FUTURIS

FUTURIS - JUNE 2011

Last month Futuris decreased in value by 4.76 per cent after fees. The 3-month German T-bill returned 0.06 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[1]	German 3-month T-Bill (EUR)[2]	MSCI Euro NDTR Index[3]	SIX Return Index[4]	OBX Index[5]	MSCI World NDTR Index[6]
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
YTD	0.85	0.27	4.46	-0.71	-3.43	2.92
Since Inception	544.63	34.62	9.22	116.92	202.24	17.14

Markets

The MSCI Euro Total Return index fell by 6 per cent in the first half of June and all but returned to that trough on June 27, before bouncing back up to end the month just slightly down.

The worst performing sectors in Europe were Retail, Banks and Financial Services. The only sector to increase in June was Auto and Auto parts which increased by over 7 per cent. The Nordic indices performed significantly worse than the rest of Europe, the Norwegian OBX, e.g., falling by 5 per cent in June.

Macro numbers continued to be unfavorable during June. Weak PMI surveys combined with weak job data and high inflation in China and the UK. Making matters worse, the US Fed admitted the difficulties it had in pinpointing the reasons for the soft patch in the economy (apart from higher oil prices and disrupted supply chains after the Fukushima disaster). Also on that note, rating agencies

[1] Both performance and fixed fee deducted.

[2] The hurdle rate, on which the performance fee is calculated.

[3] Morgan Stanley Euro Net Div Total Return Index, local currencies.

[4] SIX Return Index, Swedish Total Return Index, SEK

[5] OBX Total Return Index, the 25 most traded stocks at the Oslo Stock Exchange, calculated in NOK.

[6] Morgan Stanley World Net Div Total Return Index, local currencies.

were unusually active in June, commenting on UK fiscal plans, US and Italian debt outlooks, Danish banks and not least downgrading Greek debt to junk status.

The most important development in June, however, related to Greece and how to steer clear of a “credit event”, i.e., avoid a default rating on its sovereign debt. Two important hurdles were passed late in the month in form of a confidence vote for the Greek PM Papandreou and an austerity package vote on June 29.

Investment activities & result

Late in the month, a couple of days before the Greek austerity vote, when markets sold off heavily, the portfolio managers chose to reduce the fund’s net long exposure significantly, due to the poor performance in the portfolio over May and June. The risk reduction was made by selling futures, but the portfolio managers kept calls bought earlier in the month, in case of a short term resolution of the Greek austerity worries.

The sector weight changes in the portfolio were almost negligible; Futuris bought limited amounts of telecom services, retail and bank stocks but not enough to change the overall picture. Thus, the largest sectors by the end of the month were Banks, Oil and Oil services and Capital goods, just as the last few months. The fund also has a positive net exposure in hedging instruments, consisting of short futures and long call options, enabling Futuris to keep its single stock holdings and retaining a significant upside potential together with an element of automatic risk reduction in the event of renewed share price falls.

Index futures and options were the biggest drags on the portfolio, followed by Financials shares. However, most sectors contributed to the months losses. The fund only made small gains in Software and Shipping.

Outlook & Strategy

In retrospect, the short-term timing of the risk reduction in the end of the month turned out to be the worst imaginable – in particular considering that the PMs were unwaveringly positive to the stock markets. However, given the fund’s large performance drawdown and the market behavior we couldn’t tolerate one more downturn with full exposure.

European stock markets are at the same level as they were in the end of 2008 and at the average level of the last 24 months. During that time a lot of progress has been made in terms of, e.g., mapping risks in the financial system, preparing counter measures to liquidity freezes, working out contingency plans for the financing needs of southern Europe and Ireland as well as repairing balance sheets for banks and consumers and topping up of the already swelling cash reserves of the corporate sector. The economy has begun to heal even if there is still a long way to go.

