



# Nedgroup Investments Strategies Plc

Directors' Report and Financial Statements  
for the year ended 30 September 2010

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# CORPORATE INFORMATION

## Directors

D Macready  
A V Lodge  
T A Wiltcher

## Registered Office

First Floor  
Millennium House  
Victoria Road  
Douglas  
Isle of Man  
IM2 4RW

## Administrator

ABN AMRO Fund Services (IOM) Limited\*  
18-20 North Quay  
Douglas  
Isle of Man  
IM1 4LE

## Manager

Nedgroup Investments (IOM) Limited  
First Floor  
Samuel Harris House  
5-11 St. George's Street  
Douglas  
Isle of Man  
IM1 1AJ

## Registered Agent

ILS Fiduciaries (IOM) Limited  
First Floor  
Millennium House  
Victoria Road  
Douglas  
Isle of Man  
IM2 4RW

## Fiduciary Custodian

MeesPierson (CI) Limited  
Martello Court  
Admiral Park  
St Peter Port  
Guernsey  
GY1 3HB

## Auditors

KPMG Audit LLC  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man  
IM99 1HN

## Legal Advisers

Cains Advocates Limited  
Old Bank Chambers  
15-19 Athol Street  
Douglas  
Isle of Man  
IM1 1LB

\*Fortis Prime Fund Solutions (IOM) Limited changed its name to ABN AMRO Fund Services (IOM) Limited on 1 July 2010

# DIRECTORS' REPORT

For the year ended 30 September 2010

The Directors present their annual report and the audited financial statements of the Company for the year ended 30 September 2010.

## Principal Activity

Nedgroup Investments Strategies plc ("the Company") is an open-ended investment company, incorporated on the 25 June 1997, managed in the Isle of Man, which operates with seven sub-funds ("Sub-Funds"). The Company is a Full International Scheme under Collective Investment Schemes Act 2008.

## Results and Dividends

The financial results of the Company for the year ended 30 September 2010 are set out in the Statement of Total Return on page 11. The net loss for the year amounted to US\$16,035,056 (2009: US\$15,959,791 loss).

No dividends are proposed (2009: Nil).

## Directors and Directors' Interests

The Directors who served during the year and to date are as follows:

D Macready

A V Lodge

T A Wiltcher

H L Jones (resigned 15 January 2010)

None of the Directors had any interests in the shares of the Company during the year to date.

D Macready, A V Lodge, T A Wiltcher are Directors of Nedgroup Investments (IOM) Limited, (the Manager). H L Jones was also a Director of Nedgroup Investments (IOM) Limited.

## Auditors

As a company incorporated under the Isle of Man Companies Act 2006, the Company is not required to prepare audited financial statements. Notwithstanding this, the members have resolved to have the financial statements for the year ended 30 September 2010 audited and consequently our Auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue in office.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Directors' Report and Financial Statements  
for the year ended 30 September 2010

The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with applicable law and regulations.

In addition, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- made judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

By order of the Board

**AV Lodge**  
Director

21 January 2011

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010

## Market Commentary

2010 has been characterised by very choppy markets, compared to the one-way rally that occurred from the market lows in March 2009 through to the end of that year. In only one month this year has the MSCI World Equity Index moved by less than 1%, and in no fewer than 4 months the move has been greater than 6%. Yet for all this movement, the overall gain for the past 12 months is 7.31%, compared to a gain of 30.79% in 2009, and has been matched by the performance of the JP Morgan Government bond index which has returned 7.38% over the same recent 12 month period.

At the time of writing, the US Federal Reserve ("the Fed") has agreed to another round of quantitative easing – QE2 – that euphemism for printing money that just two years ago would have filled every Central Banker and economist with dread. The Fed's first experiment with bond buying occurred between January 2009 and March of this year and saw it purchase roughly \$1.7 trillion in government and mortgage debt. Continued economic stagnation, particularly in the employment and housing markets, has prompted a new planned \$600 billion of government bond purchases. This is in addition to the \$35 billion a month the Fed has already announced it would spend to replace maturing mortgage bonds that are sitting on its balance sheet. This combined total of \$900 billion in US government bond purchases through June of next year is roughly equal to the US government's total projected borrowing needs over that period. Not to be outdone, the European sovereign debt crisis is accelerating, with Ireland having agreed to a European and IMF bailout and with the markets now targeting Portugal, Italy and Spain as the next dominoes to fall.

In normal circumstances, this would be an ideal environment for skilled investors to make money: such volatility usually results in assets becoming mispriced, which astute managers can take advantage of. However, frustratingly, almost the reverse has been true. Our monthly investment commentaries have referred to the "risk-on, risk-off" nature of the market as investor sentiment has flip-flopped from fear to relief and back again. In this environment, fundamentals have been all but ignored; bottom-up stock selectors have generally fared far worse than those with a more top-down approach. This has been true in the long-only world as well as among hedge funds.

