



## FUTURIS - FEBRUARY 2011

Last month Futuris decreased in value by 0.29 per cent after fees. The 3-month German T-bill returned 0.03 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
YTD	-1.34	0.05	6.95	-2.76	1.98	4.92
Since Inception	530.62	34.33	11.82	112.43	219.17	19.41

## MARKETS

The MSCI Euro Total Return index increased by 1.87 per cent in February. Insurance, Oil & Gas and Chemicals outperformed, while Travel & Leisure and Retail underperformed. Telecom and Utilities were also laggards. Just as in January, the Swedish SIX Return index performed considerably worse than its European peers, *falling* by 1.6 per cent. The SEK strengthened one per cent vs. the EUR and two per cent vs. the USD.

The unrest in the MENA area (Middle East and North Africa) escalated in February, beginning in Tunisia and Egypt and culminating with the revolt in Libya in the second half of the month. The turmoil caused a spike in oil prices, briefly propelling the Brent April contract to 120 USD per barrel (+18.5 per cent since the end of January). The Saudi Tadawul index fell 12 trading days in a row between February 12 and March 1, and lost 17 per cent in the process.

Gold gained 6 per cent in February and then set a new all time high on March 1. Gold has been seen as a store of value in turbulent or inflationary times as well as a harbinger of the same.

<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.

Although revenues were strong across the board, the Q4 earnings season in Europe turned out to be one of the least strong for some time. The net positive surprises gauge was the weakest since 2008 and only the third net negative surprise since 2001-2002. The reason was the lowest number since 2005 (except for the "Lehman Brothers" quarter, Q4 2008) of companies reporting positive margin surprises. Some stocks, notably Cisco, Nokia and CSC, fell heavily (approximately 15 per cent each) after their reports but the equity market in general powered on.

## **INVESTMENT ACTIVITIES & RESULT**

Futuris' PMs have bought index puts and sold retail and IT services stocks in February. The fund has also bought Oil & Oil services stocks, Financials and Capital Goods shares, partly mitigating the effect of buying puts and selling shares. Thus, the fund's net short exposure has increased somewhat. The fund has subsequently in March added to its downside protection in the form of more index puts.

The fund's largest holdings per the end of February are short Eurostoxx50 futures, long Consumer Non-durables, short Retail, long Oil & Oil services and Pharmaceuticals and short Telecom and IT services stocks.

The best performing holdings for Futuris in February were Consumer Non-durables, Oil & Oil services and Capital Goods. Losses on index derivatives and IT services and Software stocks unfortunately erased those gains.

## **OUTLOOK & STRATEGY**

Looking ahead into 2011, the economic stimulus effects will fade and higher interest rates, food prices and other commodities will add pressure on indebted consumers as well as entire nations. Spending power thus falls simultaneously with rising prices and calls for less stimulative monetary policy. The ECB, e.g., seems to have all but decided to increase its policy rate in its next meeting.

Just as in January we are still skeptical as to the foundations of a rising stock market. Futuris' portfolio managers think much of the investment opportunities of an improving economic cycle have been priced in, while the underlying imbalances and risks are just as acute as before. Record high ISM numbers, often cited as an undisputed positive, actually leave little potential for further upside surprises. In addition, high ISM numbers could prove misleading in themselves, since they measure directional change from a very low level but not amplitude of future growth.

Further, the positive oil/copper correlation has broken down, with oil reaching for new highs while the copper price has flattened out. The broken pattern indicates a risk of demand destruction if the MENA turmoil leads to oil supply constraints.

Given current earnings forecasts, stocks may seem cheap. However, based on cyclically adjusted 10 year trailing earnings, the US equity market is trading significantly above its historical average. Hence,

from a valuation perspective the jury is still out in some sense. On the other hand, forecasts are seldom on the spot, whereas trailing earnings per definition are, and most risks to earnings forecasts currently seem to be on the downside.

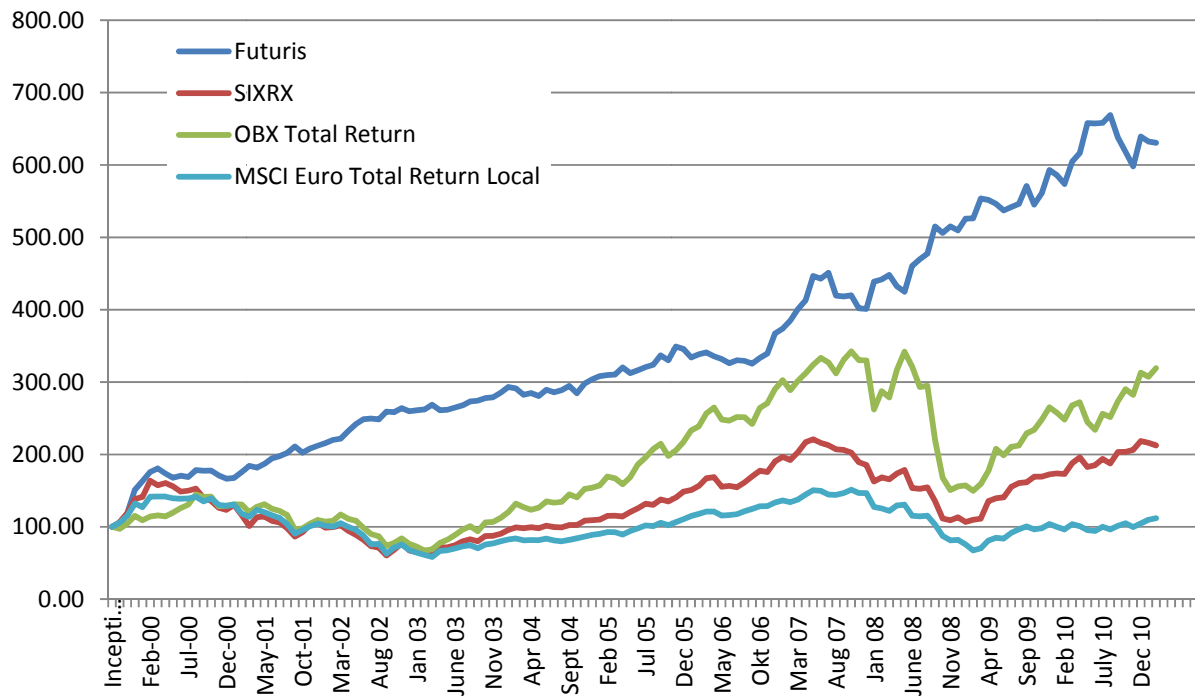
The economy and the stock market are both riding an artificial and unsustainable wave of cheap money, originating from not least the Federal Reserve's quantitative easing programs. The process has already run longer than we expected but the likelihood of a correction keeps increasing. The situation is similar to a container ship with cargo piled a mile high and Ben Bernanke as its captain. At every sight of rough seas Ben simply adds a couple of extra layers of containers to stabilize the ship. The gains would be great if the vessel ever makes it to shore, but the smallest wave could have catastrophic consequences.

Faced by the choice of following the momentum herd upward, in effect betting on money printing saving the day and growth taking hold despite historically high debt burdens, or insuring against a breakdown of an inherently unstable situation, Futuris has chosen the latter.

## **OTHER INFORMATION**

Starting with the March report, Futuris will publish a more specifically month-centric report, instead of the current quarter-focused issue by the end of each quarter. For you as a client the difference should be negligible. If anything, the description of market actions and Futuris' investment activities during the last month of the quarter should become more detailed and clearer in the March, June, September and December reports than previously.

**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, 3 March 2010

Karl-Mikael Syding  
Managing Director