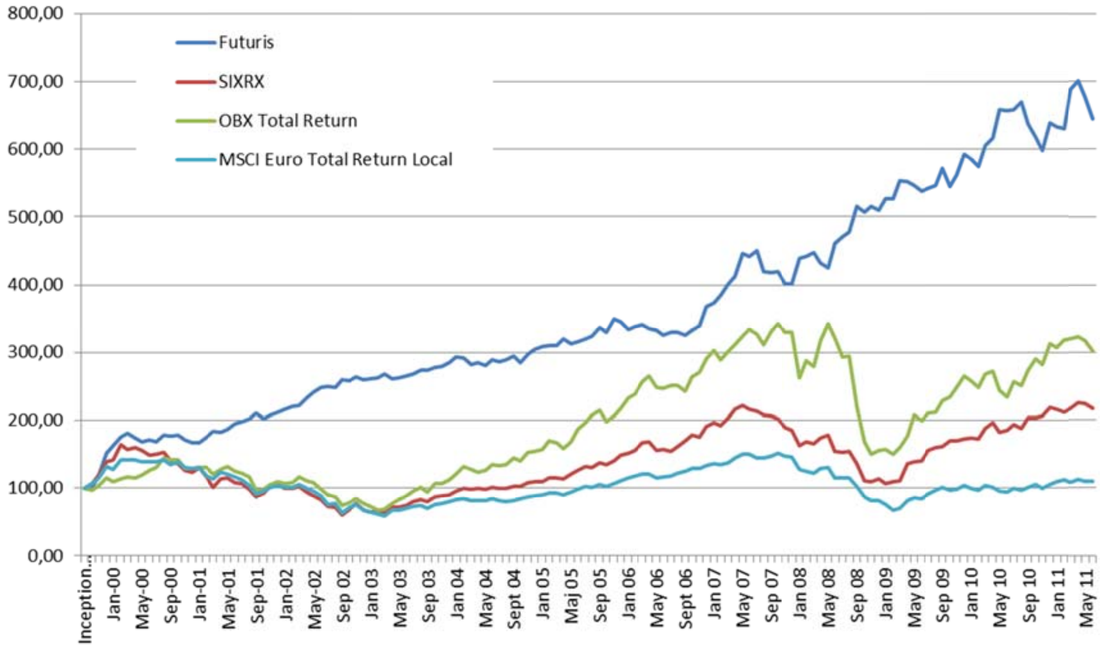
The Fukushima tsunami/nuclear meltdown disaster in March and sharply higher oil prices since August 2010 had a stagflationary impact. Simultaneously, uncertainty regarding bank regulation and PIGS solvency and liquidity exaggerated the market’s negative reaction to weaker fundamentals. Chinese tightening and fears of a hard landing there added to the worries. So far, however, earnings forecasts have not been significantly downgraded and stocks are historically cheap despite large output gaps and significant amounts of idle resources.

Given our flawed analysis and poor performance over the last 12 months, we need to vigilantly check and re-check our premises and investment conclusions, but currently our reasoning is along the following lines: Investors are unduly nervous after four difficult and volatile years. In addition, stocks have been treading water for 13 years and with the Japanese lost decades in mind, the high sovereign debt burdens, including the ongoing PIGS debacle, and bank regulation are weighing on risk appetite and valuations. It is likely that equity markets will exhibit a long term sideways pattern, interspersed by apocryphal rallies, squeezed between deleveraging and inflation scares.

If we are right on the soft patch being temporary, then earnings forecast should hold, and uncertainty should gradually recede, as we put austerity votes, stress tests, Basel bank regulatory decisions and macro data announcements behind us. This should drive a *short to medium term* rally based on valuation normalization.

Hence, Futuris enters the second half of the year with a net long portfolio, in short based on cheap valuations and exaggerated risk aversion. Our investment horizon at this point is a couple of months to a couple of quarters, as we acknowledge the likelihood of the trading pattern described above.

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, 7 July 2011

Karl-Mikael Syding
Managing Director