## Fund Commentaries

Many hedge fund strategies were adversely affected by the financial and economic crisis of 2008, with funds forced to suspend, extend their dealing notice or lockup periods or liquidate. In response, our Funds were suspended and the notice period extended to better align with the liquidity of the underlying investments. As market conditions became clearer over the latter part of 2009 it was evident that some of the underlying investments would not be able to provide liquidity in line with their agreed terms and conditions. Those assets within the Diversified Strategy Fund incapable of realisation in line with the terms when the Fund initially invested in them were transferred to a Restricted Class on 4 January 2010 while a decision was taken to close the Guarded Strategy Fund and it became the subject of a Scheme of Arrangement on 28 August 2009.

Over 2009 and continuing into this year, the NIS Strategies Funds (ongoing and Participating classes) have been steadily moving towards a more active asset allocation model. The result

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010 (continued)

has been to de-emphasise the allocation to hedge funds within the NIS products, with the last of the single manager hedge funds being redeemed from Accelerated and Diversified Participating classes in June. Much of the rolling 1-year underperformance versus the benchmark and the peer group came from exposure to illiquid hedge funds which failed to participate in the economic rebound and which in the case of Diversified were not side-pocketed until late 2009.

As always we continue to strive to gather and analyse information to determine the best portfolio stance, and continue to improve our decision-making process which now includes a dedicated monthly strategic review of markets, with input from an expanded team which now includes members from other wealth management teams in the wider Nedbank Group. With additional expertise in the process we believe we have already seen the benefits and recent active allocation calls have continued to added value. We are confident they will continue to do so in the future.

## **Accelerated Strategy Fund**

The Accelerated Fund returned -3.89% over the 12 month period to September, dramatically underperforming the MSCI World index which gained 7.31% over the period. Much of this underperformance occurred in the fourth quarter of 2009 and first quarter of 2010 (return of 1.6% versus 7.5% for the equity index over the six month period) where the large hedge fund component within the Fund lagged the continued strong equity rally. However, this is no longer a material contributor as we have completed our restructuring of the fund and are now tightly aligned with our equity targets. Also, as noted above, 2010 has also been a difficult

time for stock-pickers, with our active managers' underperformance accounting for the additional deviation from the benchmark. Due to the changed strategy of the Fund, moving from regional to global managers, currency hedging is no longer required and will not be a performance factor going forward.

## **Diversified Strategy Fund Participating Class**

In the 12-month period through September (which includes three month prior to the fund split), the fund has lost -1.41% while performance since the separation of the Restricted assets in January 2010 has been 0.12%. By comparison, the new composite benchmark has returned 7.38% and 4.71% over the same 12-month and 2010 periods, respectively.

While performance has undoubtedly been disappointing, a number of factors make the analysis of the true relative performance picture somewhat more complicated. Chief among these are the side-pocketing of illiquid hedge fund positions and the change in benchmark which took place on 1 January 2010, along with the change in portfolio management style that these two issues heralded.

On 1 January 2010 the benchmark composite changed from MSCI World Equity Index (60%) and JP Morgan Global Bond Index (40%) to MSCI World Equity Index (50%), JP Morgan Global Bond Index (15%), HFR Global Hedge Fund Index (15%), S&P Developed BMI Property Index (10%) and Cash (10%). It was felt that this composite would more closely match the expected long-term asset allocation policy of the Fund, and help investors' understanding of the potential risks and returns of the Fund.

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010 (continued)

As with the Accelerated Fund, much of the underperformance of the Diversified Fund occurred in the fourth quarter of 2009 and first quarter of 2010 (return of -1.3% versus 3.8% for the blended benchmarks over the six month period) where the large hedge fund component within the Fund lagged both the continued strong equity rally and the government bond index. The active managers in the Diversified Fund were also not spared the impact of the volatile markets, adding to the level of underperformance.

## **Diversified Strategy Fund Restricted Class**

The Diversified Restricted Class has declined -13.26% since its inception in January 2010. It is important to note that this portfolio is being managed with a view to realising underlying investments at the earliest opportunity whilst maintaining value for shareholders. All the funds in this portfolio are subject to liquidity restrictions; asset allocation is not intentional and so performance is not compared against a benchmark.

The largest strategy allocation in the portfolio remains Asset-Based Lending (ABL) at just over 71%, a third of which is the position in Nedgroup Investments Premium Portfolio (24% of assets). These percentage allocations are expected to increase as we return cash to shareholders from the generally faster liquidation of the other hedge fund strategies in the Restricted Class. The ABL sector contributed -1.42% to performance in a fairly broad based decline across most managers in line with the equity market sell-off. There has been continued performance deterioration in some of the ABL managers during 2010.

On the dealing day 1 October 2010 cash amounting to 7.75% of the current value of the Restricted Class was transferred back to the Participating Class, accompanied by a corresponding switch of units between the two classes at prevailing prices. Of the original amount transferred to the Restricted Class in January this year, approximately 26.5% has been transferred back so far including the above payment. Since we created the Restricted class at the beginning of this year, three holdings representing an initial weight of 8%, have repaid completely. Our liquidity analysis indicates that two-thirds of the funds comprising the Restricted Class (representing almost 42% of asset by value) are currently making repayments in some form. We are in regular communication with the managers of all the funds in an attempt to maintain an accurate repayment forecast but we must caution that there is often very little certainty from the managers that both the amounts and the timelines will be realised. Current expectations are for 9% of the remaining portfolio balance to be repaid before the end of 2010 with an additional 13% to be received by the end of December 2011. The balance is not expected until 2012 and beyond and will remain at risk of mark-to-market and actual losses in a slow-growth economic environment.

