Market Comment - 17th May, 2010

We don't tend to focus too much on day to day moves in the market but thought it was worth just sketching out our thoughts given the recent moves we have seen and the meaningful cash balances in the fund.

We view the price action over the last month as markets being concerned that the appreciation in asset prices over the past year and the confirmation of the improvement in the US economy over the past couple of months were caused by the western world burning through government handouts more so than there being a sustainable improvement (or at least the uncertainty this may be the case, is why they are rolling). The price action is curious as economic and corporate fundamentals appear to be improving and the negative concerns currently holding the market and media's attention were all well known months ago – be it Greece, the associated risks to the second tier Euro countries or the issue of debt simply being moved from the private to public sector.

The level of aggressiveness the US government seems to be showing towards the investment banks is greater than we expected but many would argue this also should have been reasonably well expected and it in itself doesn't explain the extent of the moves we are seeing.

We are tending to discount where the noise is to explain the recent move and viewing it more along the lines of we have had a very big appreciation in asset prices over the past year, there is some uncertainty if this was caused by one off government stimulus or there is a sustainable improvement and the markets will need more positive macro confirmation to gain the confidence to rerate higher.

Going forward we sense the environment will bring us back to fundamental principles. To date, we have largely sat on our hands (we have added approximately 1% to each of the 2 stock related tenets.) Our focus is really to identify where there may be interesting investments, research these opportunities and wait for an appropriate entry point to acquire them.