



## **HCAP Diversified Fund**

### **Year 2010 in Review**

The Fund finished 2010 with a solid performance. In reviewing the year the Fund delivered 10 out of 12 positive months, which is a pleasing result. Key points and considerations include:

The Fund predominantly invested in liquid USD denominated, Asian High Yield Corporate Eurobonds and Rates. The Fund has not invested in distressed investments.

The Fund remains long biased with an active investor profile - and is supported by solid accrual income each month. The portfolio of investments has been turned over up to three times during the year.

The Fund maintained a low duration risk profile of less than 5 years, applied zero leverage to the High Yield Portfolio and held a positive cash balance at all times. The Fund built a diversified portfolio of investments, across country and sector. The Portfolio is made up of liquid investments, all else being equal, which enables the Fund to provide monthly liquidity to investors.

The Value Proposition of investing in liquid high yield credit in Asia is that Asia is still “emerging” with a strong growth outlook, whereas the Europe and the US are considered as “mature” markets. Asia also offers a relatively lower default environment, particularly amidst the fallout of the GFC. Additionally, Asia is still emerging and generally offers a “premium” for investing in Asian Credit.

The opportunity set of Asia’s HY USD Eurobond Market is USD \$60 billion in size and growing, which is likely to deliver ongoing opportunity going forward.

In looking at Fund’s first and largest loss during the year, May 2010 surprised many about the extent of Europe’s escalating debt crisis. It quickly created panic around world markets, including across Asia. Investors around the globe reacted swiftly, taking risk off the table. Liquidity all but evaporated. Essentially there was no place to hide and the Fund suffered from the markets broad price adjustments.

Looking ahead, we believe that Asia is a relative beacon of strength and opportunity. Almost two years on from one of the worst economic crises since the great depression, the Asian region is showing signs of real strength, while the West remains weighed down by the aftershocks of the crisis. Asia is in a relatively strong position to drive its own destiny as domestic growth picks up.

What is exciting about emerging markets, and more specifically Asia, is their growth story. Asia’s future appear bright, thanks to a combination of strong fundamental and credit underpinnings; strong demographic trends; a large, hardworking and educated labour force and an increasing emphasis on infrastructure. We believe Asian companies – both banks and corporates – are in an excellent position to leverage this growth. This backdrop provides much opportunity for the Fund looking ahead.

#### **Disclaimer**

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## HCAP Diversified Fund - AUD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2010</b>	2.78%	1.53%	3.80%	1.12%	-4.93%	0.48%	3.59%	0.78%	3.25%	1.99%	-0.87%	2.65%	<b>17.04%</b>
<b>2009</b>												0.69%	<b>0.69%</b>

### Asian Fixed Income and Rates

The Diversified Fund adopts a multi strategy investment philosophy, seeking to source value across asset classes and proactively reallocating capital to meet its objectives. The predominant focus is on Interest Rate markets and Asian High Yield Credit investments.

### Key Fund points

Transparency – monthly liquidity – performance driven – management is a significant investor

### Fund Manager

HCAP Asset Management, as Investment Manager to the Fund, was founded in November 2008. Steve Howell, company founder and CEO, has extensive experience across fixed income and relative value trading and investing. Steve, having worked in financial markets for over 25 years, has deep experience in asset selection, portfolio construction and risk management disciplines.

### Performance Statistics

NAV/Unit	117.86
Return Since Inception	17.86%
3 Month Return	3.78%
6 Month Return	11.85%
12 Month Return	17.04%
% Positive Months	85%
Highest Monthly Return	3.80%
Lowest Monthly Return	-4.93%

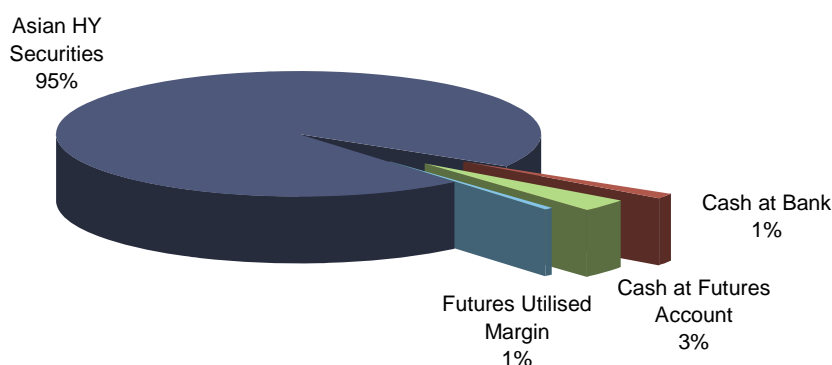
### Fund Information

Share Class Currency:	AUD
Domicile:	Cayman Islands
Investment Type:	Mutual Fund
Fund Inception:	Nov 2009
Management Fee:	1.50%
Performance Fee:	20%
Subscriptions:	Monthly
Redemptions:	Monthly
Minimum Investment:	USD 100,000
Legal Advisor:	Walkers
Auditor:	Rothstein Kass
Administrator:	TMF FundServices
Custodian:	RBC (Swisse)
Bloomberg Ticker:	HCAPDAU KY Equity
Telekurs VALOR:	CH11736558

