



# Nedgroup Investments Target Return Fund II Plc

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

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## CORPORATE INFORMATION

### Directors

A V Lodge  
T A Wiltcher  
A E Barber

### 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

### Custodian & Banker

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

### Registered Agent

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

### Legal Adviser

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

### Auditors

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

### Registered Office

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

\*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 for the year ended 30 September 2010.

## Principal Activity

Nedgroup Investments Target Return Fund II Plc ("the Fund") is a collective investment scheme, incorporated on the 28 September 2004, managed in the Isle of Man and operates with six sub funds. The Fund is a Closed Experienced Investor Fund under the Collective Investment Schemes Act 2008.

## Results and Dividends

The financial results of the Fund for the year ended 30 September 2010 are set out in the Statement of Total Return. The net expense and capital gains for the year amounted to a loss of \$669,181 (2009: \$5,749,280 loss).

No dividend is proposed (2009: nil).

## Directors and Directors' Interests

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

A V Lodge  
T A Wiltcher  
H L Jones (resigned 15 January 2010)  
A E Barber

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

A V Lodge and 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 end 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 Fund and of the profit or loss of the Fund for that period.

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

- select suitable accounting policies and then apply them consistently;
- make 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 Fund 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 Fund and to enable the preparation of financial statements. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Fund 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 Fund's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

On behalf of the Board

**A V 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 – especially those in the absolute return space – 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

The Target Return Fund II Participating Class was created in December 2009 after "locked-up", "gated" or otherwise liquidity impaired hedge funds in the portfolio were moved into the Target Return Fund II Restricted Class. In anticipation of the changes, the liquid holdings in the portfolio were replaced with holdings in

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010 (continued)

absolute return funds regulated under the UCITS III framework. The purpose of these changes was to create a liquid vehicle which could be managed efficiently, without the problems created by a large group of illiquid holdings. More importantly, the move created at least partial liquidity for clients who would be able to redeem their holdings of the Participating Class with seven day's notice on a weekly dealing cycle going forward.

## Target Return Fund II Participating Class

Since the creation of the Participating Class, performance has been disappointing. In the 12-month period through September (which includes two months prior to the fund split), the fund has lost -5.00% while performance since the separation of the restricted assets in December 2009 has been -3.41%. Over the same time period, the HFRX Global Hedge Fund Index has risen by 4.10% and 2.45%, respectively. In perhaps a better comparison given the new focus of the fund and due to the low representation of convertible arbitrage, distressed and other fixed income strategies in the UCITS hedge fund space, there are now indices which track the performance of this specific peer group. Nara Capital in Switzerland calculates the return of their UCITS Alternative Index Global over the same period to be 1.22% with the UCITS Fund of Funds index underperforming the overall index, falling by -2.64% over the past 12 months. Clearly this has been a difficult period

for fund of funds products, both in the UCITS space and in the broader hedge fund arena.

Target Return Fund II Participating Class has maintained a cautious approach since its creation. Asset allocation has reflected a bias towards the Relative Value category, which includes Equity Market Neutral and Volatility Arbitrage funds. The other significant exposure has been to Opportunistic funds, which include Global Macro and Equity Long/Short funds. There has also been a limited amount of exposure to Event-Driven funds, but this category is small by default: most event-driven strategies are illiquid in nature and cannot easily be wrapped within the UCITS structure.

TRF II has also lagged of late due to the specific under-performance of one of its macro managers, the AVIVA Tactical Asset Allocation Fund, which has struggled to navigate the volatility of the last six months, losing almost 20% of its value and down almost 12% over the past year. The fund enjoyed a very strong run through 2009, and we highlighted it several times in our investment commentaries. But this came to an end this year, particularly in the panic surrounding the Greek debt crisis in March. The Managers had allowed their negative fixed income exposure to become too large, and as they attempted to limit the impact of their positions, the fund was subject to the 'whipsawing' of the market swings from fear

# REPORT OF THE INVESTMENT ADVISOR

For the year ended 30 September 2010 (continued)

to greed. The inability of the macro managers to navigate the current economic landscape was a disappointment during 2010, in contrast to how well they performed in 2008.

## Target Return Fund II Restricted Class

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 Fund was 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 incapable of realisation in line with the terms when the Fund initially invested in them were transferred to a Restricted Class on 3 December 2009.

The Restricted Class has returned -3.99% since inception through to the period ended 30 September 2010. There has been continued performance deterioration in some of the asset based lending (ABL) managers during 2010 but the news was not all bad; with initially less concentration in ABL and greater exposure to rebounding Asian markets, the TRF Restricted Class has generally performed in line with the unimpaired Participating Class.