## **Guarded Scheme of Arrangement**

The Guarded Scheme of Arrangement fell -26.67% in US dollars (USD), -30.56% in Sterling (GBP) and -31.41% in Euros (EUR) over the past 12 months. As the assets of the Scheme are being managed with a view to returning their proceeds to clients, rather than to an investment objective, it is no longer appropriate to compare performance against a benchmark.

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010 (continued)

The remaining assets comprising the Scheme are predominantly denominated in USD. Since the forward foreign exchange contracts backing the GBP and EUR classes have been removed to preserve cash, values in these currencies are now fully exposed to exchange rate movements against the USD. Since hedging was discontinued both GBP and EUR have appreciated against USD, detracting from the value of the Dollar assets in these currency share classes.

At the end of September, there was approximately 14.2% in cash and near cash. The largest strategy allocation in the Scheme is to ABL at just under 73% of the portfolio. This allocation is primarily made up of the position in Nedgroup Investments Premium Portfolio which at the end of the month represented just below 42% of the total assets. Premium Portfolio was marked down by -37.6% during the 12-month period, contributing to the negative performance of the Guarded scheme.

With reference to the payment schedule set out by the Scheme of Arrangement, we paid out approximately 64% in the first Instalment Payment in October 2009 and just under 10% of the remaining value was paid in March 2010. The two instalment payments returned \$8,029,826 of distribution proceeds to shareholders of the former Guarded Strategy Fund.

As we described in the Diversified Restricted Fund, we are in regular communication with the managers of all underlying funds in an attempt to maintain an accurate repayment forecast but we must caution that there is often very little certainty from the managers that both the amounts and the timelines will be realised. Some

of the longer dated repayments are not expected until 2012 and beyond and will remain at risk of mark-to-market and actual losses in a slow-growth economic environment.

The next instalment payment due under the terms of the Scheme of Arrangement is 28 February 2011, to be settled within 30 days.

## Money market comment

The start of the review period found markets in a much more stable position than the previous year and 2010 started with markets in a confident mood. Credit spreads continued to tighten and yields continued to fall. The major central banks kept interest rates on hold at historical lows for the review period. This, along with the remaining unconventional measures in place from the central banks and governments continued to boost liquidity in money markets and reduce volatility and stress across financial markets. However, May saw a degree of volatility return to the markets as sovereign debt concerns in peripheral Euro zone economies began to gather pace culminating with a huge rescue package for Greece from the European Central Bank and International Monetary Fund and although not in the review period, Ireland requested financial aid from the EU in December 2010. Money market rates remained low and curves fairly flat during the period.

## The US Dollar Liquidity Fund

The Federal Open Market Committee (FOMC) kept official interest rates on hold at a range of 0.00% - 0.25% and has repeated at each meeting its intent to keep rates "exceptionally low for an extended period". The FOMC also completed its programme of purchasing asset-backed and mortgage-backed securities during the review period but then announced in

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010 (continued)

November a second round of quantitative easing, purchasing up to \$600bn of Treasury bonds.

GDP expanded by 2.4 % in the 1st quarter of 2010; however, economic data started to deteriorate in June, prompting concerns that growth in the US may have peaked. Weaker-than-expected home sales data, a sharp drop in consumer confidence and uncertainty around the labour market have all been factors in this view and it is these factors that prompted the Fed into a second round of asset purchases in a bid to stimulate the economy.

For a large part of the review period the yield curve was fairly flat with little risk premium for taking durational risk, this has prompted us to remain fairly short in duration, however the fund has benefited from the addition of short dated floating rate notes which re-fix on a quarterly basis at LIBOR plus levels. We believe that interest rates in the US will remain low well into 2011 and the fund is well positioned to react as and when the curve begins to steepen. As periphery concerns heightened we remained conservative in risk appetite and reduced exposure to Irish counterparties.

## The Sterling Liquidity Fund

The Bank of England kept interest rates on hold at 0.50% throughout the review period. After increasing the asset purchase programme (quantitative easing) to £200bn at the end of 2009 they decided to pause purchases in February but left the door open to restart the programme should the economic conditions determine it.

GDP expanded 0.3% in the 4th quarter of 2009 as the UK exited the worst recession for a generation. CPI rose sharply above the Bank of

England's target of 2% to 3.5% at the start of 2010. The Bank of England inflation report had forecast a short term spike for the first half of 2010 falling back to target by the end of the year, however inflation remained above 3% throughout the review period. The housing market in the UK showed encouraging signs of a recovery and according to the Nationwide House Price index prices increased month on month for the first half of 2010 then fell back in the second half.

