CF Eclectica Absolute Macro Fund

MONTHLY FACTSHEET

30 April 2010

Global equity markets reversed early gains in April as European sovereign debt issues resurfaced. As per the theory of a debt trap explained in previous papers, it proved a good month for the US dollar and fixed income as they rallied after a weak start to the month. The Fund posted a loss of 0.7% for the month, paring back year to date gains to 0.4%.

The Fund's fixed income book performed well, with its 6% holding in German 30yr bunds contributing 17bps and corporate bonds a further 14bps. As we start May the Fund has taken some profits on the bund as bond yields spiked lower, reducing the position to 4% of NAV.

The Fund also benefitted from its holding in corn, closing the month with a 4.6% gain, yielding 9bps. The Fund added to the holding during April, increasing the position from 1.5% to 3% of NAV (see insight below).

Currency positions were flat on the month as small losses early on were erased as the US dollar rallied going into May. The Fund increased its exposure during the month, with a 3% of NAV long US dollar/short Sterling position built and its long US dollar/short Hungarian forint position taken up to 2.5% of NAV. Total currency exposure is now 29%, of which 16% of NAV short the pegged exchange rates of Latvia and Estonia.

It was the equity book that proved to be a drag on performance as equity markets retreated, although losses were mitigated through index put options, yielding 21bps to performance.

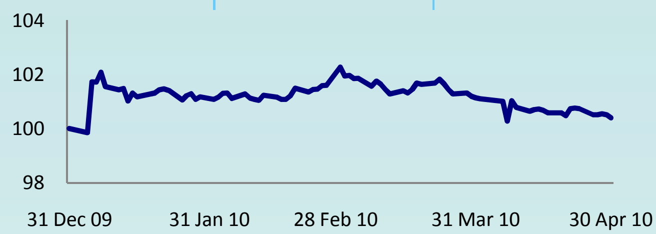
Macro Insight: Corn

The US produced a record corn yield in 2009, meaning that the world was sufficiently (if hardly abundantly) supplied last year. International prices have reflected this, with the Chicago corn future tracking broadly sideways over the last year. However, the price of corn in Dalian, a port city to the east of Beijing, has risen by a third over the same period to 1,900 RMB per tonne. In dollar terms, this equates to about $7.50 per bushel, more than double the Chicago price.

China accounts for just under 20% of world corn production, and about 20% of world demand. Net exports, over the last five years, have been negligible. And, according to the statistics, China holds 34% of global inventories of corn, well above the world average. In fact, the stocks-to-use ratio in China is 31%, which compares with a global average of 18% and an average ex-China of a rather paltry 14%. All things being equal, Chinese corn should trade at best in-line with world prices. And although the Chinese government does have a policy of intervening to support grain prices, their support in the corn market kicks in when prices drop to about $6. In fact, over the last month the Chinese state has been a net seller of corn, and

PERFORMANCE (%)—'A' £ shares

1 month	3 months	since launch
-0.7	-0.8	+0.4

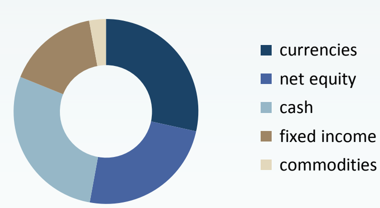


NAV	$¢	£p	€¢
A shares	137.24	89.55	103.07
C shares	137.26	90.30	103.10
AUM			£11.9m

TOP 10 HOLDINGS (% NAV)

Long EUR / short EEK	Currency	10.3
Annaly Capital Management	Equity	6.3
German 30-year Bund	Fixed income	6.1
Long EUR / short LVL	Currency	5.2
Altria 10.2% 2039	Fixed income	3.5
Windstream 8.625% 2016	Fixed income	3.4
ETFS Corn	Commodity	3.0
Long USD / short AUD	Currency	2.9
Long USD / short GBP	Currency	2.9
Lorillard	Equity	2.6

ASSET ALLOCATION



GROSS INVESTED POSITION

82.7%

FUND FACTS

Launched	31 December 2009
Fund managers	Hugh Hendry & Espen Baardsen
IMA sector	absolute return
Target return	annualised 10% on a rolling 3-year basis

Portfolio data as at 30 April 2010. Source: Eclectica Asset Management.

has failed to quell these price rises.

What is going on here? The market price of corn seems to conflict with conclusions one would naturally infer from the data as presented by international bodies, whether we follow the International Grains Council, the FAO or the USDA, who all tend to follow the Chinese government (give or take a couple of percent) when compiling their global inventory data.

The issue with Chinese data is that which has afflicted all communist governments over the years. Key economic indicators, whether they are in GDP, credit growth or grain production, stipulate a desired (and not always realistic) level of output, rather than reporting the sum of individual achievement. When things go wrong, local officials prefer where possible to secure their jobs by presenting results in-line with the state target rather than telling the truth, meaning that the centrally-compiled data can often end up wildly misrepresenting the real situation, particularly when events on the ground deviate substantially from the official target.