At the end of September the Restricted Class held approximately 10% of its value in cash. By the end of the reporting period just under 27% of the original number of shares transferred to the side-pocket had been redeemed and their proceeds returned to the Participating Class. Since its creation five of the impaired assets transferred to the Restricted Class had been redeemed completely by the end of September.

Our liquidity analysis indicates that almost two-thirds of the remaining funds comprising the Restricted Class (representing approximately 51% of current 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 an additional 7% of the remaining portfolio balance to be repaid before the end of 2010 with 17% 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.

Nedgroup Investments (IOM) Limited  
**Manager**

# REPORT OF THE INDEPENDENT AUDITORS

KPMG Audit LLC To the Members of NEDGROUP INVESTMENTS TARGET RETURN FUND II PLC

We have audited the financial statements (the "financial statements") of Nedgroup Investments Target Return Fund II plc for the year ended 30 September 2010 which comprise 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 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 and 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 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 judgments 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.

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

# REPORT OF THE INDEPENDENT AUDITORS

KPMG Audit LLC To the Members of NEDGROUP INVESTMENTS TARGET RETURN FUND II PLC (continued)

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 the loss for the year then ended.

## KPMG Audit LLC

Chartered Accountants & Registered Auditors

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>			
Interest		-	15
Other income		4,375	-
		4,375	15
<b>Expenses</b>			
Other expenses		31,688	70,560
Director's fee		2,500	-
Administration fee	3	12,696	26,304
Audit fees		9,550	9,550
Custodian fee	3	3,701	2,005
		60,135	108,419
<b>Net expenses for the year</b>	5(e)	(55,760)	(108,404)
<b>Net realised and unrealised gain/(loss) on investments</b>			
Movement in unrealised depreciation/ appreciation of investments	5(d)	3,778,896	(2,255,436)
Net realised loss on disposal	5(d)	(4,392,317)	(3,385,440)
<b>Net loss on investments</b>		(613,421)	(5,640,876)
<b>Total Return</b>		(669,181)	(5,749,280)

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

The Directors consider that all results derive from continuing activities.

The notes on pages 11 – 18 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	6	9,009,121	18,896,811
Debtors & Prepayments		3,204	-
Due from Broker		2,071	4,983
Bank balances		2,735	1,095
<b>Current assets</b>		<b>9,017,131</b>	<b>18,902,889</b>
<b>Current liabilities</b>			
Accrued expenses		32,446	44,732
<b>Total liabilities</b>		<b>32,446</b>	<b>44,732</b>
<b>Net assets</b>		<b>8,984,685</b>	<b>18,858,157</b>
<b>Net assets attributable to holders of participating redeemable preference shares</b>		<b>3,346,480</b>	<b>18,858,057</b>
<b>Net assets attributable to holders of restricted shares</b>		<b>5,638,105</b>	<b>-</b>
<b>Net assets attributable to holders of management shares</b>		<b>100</b>	<b>100</b>
	7	<b>8,984,685</b>	<b>18,858,157</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 11 to 18 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010

## 1. General

The Fund operates with six classes (2009: three), the US Dollar Participating Class, the Sterling Participating Class, the Euro Participating Class ("the Participating Classes"), the US Dollar Restricted Class, the Sterling Restricted Class and the Euro Restricted Class ("the Restricted Classes).

The Participating Classes and the Restricted Classes were established on 3 December 2009 following the segregation of assets with restricted liquidity. Assets with restricted liquidity were transferred to a separate portfolio representing the Restricted Classes, all other assets held represent the Participating Classes. 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 Classes have no dealing rights attached to them.

Upon redemption, shareholders are only entitled to their proportion of the net assets relating to their particular shares. (See page 20 for financial information with respect to each class). The assets of any class may be exposed to the liabilities of other classes within the umbrella. As at the 30 September 2010 the Directors were not aware of any such existing or contingent liability.

## 2. Accounting policies

### (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 UK Accounting Standards.

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

Participating redeemable preference shares are issued by the Fund and allocated to whichever Sub-Fund is selected by the investor. Shareholders were allocated Restricted Shares on 1 December 2009.

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.

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 Fund.

# 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 and 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. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative. Subsequent changes in the fair value of any derivative instrument are recognised immediately in the Statement of Total Return.

### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash

balances held at banks together with bank overdrafts.

### (f) Cash flow statement

As the Fund is an open ended collective investment scheme and investments are liquid and valued at market value, there is no requirement to report a cash flow statement in accordance with Financial Reporting Standard 1 Cash Flow Statements. Changes in net assets are presented in the Reconciliation of Movement in Shareholders' Fund in note 7.