For a large part of the review period the yield curve was fairly flat with little risk premium for placing further down the curve, however the fund has benefited from our strategy of maintaining around 10% of the fund in the longer part of the curve whilst maintaining ample liquidity. We believe that interest rates in the UK will remain low for 2011, although inflationary pressures could see the first increase in mid-2011. The fund remains well positioned to react as and when rates do rise. As periphery concerns heightened we remained conservative in risk appetite and reduced exposure to Irish counterparties.

## Nedgroup Investments (IOM) Limited Manager

# REPORT OF THE INDEPENDENT AUDITORS

KPMG Audit LLC To the Members of NEDGROUP INVESTMENTS STRATEGIES PLC

We have audited the financial statements of Nedgroup Investments Strategies plc for the year ended 30 September 2010 which comprise the Statement of Total Return, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and UK Accounting Standards are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK & Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the audited financial statements. Our responsibilities do not extend to any other information.

## **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

# REPORT OF THE INDEPENDENT AUDITORS

KPMG Audit LLC To the Members of NEDGROUP INVESTMENTS STRATEGIES PLC (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view, in accordance with UK Accounting Standards of the state of the Company's affairs as at 30 September 2010 and of its loss for the year then ended.

## KPMG Audit LLC

Chartered Accountants

Heritage Court  
41 Athol Street  
Douglas  
Isle of Man  
IM99 1HN

# STATEMENT OF TOTAL RETURN

For the year ended 30 September 2010

	Notes	2010 US\$	2009 US\$
<b>Income</b>			
Dividend	2(e)	1,352,961	847,617
Interest	2(e)	-	248,355
Other income		92,641	82,295
		1,445,602	1,178,267
<b>Expenses</b>			
Management fee	3	2,795,533	3,391,383
Administration fees	3	218,713	245,239
Other expenses		90,770	182,124
Audit fees		21,500	21,185
Custodian fees	3	126,592	143,740
Distributions in respect of the Guarded Strategy Scheme of Arrangement	8	8,029,826	-
		11,282,934	3,983,671
<b>Net expenses for the year</b>	<b>5(e)</b>	<b>(9,837,332)</b>	<b>(2,805,404)</b>
<b>Net realised and unrealised gain/(loss) on investments</b>			
Movement in unrealised depreciation of investments	5(d)	(12,748,167)	(8,307,069)
Net realised gain/(loss) on disposal	5(d)	6,550,443	(4,847,318)
<b>Net loss on investments</b>		<b>(6,197,724)</b>	<b>(13,154,387)</b>
<b>Total Return</b>		<b>(16,035,056)</b>	<b>(15,959,791)</b>

There were no recognised gains and losses other than those reported in the Statement of Total Return, therefore a Statement of Total Recognised Gains & Losses has not been prepared.

The Directors consider that all results derive from continuing activities.

The notes on pages 13 to 22 form an integral part of these financial statements.

# BALANCE SHEET

For the year ended 30 September 2010

	Notes	2010 US\$	2009 US\$
<b>Current assets</b>			
Investments	2(c),6,8	157,407,981	196,216,899
Debtors & prepayments		1,618,786	4,562
Amounts receivable on currency forwards	2(d),9	-	81,803
Due from brokers		629,969	170,660
Due from manager		1	1
Bank balances		9,906,813	23,687,596
<b>Current assets</b>		<b>169,563,550</b>	<b>220,161,521</b>
<b>Current liabilities (excluding net assets attributable to holders of shares)</b>			
Accrued expenses		287,329	1,296,050
Amounts payable on currency forwards	9	237,727	-
Due to brokers		118,513	194,275
<b>Current liabilities (excluding net assets attributable to holders of shares)</b>		<b>643,569</b>	<b>1,490,325</b>
<b>Net assets</b>		<b>168,919,981</b>	<b>218,671,196</b>
<b>Net assets attributable to holders of Participating redeemable preference shares</b>		<b>148,302,424</b>	<b>206,759,925</b>
<b>Net assets attributable to the Guarded Strategy Scheme of Arrangement</b>	8	<b>2,754,229</b>	<b>11,911,270</b>
<b>Net assets attributable to holders of Restricted shares</b>	5	<b>17,863,327</b>	<b>-</b>
<b>Net assets attributable to holders of Management shares</b>		<b>1</b>	<b>1</b>
	7	<b>168,919,981</b>	<b>218,671,196</b>

These financial statements were approved by the Board of Directors on 21 January 2011 and signed on their behalf.

A V Lodge  
Director

T A Wiltcher  
Director

The notes on pages 13 to 22 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

## 1. General

The Company maintains a separate Sub-fund account for each of the share classes and the Guarded Strategy Scheme of Arrangement, to which the proceeds of issue and the income arising from the investment of those proceeds are credited, and against which the expenses allocated are charged.