Data suggests that 2009 was another successful year for Chinese farmers, and the outlook for 2010 is similar. But experience cautions us to be careful with statistics emerging from totalitarian states, and instead look for anomalies in real economic activity, whether in terms of price action or trade flows. And the Dalian corn price highlighted above constitutes a striking anomaly. What might have happened in the last year to cause such a price aberration?

Early 2009 saw a drought in northern China so bad that Beijing ordered rockets to be fired into the skies to make it rain, and sent out divisions of the People's Liberation Army to water the fields by hand, armed with little more than buckets and spades. The start of 2010 has revealed a very severe drought in the south-west of the country, bad enough to curtail industrial production in a region heavily reliant on hydroelectric power. Furthermore, fertiliser consumption in China was down sharply compared with previous years, and the impact of lower fertiliser usage on yield tends to be magnified by poor weather. This conjunction of events is normally considered prejudicial to good grain harvests.

If there has been a problem with the domestic harvest, the government will have to intervene. Politics in China have moved on somewhat since the heartless policies of Chairman Mao, and the last thing the current government needs is an outbreak of civil unrest caused by hunger or, worse, starvation. We now have relatively good data regarding global trade in grains. And this is the crucial fact: China has re-appeared in the global grain markets, buying wheat from Australia and, most significantly, buying cargoes of corn from the US for the first time in a decade.

How significant could this prove to be? The example of other commodities suggests that China becoming a major importer can have a major impact. For example, China formerly played a very insignificant role in the global soybean market, but within the last fifteen years they have moved to a situation where they import over 70% of their soybean requirement and account for over half of world trade. Soybean prices have doubled since China began to be a major world player in the late 1990s.

It is perhaps too early to tell whether these purchases are a response to one bad harvest or the start of a structural trend where China begins to import corn. Nevertheless, trading at $3.60 per bushel, the global corn price looks far too cheap as China moves into the market.

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ECLECTICA ASSET MANAGEMENT

KEY POINTS

- Absolute return: independent of benchmarks
- Multiple-asset class selection: dynamic asset allocation
- Uncorrelated returns: long established track record of uncorrelated and positive returns
- Competitive fee structure: no performance fee
- UCITS III: affords greater flexibility within investment mandate along with daily dealing

FUND AIM

The Fund seeks to achieve positive returns through strategically allocating capital across multiple asset classes on a global basis.

FUND STRATEGY

The Fund makes full use of the UCITS III directive to maximise its ability to generate superior risk adjusted absolute performance. It dynamically allocates across multi-asset classes to preserve capital and generate absolute returns in all market and economic conditions. The manager pays particular attention to protecting assets.

The Fund can invest in the following asset classes:

- global equities
- commodities (ETCs)
- global fixed income
- currencies
- credit

FUND MANAGER: HUGH HENDRY

Hugh graduated from Strathclyde University in 1990 and, after eight years with Baillie Gifford and one year at Credit Suisse Asset Management, he joined Odey Asset Management in 1999. As a partner at Odey, Hugh was responsible for $1bn of long-only European equity mandates and launched the Eclectica Fund in 2002. In 2005, along with four other colleagues, he established Eclectica Asset Management.

MANAGER DETAILS	
Investment manager	Eclectica Asset Management LLP
ACD	Capita Financial Managers Ltd
Administrator	Capita Financial Administrators Ltd
FUND DETAILS	
Share classes	£/€/$
Structure	UCITS III sub fund of CF Eclectica Funds
Dividends	Accumulated
Isa/Pep eligible	Yes

FUND IDENTIFIERS

	ISIN	SEDOL	Bloomberg
A share (£)	GB00B2PJSV25	B2PJSV2	CFEGASA LN
A share (€)	GB00B2PJWD21	B2PJWD2	CFEGAEA LN
A share ($)	GB00B39WZQ85	B39WZQ8	CFEGADA LN
C share (£)	GB00B3B1N814	B3B1N81	CFEGCSA LN
C share (€)	GB00B3B1NB48	B3B1NB4	CFEGCEA LN
C share ($)	GB00B39WZY69	B39WZY6	CFEGCDA LN

FEES, COSTS AND REDEMPTION STRUCTURE	
Initial charges	up to 5% (class A); up to 1% (class C)
Anti-dilution levy	up to 0.75% on subs/reds over 5% of NAV
Annual charges	1.75% (class A); 1.25% (class C)
Performance fee	none
Minimum investment	£5,000 (class A); £2m (class C) (equivalent for € and $)
Dealing	daily at 12pm
Dealing line	0845 608 0941

SERVICE PROVIDERS	
Depository	BNY Mellon
Auditors	Ernst & Young
Accounts date	Financial year-end 31 December

SALES AND MARKETING

HarringtonCooper

Patrick Cooper / Harry Dickinson / Edward Higgin / Caspar Hill

T. (0)20 7043 0500 / E. team@harringtoncooper.com

Eclectica: Joe Rouncefield / Investor Relations

T. (0)20 7792 6420 / E. marketing@eclectica-am.com

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