### (g) Foreign Exchange

Transactions in foreign currencies are translated into the base currency of the relevant share classes at the exchange rate 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 US Dollars 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 Fund. The adjustment in US Dollars arising from the consolidation of the currency Sub-Funds is

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

## 2. Accounting policies (continued)

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 = £0.6326 and \$1 = €0.7347 as at 30 September 2010 (2009: \$1 = £0.6282 and \$1 = €0.6853).

The balance sheets for the share classes have been aggregated into US Dollars using exchange rates ruling at the balance sheet date, to provide a balance sheet for the Fund. The adjustment in US Dollar terms arising from this consolidation, is classified separately in the balance sheet under the heading of "currency adjustment reserve". This reserve has no effect on the value of net assets allocated to the individual Sub Funds.

## 3. Fees

The Manager receives a fee at the rate of 1.75% per annum of the Net Asset Value of the Fund's Participating Classes and 0.75% per annum on the Net Asset Value of the Restricted Classes. The fee is calculated at each valuation point, and paid monthly.

The Administrator receives a fee at the annual rate of 0.11% of the Net Asset Value of the Fund's Participating Classes and 0.10% per annum on the Net Asset Value of the Restricted Classes.

AV Lodge and T A Wiltcher are Directors of the Company and also Directors of the Manager and do not received a fee. H L Jones was also a Director of the Company and the Manager and did not receive a fee. A E Barber receives a fee of £2,500 p.a.

During the year the Custodian's remuneration was a flat fee of US\$500 per calendar quarter. In addition, the Custodian was entitled to levy a transaction charge of up to US\$150 in respect of each transaction relating to the Fund's underlying investments.

## 4. Taxation

The Fund 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 Fund is divided into 100 Management Shares of \$1.00 each and 1,000,000,000 Participating Shares of US\$0.01 each. The Company was registered under the Isle of Man Companies Acts 1931 – 2004 until the 24 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 1,000,000,000 Unclassified Shares of US\$0.01 each.

Unclassified Shares were issued either as Participating Redeemable Preference Shares ("Shares") or Nominal Shares. Shares were

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

## 5. Share capital and reserves (continued)

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 Fund, Nominal Shares were issued to the Manager for cash at par on the basis of one Nominal Share for each Share redeemed. Nominal Shares would 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. 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 were issued on 1 December 2009 following the segregation of assets with restricted liquidity. 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 Fund 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 dividends may be declared on the Management Shares.

On a winding up the assets available will be applied: firstly, in the repayment *pari passu* to the holders of Participating Shares of sums up to the nominal amount paid up thereon: secondly, in the repayment *pari passu* to the holders of Management Shares of sums 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.

## 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>(a) Authorised share capital</b>		
100 Management shares of 1 dollar each	100	100
1,000,000,000 Unclassified shares of 1 cent each	10,000,000	10,000,000
	10,000,100	10,000,100
<b>(b) Issued share capital</b>		
Management shares of 1 dollar each		
Issued and fully paid	100	100
<b>Redeemable shares:</b>		
Participating shares of 1 cent each		
As at 1 October 2009/2008	128,179	256,738
Issued during the year	15,554	5,400
Redeemed during the year	(116,951)	(133,959)
As at 30 September	26,782	128,179
Restricted shares of 1 cent each		
As at 1 October 2009/2008	-	-
Issued during the year	56,428	-
Redeemed during the year	(15,230)	-
As at 30 September	41,198	-
Nominal shares of 1 cent each		
As at 1 October 2009/2008	-	16,528
Issued during the year	-	119,925
Redeemed during the year	-	(136,453)
As at 30 September	-	-
Total issued share capital		
As at 30 September	68,080	128,279
<b>Redeemable shares:</b>		
Number of participating redeemable preference shares		
As at 1 October 2009/2008	12,817,901	25,673,822
Issued during the year	1,555,367	540,014
Redeemed during the year	(11,695,092)	(13,395,935)
As at 30 September	2,678,176	12,817,901