Restricted Class shares of the Diversified Strategy Fund were established on 4 January 2010 following the segregation of assets with restricted liquidity within the Diversified Strategy Fund. Assets with restricted liquidity were transferred to a separate portfolio representing the Restricted Class; all other assets held represent the Participating Class. Shares equivalent to the value of segregated assets were cancelled and new shares in the Restricted Class issued, with the remaining shares re-designated Participating Class Shares. Shares in the Restricted Class have no dealing rights attached to them.

Upon redemption, shareholders are only entitled to their proportion of the net assets held in the fund account relating to their particular shares.

## 2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

### a) Basis of preparation

These financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investments, and in accordance with accounting standards applicable in the United Kingdom.

### (b) Participating redeemable preference shares and restricted shares

Participating redeemable preference shares are issued by the Company and allocated to whichever Sub-Fund is selected by the investor. Shareholders in the Diversified Strategy Sub-Fund were allocated Restricted Class Shares on 4 January 2010.

The proceeds of the issue and the income arising are credited to each Sub-Fund which also bears expenses attributable to that Sub-Fund. Joint expenses are allocated to each Sub-Fund. Upon redemption shareholders are only entitled to their proportion of the net assets held in the Sub-Fund to which their Shares have been allocated. Accordingly, separate statements of total return and balance sheets are prepared for each Sub-Fund.

The participating redeemable preference shares are redeemable at the holder's option and are classified as financial liabilities. The participating redeemable shares are carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to sell the shares back to the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 2. Accounting policies (continued)

Shares in the Restricted Classes have no dealing rights attached to them.

#### (c) Investments

Investments in quoted securities are valued at the bid-market price ruling at the balance sheet date. Investments in unquoted funds are valued based on the recently published net asset value available to the Manager from the relevant funds. Realised and unrealised gains and losses are included in the Statement of Total Return.

#### (d) Forward Currency Contracts

A forward currency contract is a contract to purchase or sell a specified amount of foreign currency at an agreed future date at an exchange rate determined on the date the contract is made. The contracts are valued at the forward rate and the Company's equity therein, representing unrealised gains or losses on the contracts, is included in net current assets. Realised and unrealised gains and losses are recorded in the Statement of Total Return and taken to the Capital Reserve.

#### (e) Income

Investment income is accounted for on the ex-dividend date or its equivalent and interest income is accounted for on the accruals basis.

#### (f) Foreign currencies

Transactions in foreign currencies are translated into the respective currency of the currency Sub-Fund at the rate of exchange ruling at the

date of the transaction. Foreign currency assets and liabilities are translated into the base currency of the Fund at the exchange rate ruling at the balance sheet date. Realised and unrealised gains or losses on translation are included with realised and unrealised gains/(losses) on investments in the Statement of Total Return.

Share Capital and Share Premium transactions are translated into US Dollars at the rate of exchange ruling at the date of the transaction. The statement of total return, assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date and aggregated to provide a statement of total return and balance sheet for the Company. The adjustment in US Dollar arising from the consolidation of the currency Sub-Funds is classified separately in the balance sheet under the heading of "currency adjustment reserve" which has no effect on the value of the net assets allocated to individual currency Sub-Funds. The exchange rates used in the preparation of these financial statements were \$1 = £0.63257 and \$1 = €0.7347 as at 30 September 2010 (2009: \$1 = £0.6282 and \$1 = €0.6853).

#### (g) Cashflow statements

As the Company is an open ended collective investment scheme and the investments are valued at market value, there is no requirement to report a cash flow statement in accordance with Financial Reporting Standard 1 (Revised).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 3. Fees

The Manager receives a fee at the annual rate of 1.75% of the Net Asset Value of each Sub-fund apart from the Sterling and US Dollar Liquidity Fund Sub-fund which are at a rate of 0.35% up until 7 April 2010 when the Sterling rate was reduced to 0.20% and the US Dollar rate was reduced to nil. The Manager receives a fee of 0.75% per annum from the Restricted Class of the Diversified Strategy Fund. Fees are calculated daily and paid monthly. A V Lodge, T A Wiltcher D Macready are Directors of the Company and also Directors of the Manager, and do not receive a fee. H L Jones was also a Director of the Company and of the Manger and similarly did not receive a fee. H L Jones resigned on 15 January 2010.

The Administrator receives a fee at the annual rate of 0.12% of the Net Asset Value of each Sub-fund, apart from the Accelerated Strategy Sub-Fund which is at a rate of 0.13% and the Sterling and US Dollar Money Market Sub-fund which are at a rate of 0.08%.

The Company pays to the custodian a fee of 0.07% of the Net Asset Value of the Sub-funds. Apart from the Money Market Sub-funds, which have a fee of 0.05% of the Net Asset Value of each Sub-fund.

### 4. Taxation

The Company is subject to taxation in the Isle of Man at the rate of 0% on retained profits. (2009: 0%).

### 5. Share capital and reserves

The authorised share capital of the Company is divided into 100 Management Shares of \$0.01 each and 5,000,000,000 Participating Shares of US0.01 each. The Company was registered under the Isle of Man Companies Acts 1931-2004 until the 28 April 2009 when it was re-registered under the Isle of Man Companies Act 2006. Prior to re-registration the authorised share capital of the Company was divided into 100 Management Shares of \$1.00 each and 5,000,000,000 Unclassified Shares of \$0.01 each.

