



## FUTURIS - AUGUST 2011

Last month Futuris decreased in value by 2.77 per cent after fees. The 3-month German T-bill returned 0.09 per cent during the same period.

The table below shows Futuris' development, together with various market indices. Please note that Futuris' performance figures in the table are calculated for clients that have invested in the Fund throughout the years and that the figures are net of all fees.

| %               | Futuris <sup>1</sup> | German 3-month T-Bill (EUR) <sup>2</sup> | MSCI Euro NDTR Index <sup>3</sup> | SIX Return Index <sup>4</sup> | OBX Index <sup>5</sup> | MSCI World NDTR Index <sup>6</sup> |
|-----------------|----------------------|--|-----------------------------------|-------------------------------|------------------------|------------------------------------|
| January         | -1.06                | 0.03                                     | 4.99                              | -1.17                         | -1.79                  | 1.94                               |
| February        | -0.29                | 0.03                                     | 1.87                              | -1.61                         | 3.83                   | 2.92                               |
| March           | 9.01                 | 0.03                                     | -2.95                             | 2.27                          | 0.04                   | -1.27                              |
| Q1              | 7.54                 | 0.08                                     | 3.79                              | -0.55                         | 2.02                   | 3.58                               |
| April           | 1.97                 | 0.06                                     | 3.95                              | 4.02                          | 1.20                   | 2.27                               |
| May             | -3.44                | 0.07                                     | -2.61                             | -0.53                         | -1.79                  | -1.27                              |
| June            | -4.76                | 0.06                                     | -0.58                             | -3.50                         | -4.76                  | -1.59                              |
| Q2              | -6.23                | 0.19                                     | 0.65                              | -0.16                         | -5.34                  | -0.63                              |
| July            | -1.89                | 0.08                                     | -5.45                             | -4.69                         | -0.79                  | -2.73                              |
| August          | -2.77                | 0.09                                     | -13.28                            | -10.48                        | -8.84                  | -6.77                              |
| YTD             | -3.80                | 0.44                                     | -14.35                            | -15.28                        | -12.67                 | -6.65                              |
| Since Inception | 514.91               | 34.91                                    | -10.45                            | 85.09                         | 173.34                 | 6.24                               |

## Markets

The MSCI Euro Total Return index decreased 13.3 per cent. The Euro Stoxx 50 index fell by 14 per cent, first down by -22 per cent and subsequently bouncing 11 per cent. The US S&P 500 index initially dropped 15 per cent, but finished the month relatively moderately down by -5.7 per cent. Among various international stock market indices, we noted the following movers: the Korean Kospi -12 per cent, the Japanese Nikkei -9 per cent, the German Dax -19 per cent and finally the US BKX banks index -13 per cent.

<sup>1</sup> Both performance and fixed fee deducted.

<sup>2</sup> The hurdle rate, on which the performance fee is calculated.

<sup>3</sup> Morgan Stanley Euro Net Div Total Return Index, local currencies.

<sup>4</sup> SIX Return Index, Swedish Total Return Index, SEK

<sup>5</sup> OBX Total Return Index, the 25 most traded stocks at the Oslo Stock Exchange, calculated in NOK.

<sup>6</sup> Morgan Stanley World Net Div Total Return Index, local currencies.

All sectors within the European Stoxx 600 index (-10.5 per cent) were down: The worst performing sectors were Autos -21 per cent, Banks -17.4 per cent (down by 27 per cent YTD), Chemicals -14.3 per cent, Basic Resources -13.4 per cent (down by 25 per cent YTD) and Insurance -12.5 per cent. All the best performing sectors fell in August: Food & Beverages -3.4 per cent, Healthcare -5.9 per cent and Technology -6.6 per cent.

The general pessimism was reflected in rising gold prices (up by 12 per cent, as well as setting a new all-time high of 1909 USD/ounce on August 23) and falling bond yields, where 10 year US treasury yields fell by a fifth in August. The European VDAX volatility index rose by more than half and the US VIX index by a fourth, but the Baltic Dry shipping rate index actually increased by 28 per cent in a rare positive showing this month.