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

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

	Notes	2010 US\$	2009 US\$
<b>(b) Issued share capital (continued)</b>			
Number of restricted shares			
As at 1 October 2009/2008		-	-
Issued during the year		5,642,771	-
Redeemed during the year		(1,523,005)	-
As at 30 September		4,119,766	-
Nominal shares:			
Number of Nominal Shares			
As at 1 October 2009/2008		-	1,652,837
Issued during the year		-	11,992,440
Redeemed during the year		-	(13,645,277)
As at 30 September		-	-
<b>(c) Share Premium</b>			
Redeemable shares:			
As at 1 October 2009/2008		29,835,685	46,056,649
Relating to issue of shares		10,094,417	840,593
Relating to redemption of shares		(19,050,421)	(17,061,557)
As at 30 September		20,879,681	29,835,685
<b>(d) Capital Reserve</b>			
As at 1 October 2009/2008		(6,033,314)	(392,438)
Movement in unrealised appreciation of investments		3,778,896	(2,255,436)
Net realised (loss)/gain on disposal of investments		(4,392,317)	(3,385,440)
As at 30 September		(6,646,735)	(6,033,314)
<b>(e) Revenue reserve</b>			
As at 1 October 2009/2008		(491,530)	(383,126)
Net expenses for the year		(55,760)	(108,404)
As at 30 September		(547,290)	(491,530)
<b>(f) Currency adjustment reserve</b>			
As at 1 October 2009/2008		(4,580,963)	(1,320,828)
Net movement for the year		(188,088)	(3,260,135)
As at 30 September		(4,769,051)	(4,580,963)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

### 6. Investments

	Notes	2010 US\$	2009 US\$
Cost at 30 September		9,590,580	23,301,673
Revaluation		(581,459)	(4,404,862)
Valuation at 30 September		9,009,121	18,896,811

The Fund operates as a feeder fund to Nedgroup Investments Target Return Fund plc which was subject to a re-organisation of shares into Participating and Restricted Classes. This resulted in approximately half the financial assets of the fund becoming subject to restricted liquidity during the year.

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

	Notes	2010 US\$	2009 US\$
Shareholders' funds at 1 October 2009/2008		18,858,157	44,233,623
Net expenses for the year		(55,760)	(108,404)
Net (decrease) from the issue/redemption of shares		(9,016,203)	(16,366,051)
Movement in unrealised appreciation of investments		3,778,896	(2,255,436)
Net realised (loss) on disposals of investments		(4,392,317)	(3,385,440)
Currency adjustment reserve		(188,088)	(3,260,135)
Shareholders' funds at 30 September		8,984,685	18,858,157

### 8. Financial instruments and risk exposure

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

Market risk is the risk that the market price of a financial instrument will fluctuate due to changes in foreign exchange rates, market interest rates, factors specific to the security or 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 Fund. The Investment Advisor seeks to reduce the Fund's exposure to currency risk through the use of forward currency contracts.

Liquidity risk is the risk that the Fund will not be able to settle or meet its obligations in a timely manner or at a reasonable price. The primary source of the Fund's liquidity risk is from redemptions of its redeemable preference

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2010 (continued)

## 8. Financial instruments and risk exposure (continued)

shares held by investors. Because the majority of the Fund's assets are not traded in active markets and are generally illiquid, the Fund may not be able to meet its obligations if forced to liquidate such illiquid asset. Furthermore the values generated from such forced liquidations of its generally illiquid assets may be significantly less than their carrying amounts.

Under normal circumstances the Fund manages its liquidity risk by investing predominantly in funds that it expects to be able to liquidate at short notice. However, included in the balance sheet are investments with a value of US\$5,652,963 that are subject to restricted liquidity and comprise the Restricted Class Portfolios.

All of the Fund'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 Fund invests are "principal's markets" 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 Fund manages this risk performing ongoing quantitative and qualitative reviews in order to approve and monitor counterparties.

### Forward currency contracts

The Fund 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 Fund'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.

At 30 September 2010 the Fund held no open forward contracts. There were also none at the 30 September 2009.

## 9. Related party transactions

A V Lodge and T A Wiltcher, each a Director of the Fund, are also Directors of the Investment Manager. H L Jones was a Director of the Fund and the Investment Manager.



## SHAREHOLDERS' FUNDS BY CURRENCY CLASS

For the year ended 30 September 2010

	Net asset value	2010 Number of shares in issue
US Dollar Participating Class	US\$936,774	979,857.71
Sterling Participating Class	£1,257,404	1,333,848.66
Euro Participating Class	€310,449	364,469.85
US Dollar Restricted Class	US\$674,448	710,531.96
Sterling Restricted Class	£2,916,892	3,106,446.99
Euro Restricted Class	€259,796	302,787.04
<b>Total shares in issue</b>		<b>6,797,942.21</b>

Net asset value per share	Net asset value	2009 Number of shares in issue	Net asset value per share
US\$0.9560	US\$2,104,532	2,091,363.64	US\$1.0063
£0.9427	£9,811,551	9,879,533.12	£0.9931
€0.8518	€777,822	847,004.26	€0.9183
US\$0.9492	US\$ -	-	US\$ -
£0.9390	£ -	-	£ -
€0.8580	€ -	-	€ -
		12,817,901.02	

**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 10.20am 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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