Unclassified Shares were issued either as Redeemable Participating Preference Shares ("Shares") or Nominal Shares. Shares were issued and redeemed at prices based on the value of the net assets of the Sub-Fund in which they had been designated at the time of issue or redemption. On redemption of Shares by the Company, Nominal Shares were issued to the Manager for cash at par on the basis of one Nominal Share for each Share redeemed. Nominal Shares may subsequently be converted and reissued as Shares.

This procedure was carried out in order to comply with the Companies Act 1931-2004; however, upon re-registration there is no longer a requirement to issue or hold Nominal shares. Therefore, following re-registration the balance of Nominal shares in issue was cancelled and the amount owing from the Manager in respect of such shares waived.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

Since re-registration all shares have been issued as Participating Redeemable Preference Shares ("Shares"). Shares were issued and redeemed at prices based on the value of the net assets of the Sub-Fund in which they had been designated at the time of issue or redemption. Upon redemption of a Share the premium payable is debited to the share premium account of the appropriate Sub-Fund. Should the share premium be fully utilised the premiums on redemption will be charged against other realised reserves.

Restricted Class Shares in the Diversified Strategy Fund were issued on 4 January 2010 following the segregation of assets with restricted liquidity from within the Diversified Strategy Sub-Fund. Restricted Class Shares have no dealing rights.

On a poll, Participating Shareholders are entitled to one vote for each share held at class meetings only. Holders of Management Shares

are entitled to one vote in respect of all Management Shares held. On a show of hands every shareholder who is present shall have one vote. The Company in a General Meeting may declare dividends on the Participating Shares, but no dividend shall exceed the amount recommended by the Directors (if any). No dividend may be declared on the Management Shares.

On a winding up the assets available will be applied: firstly, in the repayment to holders of Participating Shares of the sums up to the nominal amount paid up thereon: secondly, in repayment to the holders of Management Shares up to the nominal amount paid up thereon: thirdly, in the payment to holders of Participating Shares of each class of any surplus of assets then remaining attributable to the Participating Shares of that Class, such payment being made in proportion to the nominal amounts paid up on such shares.

	2010	2009
Notes	US\$	US\$
<b>(a) Authorised share capital</b>		
100 Management shares of 1 cent each	1	1
5,000,000,000 Unclassified shares of 1 cent each	50,000,000	50,000,000
	50,000,001	50,000,001

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 5. Share capital and reserves (continued)

	2010	2009
Notes	US\$	US\$
<b>(b) Issued share capital</b>		
Management shares of 1 cent each issued and fully paid	1	1
<b>Redeemable shares:</b>		
Participating Redeemable Preference shares of 1 cent each		
As at 1 October 2009/2008	1,144,120	1,473,825
Issued during the year	65,843	64,268
Redeemed during the year	(374,846)	(313,111)
Shares cancelled in the Guarded Strategy class	-	(80,862)
As at 30 September	835,117	1,144,120
Restricted shares of 1 cent each		
As at 1 October 2009/2008	-	-
Issued during the year	147,100	-
Redeemed during the year	(29,849)	-
As at 30 September	117,251	-
Nominal shares of 1 cent each		
As at 1 October 2009/2008	-	1,248,791
Issued during the year	-	313,111
Redeemed during the year	-	(1,561,902)
As at 30 September	-	-
Total issued share capital as at 30 September	952,369	1,144,121
<b>Redeemable shares:</b>		
Participating Redeemable Preference shares		
As at 1 October 2009/2008	114,411,854	147,382,332
Issued during the year	6,584,305	6,426,815
Redeemed during the year	(37,484,569)	(31,311,092)
Shares cancelled in the Guarded Strategy class	-	(8,086,201)
As at 30 September	83,511,590	114,411,854

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 5. Share capital and reserves (continued)

	2010	2009
Notes	US\$	US\$
<b>(b) Issued share capital (continued)</b>		
<b>Restricted shares</b>		
As at 1 October 2009/2008	-	-
Issued during the year	14,709,981	-
Redeemed during the year	(2,984,934)	-
As at 30 September	11,725,047	-
<b>Nominal shares</b>		
As at 1 October 2009/2008	-	124,879,286
Issued during the year	-	31,311,092
Redeemed during the year	-	(6,426,815)
Cancelled on re-registration	-	(149,763,563)
As at 30 September	-	-
<b>(c) Share premium</b>		
As at 1 October 2009/2008	96,839,035	135,972,496
Relating to issue of shares	36,966,761	10,773,889
Relating to redemption of shares	(70,394,773)	(49,907,350)
As at 30 September	63,411,023	96,839,035
<b>(d) Capital reserve</b>		
As at 1 October 2009/2008	155,650,850	167,307,603
Movement in unrealised appreciation of Investments	(12,748,167)	(8,307,069)
Net realised gain/(loss) on disposal of investments	6,550,443	(4,847,318)
Waiver on re-registration	-	1,497,634
As at 30 September	149,453,126	155,650,850
<b>(e) Revenue reserve</b>		
As at 1 October 2009/2008	(30,290,896)	(27,485,492)
Net expenses for the year	(9,837,332)	(2,805,404)
As at 30 September	(40,128,228)	(30,290,896)
<b>(f) Currency Adjustment</b>		
As at 1 October 2009/2008	(4,752,777)	(1,187,655)
Movement during the year	(96,395)	(3,565,122)
As at 30 September	(4,849,172)	(4,752,777)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 6. Investments

