers. Glaxo, having navigated a tricky patent cliff for its major drugs is on an 11% yield. Avis is on a 12% earnings yield with a deleveraged balance sheet. Ericsson is on a 10% earnings yield after coming out of a 10 year Telecom capital spending Sahara.

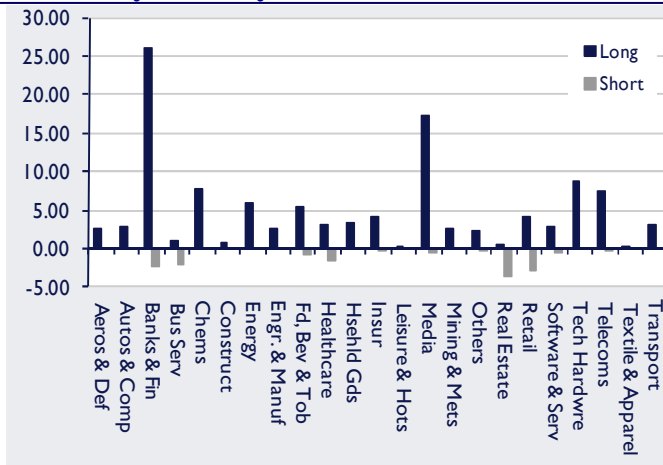
Why do I think this is a bull market? Because I find myself talking numbers and strategy with companies and feel that their targets are achievable and not priced in by markets. I still maintain that stock markets can't go higher unless led by the banks. Who has led this recovery in July? Yes, the banks. Can it continue? Let me give you one example. JP Morgan, when they reported their earnings the other day, said they had surplus capital equal to 42% of their market capitalisation.

I think that this is still a self help environment. Companies need to buy back their shares with all this surplus cash. But it is also potentially a great time to be investing. US fixed assets have never been older. China is enjoying a wage boom which we should cheer to the skies because it will make investing in the western world that much more attractive.

The only thing that was needed was governments who were aware that their job was to create the environment conducive to investment. In the UK we appear to have one, the USA don't. No wonder sterling has risen 12% against the dollar since the election.

## Allocation by industry

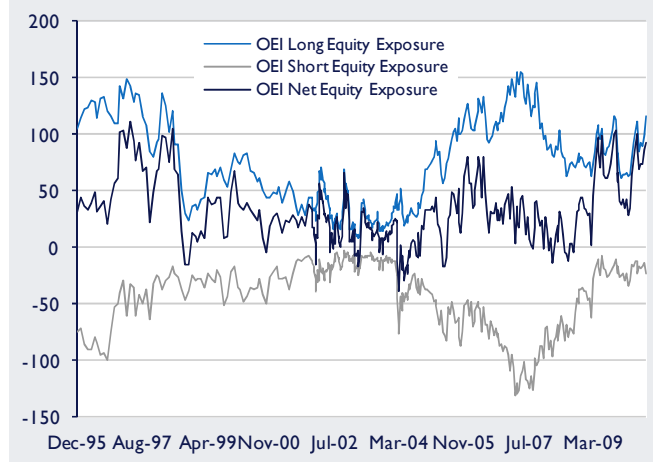
At 30-July-10



Internal unaudited figures

## Exposure

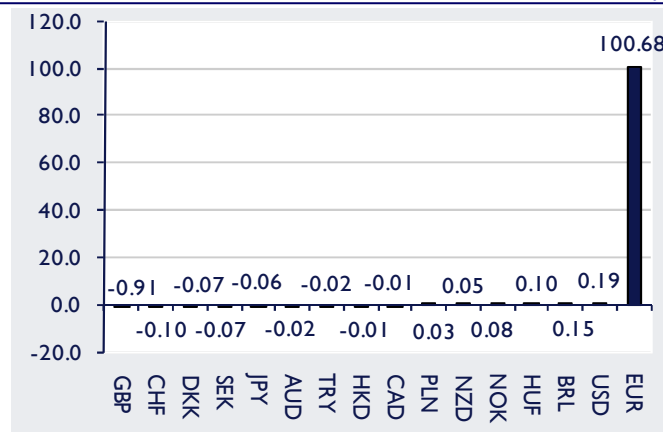
At 30-July-10



Internal unaudited figures

## Active Currencies

At 30-July-10



Currency exposure is shown net of all assets held by the fund, including any forward currency positions.

Internal unaudited figures

## Top holdings

At 30-July-10

### Equities

Rank	Security	Strategy	Market Value (%)
1	British Sky Broadcasting Plc	Long	13.2
2	Barclays Plc	Long	9.5
3	Ericsson Lm-B Shs	Long	6.4
4	Euro Stoxx 50 Sep 10	Short	5.2
5	Bp Amoco Plc: - Cfd	Long	3.8

### Non Equities

Rank	Security	Strategy	Market Value (%)
1	Long Gilt Future Sep 10	Short	15.0
2	Jpn 10y Bond	Short	8.6
3	Wheat Future	Long	2.2
4	IFX 7 1/2 2014	Long	0.8
5	Avis 5.66% 2011	Long	0.4

Internal unaudited figures

## Investment objective

The investment objective of the Fund is capital appreciation through investing in European securities, bonds and currencies and related financial instruments and non-European securities.

## Fund details

Benchmark	Primary: Cash, Secondary: MSCI Europe Total Return Index (€)
Fund inception date	1 June, 1992
Fund type	Cayman Island OEIC
Listing	Irish Stock Exchange
Base currency	€
Share classes	£, \$, €
Dealing	1 <sup>st</sup> / 15 <sup>th</sup> based on funds received previous day forward to 5pm Dublin time
Front end fee	Up to 5%
Annual management fee	1%
Performance fee	20% of net gains on an equalisation basis with an annual high water mark
Anti-dilution fee	0.5% to NAV on sub/reds
Exit fee	1% if held < 1yr
Min. investment	US\$ 100k, €100k or £ equivalent
Dividends	Not distributed in accordance with the funds investment objective
Administrator	Daiwa Europe Fund Managers Ireland Ltd
Auditor	Deloitte & Touche LLP

## Contact details



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