Repeated verbal clashes occurred between officials representing the EU, ECB and IMF as well as other European politicians, regarding how to remedy the financial troubles of the PIGS countries, in particular the most acute issue of funding the Greek bail-out package. Other topics of discussion in Europe spanned scale and scope of the EFSF, to be or not to be of Eurobonds, the Finnish demand of collateral for its share in bailing out Greece and possibly mandatory increases of bank capital.

Bond yields in the PIGS countries increased and the spreads vs. German bonds widened, with Spanish and Italian spreads in focus but record high French spreads not far behind in investors' minds. The ECB purchased PIGS bonds in the secondary market in an attempt to short circuit escalating spreads. Markets were further pummeled by news of US sovereign debt being downgraded by Standard & Poor's and speculation about France being next in line. Short selling bans on some financials and related indices (including the Euro Stoxx 50 index) were announced (since banks would be hit the worst by large scale sovereign bond write-downs), which may have contributed to an intra-month equity rally.

In a further attempt to accommodate markets (and the economy), The FOMC announced its intent to keep policy rates at around zero (ZIRP) until mid-2013. Also, in his Jackson Hole speech, The Fed chairman Ben Bernanke talked about using "all tools" available as well as prolonging coming FOMC meetings to discuss the tools more thoroughly.

Macro fundamentals kept deteriorating in August; Weak ISM numbers in Europe and US, weak regional US surveys and the European ZEW and IFO surveys as well as weak US housing statistics weighed on investor sentiment. Several large banks cut their growth estimates significantly for the US, Europe and the world. In addition corporate second quarter earnings were weak in Europe, while strong earnings in the US explain some of the S&P 500's relative strength.

## Investment activities & result

The Futuris fund commenced the month slightly long and ended in the same manner. During the month, however, the fund was both longer (due to opportunistic buying after the 15 per cent initial market downturn) and shorter (after a market nose dive by 6 per cent in one day forced stop loss selling and some follow-through selling by the managers on the bounce from there). The fund's gross exposure is unusually low, due to a record drawdown and markets fraught with political risk - *equity prices mainly reflecting regulatory, macro and stimulus news as well as shorting bans, rather than company fundamentals.*

In August, the managers bought back hedges, sold Capital Goods shares, Financials and Basic Resources. The fund also decreased its holdings of Pharmaceuticals, Oil & Oil services and Consumer stocks, while increasing its exposure to Software.

The largest losses were incurred in Financials, Oil & Oil services and Capital Goods. The losses were mitigated by gains on hedging instruments. The fund also experienced smaller losses in most sectors and a small gain in Software.

By the end of the month, the largest sector exposure was Oil & Oil services, balanced by an equally sized hedge in sold Euro Stoxx 50 futures. The fund also held moderate longs in Software, Consumer and Retail stocks.

## Outlook & Strategy

In the first quarter, Futuris' managers had a negative view on the economy, earnings and stock prices and consequently positioned the fund net short. In March the Tohoku earthquake, tsunami and Fukushima nuclear meltdown disasters hit, disrupting supply chains, lowering sentiment and increasing general risk aversion. Markets soon recovered but then drifted lower amid weakening macro data, political wrangling and the end of QE2.