	Notes	2010 US\$	2009 US\$
Cost at 30 September		159,912,848	186,290,832
Revaluation		(2,513,867)	9,926,067
Valuation at 30 September		157,398,981	196,216,899

Included in the 2010 figure above are investments with a value of US\$15,958,131 (2009: US\$27,156,019) that are subject to restricted liquidity and comprise the Restricted Class Sub-Funds (2009: were transferred to Sub-Funds with restricted dealing terms subsequent to the year end).

Redemption notices have been issued to all underlying investments comprising the Restricted Class Sub-Funds and as cash is received proceeds are periodically transferred to the Participating Class Sub-Funds from where Shareholders may elect to remain invested or redeem.

### 7. Reconciliation of movement in shareholders' funds

	Notes	2010 US\$	2009 US\$
Shareholders' funds			
As at 1 October 2009/2008		218,671,196	277,329,570
Net expenses for the year		(9,837,332)	(2,805,404)
Net (decrease) from the issue/(redemption) of shares		(33,619,764)	(39,052,599)
Net decrease from cancellation of Guarded Strategy Class funds shares		-	(80,862)
Movement in unrealised appreciation of investments		(12,748,167)	(8,307,069)
Net realised gain/(loss) on disposal of investments		6,550,443	(4,847,318)
Currency reserve adjustment		(96,395)	(3,565,122)
As at 30 September		168,919,981	218,671,196

### 8. Guarded Strategy Scheme of Arrangement

In 2009 the Directors decided to close the Guarded Strategy Class Funds. Closure has been achieved by way of a Scheme of Arrangement, the terms of which have been approved by Shareholders and the Isle of Man High Court. The Scheme became effective on 28 August 2009. Under the terms of the

Scheme shares in the Guarded Strategy Class Funds were cancelled on the effective date.

Amounts realised from the sale of underlying assets comprising the Scheme represent a liability of the Company. Proceeds from the Scheme will be returned to the former shareholders of the Guarded Strategy Class Funds in four instalment payments over a period of 40 months.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 8. Guarded Strategy Scheme of Arrangement (continued)

The amounts attributable to the former Guarded Strategy Class Funds now comprising

the Scheme of Arrangement as at the balance sheet date are as follows:

	Net Asset Value	
	2010	2009
US Dollar Class	US\$2,032,802	US\$8,642,522
Sterling Class	£406,299	£2,872,541
Euro Class	€60,499	€396,207

### 9. Risk Exposure

The Company enters into investment transactions in financial instruments, the holding of which gives exposure to market price risk, currency risk, liquidity risk, and credit risk.

Market risk is the risk that the market price of a financial instrument will fluctuate due to changes in factors specific to the security of its issuer or factors affecting all securities traded in the market.

Currency risk arises where instruments are denominated in a currency different from the base currency of the Company. The Investment Advisor seeks to reduce the Company's exposure to currency risk through the use of forward currency contracts.

Liquidity risk is the risk that the Company will not be able to settle or meet its obligations in a timely manner or at a reasonable price. The primary source of the Company's liquidity risk is from redemptions of its redeemable preference shares held by investors. Because the majority of the Company's assets are not traded in active markets and are generally illiquid, the Company may not be able to meet its obligations if forced to liquidate such illiquid assets. Furthermore the values generated from such forced liquidations of its generally illiquid assets may be significantly less than their carrying amounts.

All of the Company's financial assets are subject to credit risk and the maximum exposures to such risk are stated in the Balance Sheet. All investment funds in which the Company invests are "principal's markets"

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 9. Risk Exposure (continued)

in which they are fully subject to the risk of counterparty default. There is a significant amount of credit risk associated with these investments and the ability of the underlying fund to pay out redemption requests. The Company manages this risk performing ongoing quantitative and qualitative reviews in order to approve and monitor counterparties.

#### Forward Currency Contracts

The Company enters into forward currency contracts in order to hedge against foreign currency exchange rate risk. The amount of the contract represents the extent of the

Company's participation in these financial instruments. Market risks associated with forward contracts arise due to the possible movements in foreign exchange rates underlying these instruments. Other market and credit risks include the possibility that there may be an illiquid market for the contracts, that the change in value of the contract may not directly correlate with the changes in the value of the underlying currencies or that the counterparty defaults on its obligation to perform under the terms of the contract.