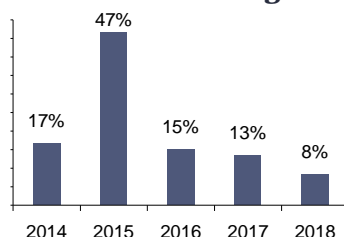
### Investment Manager

HCAP Asset Management  
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### Capital Allocation at Year End



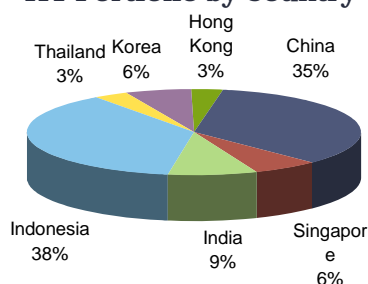
### HY Portfolio Rating



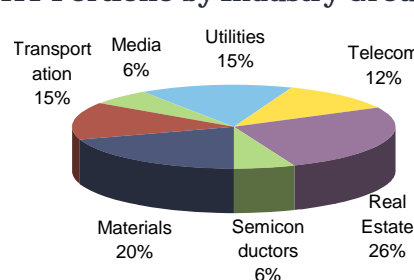
### HY Portfolio Highlights

Average Coupon Accrual	10.67%
Average Yield (USD)	8.87%
Average Duration	3.93 years
Leverage Used	No Leverage

### HY Portfolio by Country



### HY Portfolio by Industry Group



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## HCAP Diversified Fund - USD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2010</b>	2.44%	1.26%	3.52%	0.80%	-4.83%	0.14%	3.46%	0.38%	3.10%	1.64%	-1.20%	2.39%	<b>13.58%</b>
<b>2009</b>												0.37%	<b>0.37%</b>

### Asian Fixed Income and Rates

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### Key Fund points

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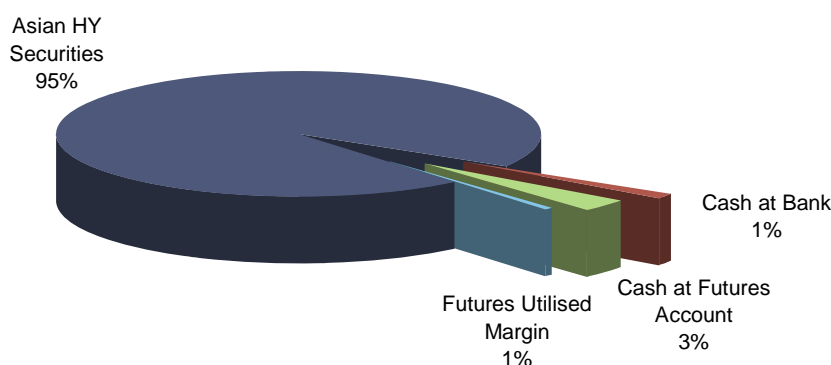
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### Performance Statistics

NAV/Unit	114.00
Return Since Inception	14.00%
3 Month Return	2.83%
6 Month Return	10.11%
12 Month Return	13.58%
% Positive Months	85%
Highest Monthly Return	3.52%
Lowest Monthly Return	-4.83%

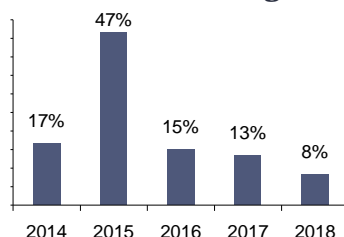
### Capital Allocation at Year End



### Fund Information

Base Currency:	USD
Domicile:	Cayman Islands
Investment Type:	Mutual Fund
Inception:	Nov 2009
Management Fee:	1.50%
Performance Fee:	20%
Subscriptions:	Monthly
Redemptions:	Monthly
Minimum Investment:	USD 100,000
Legal Advisor:	Walkers
Auditor:	Rothstein Kass
Administrator:	TMF FundServices
Custodian:	RBC (Swisse)
Bloomberg Ticker:	HCAPDUS KY Equity
Telekurs VALOR:	CH10974288

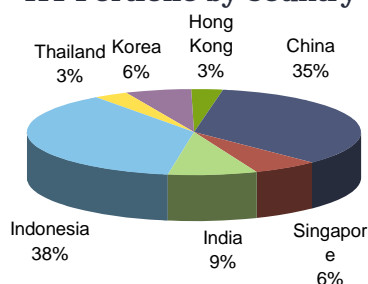
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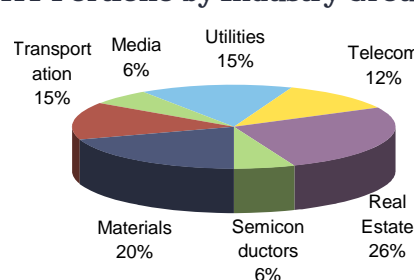
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