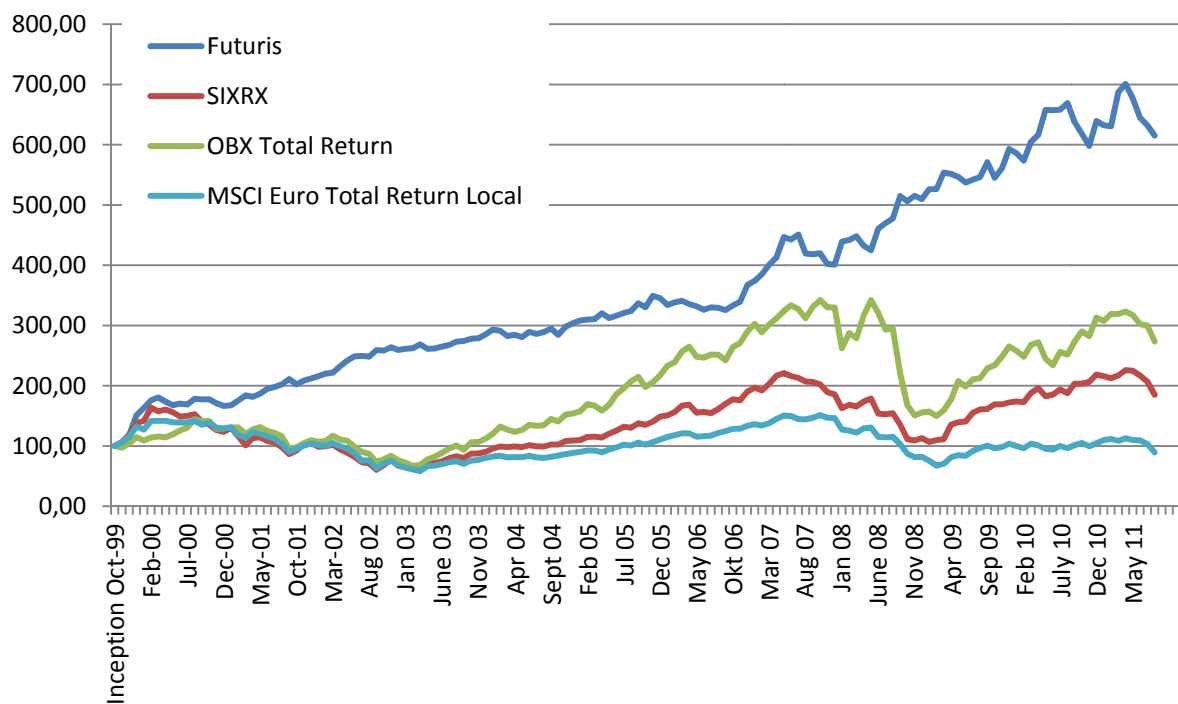
After the Fukushima disasters and related share price falls, Futuris opted for a tactical long position, which has been maintained since then, to varying degrees. During July, however, Futuris reduced its longs and insured the portfolio with a put position, due to somewhat anomalous market behavior. In August the market downturn accelerated, discounting a sharp economic slowdown. The overall long position for the fund since April was based on too much negativity being priced in too early and for the wrong reasons in our view. The result of this strategy unfortunately was a record drawdown of 12.3 per cent for the Futuris fund.

Stocks may be expensive based on cyclically adjusted price earnings ratios (CAPE) but simultaneously very attractive based on official forecasts. The growth outlook, however, is deteriorating (as measured by, e.g., ISM, consumer confidence, jobless claims, payrolls), putting forecasts at risk. In addition, public debt is high in many countries, forcing fiscal policy to be tight, thus reducing hopes of cushioning a downturn. Making matters much worse are the systemic risks facing Europe. If a euro country defaults or a member leaves the currency the ramifications would be incalculable and any valuation arguments made irrelevant.

The stock market plunge in August is weighing additionally on sentiment, adversely affecting consumption and investment plans, while China is keeping its monetary policy tight, partly due to inflationary spill-overs from the ZIRP in the US. The year of 2012 thus looks increasingly likely to be recessionary. These are however known facts and should to some extent already be priced in, setting markets up for a temporary but significant upturn. We, however, said as much during May, June and July and were proved wrong by the market.

All in all, more stimulus is likely and austerity plans and bank regulation look like they could be watered down, which could trigger a stock market bounce after the abysmal market in August. In addition, Q3 numbers should look ok, since corporate earnings and macro statistics are not as quick to change as sentiment surveys. Short selling bans on financials and the Euro Stoxx 50 index complicate the situation, but given all of the above, including the potential for some kind of temporary resolution to the Eurozone debacle, the managers think a small net long position is the most prudent choice at this point.

Performance chart from October 1999, Futuris [EUR] compared to Swedish (SIX Total Return [SEK]), Norwegian (OBX TR [NOK]) and European (MSCI TR [EUR]) indices



Finally, I will be pleased to answer any questions that you may have.

Sincerely yours,

Stockholm, 6 September 2011

Karl-Mikael Syding  
Managing Director