As at 30 September 2010 the Company held open forward contracts as set out below:

Purchase Currency Contracted Amount	Sale Currency Contracted Amount	Date	Unrealised gain/(loss) US\$
<b>Accelerated Strategy – Sterling Class</b>			
£1,514,273	US\$2,403,000	29/10/2010	(21,871)
<b>Accelerated Strategy – Euro Class</b>			
€185,538	US\$253,000	29/10/2010	(355)
<b>Diversified Strategy Sterling Participating Class</b>			
£5,613,460	US\$8,908,000	29/10/2010	(81,079)
<b>Diversified Strategy Euro Participating Class</b>			
€2,395,131	US\$3,266,000	29/10/2010	(4,584)
<b>Diversified Strategy Sterling Restricted Class</b>			
£1,428,571	US\$2,267,000	29/10/2010	(20,634)
<b>Diversified Strategy Euro Restricted Class</b>			
€418,744	US\$571,000	29/10/2010	(801)
<b>Diversified Strategy US Dollar Restricted Class</b>			
\$1,508,403	€1,107,595	12/10/2010	(108,403)
			<u>(237,727)</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 9. Risk Exposure (continued)

As at 30 September 2009 the Company held open forward contracts as set out below:

Purchase Currency Contracted Amount	Sale Currency Contracted Amount	Date	Unrealised gain/(loss) US\$
<b>Accelerated Strategy Portfolio Sterling Class</b>			
£1,721,009	US\$2,750,000	30/10/2009	10,326
<b>Accelerated Strategy Portfolio Euro Class</b>			
€273,749	US\$399,000	30/10/2009	(427)
<b>Diversified Strategy Portfolio Sterling Class</b>			
£12,958,258	US\$20,706,000	30/10/2009	77,750
<b>Diversified Strategy Portfolio Euro Class</b>			
€3,747,410	US\$5,462,000	30/10/2009	(5,846)
			81,803

### 10. Related parties

A V Lodge, D Macready, and T A Wiltcher, each a Director of the Company, are also Directors of the Investment Manager. H L Jones was also a Director of the Company and the Investment Manager and resigned on the 15 January 2010.

Investments include an investment of US\$5,265,163 in Nedgroup Investment Premium Portfolio and an investment of US\$2,466,703 in Nedgroup Investments Global Cautious Fund, both of which are managed by the Investment Manager.



## SHAREHOLDERS' FUNDS BY CURRENCY CLASS

For the year ended 30 September 2010

	Net asset value	2010 Number of shares in issue
<b>Accelerated Strategy Fund</b>		
Euro Participating Class	€191,503	179,563.53
Sterling Participating Class	£1,546,726	1,353,694.22
US Dollar Participating Class	US\$29,612,501	16,622,239.39
<b>Diversified Strategy Fund</b>		
Euro Participating Class	€2,376,142	2,347,422.29
Sterling Participating Class	£5,556,010	5,034,537.97
US Dollar Participating Class	US\$88,041,882	49,513,464.71
<b>Diversified Strategy Restricted Fund</b>		
Euro Restricted Class	€452,142	513,223.89
Sterling Restricted Class	£1,556,697	1,614,340.64
US Dollar Restricted Class	US\$14,799,137	9,597,483
<b>The Sterling Liquidity Fund</b>	£6,137,744	4,007,109.62
<b>The US Dollar Liquidity Fund</b>	US\$6,516,760	4,453,557.93
<b>Total shares in issue</b>		<b>95,236,637.19</b>

Net asset value per share	Net asset value	2009 Number of shares in issue	Net asset value per share
€1.0665	€402,848	257,237	€1.5661
£1.1426	£2,787,277	1,514,037	£1.8410
US\$1.7815	US\$33,743,211	19,013,067	US\$1.7747
€1.0122	€5,528,007	3,624,710	€1.5251
£1.1036	£21,068,672	11,596,461	£1.8168
US\$1.7781	US\$123,669,867	68,567,716	US\$1.8036
€0.8810	€ -	-	€ -
£0.9643	£ -	-	£ -
US\$1.5420	US\$ -	-	US\$ -
£1.5317	£8,261,339	5,435,206	£1.5200
US\$1.4633	US\$6,408,818	4,403,420	US\$1.4600
		114,411,854	

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held on 1 March 2011 at First Floor, Samuel Harris House, St George's Street, Douglas, Isle of Man at 11.00am for the purpose of transacting the following business:

1. To approve the minutes of the previous Annual General Meeting of the Company held on 4 May 2010.
2. To ratify the acts of the Directors.
3. To consider and approve the Annual Report and Audited Financial Statements of the Company for the year ended 30 September 2010.
4. To re-appoint KPMG Audit LLC as auditors of the Company and to authorise the Directors to fix their remuneration.
5. To transact any other ordinary business of the Company.

Dated 21 January 2011

First Floor  
Millenium House  
Victoria Road  
Douglas  
IM1 1EU

On behalf of the Board

**AV Lodge**  
Director

NOTE: In accordance with Article 27.00 (c) the holders of Participating Shares shall be entitled to receive notice of and attend (but not speak at) General meetings.



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**Address**

First Floor, Samuel Harris House,  
St George's Street, Douglas,  
Isle of Man IM1 1AJ

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