



Hedge ETS

New Star RBC Hedge 250 Index Exchange Traded Securities PCC Limited

Newsletter – February 2008

Investment strategy: This is a unique security providing passive exposure to the hedge asset class through investment in the RBC Hedge 250 Index, a representative and highly-diversified benchmark of hedge fund performance.

Launch date: 28 November 2006

Fund size: GB£143.2m

Market commentary

The net asset values of the New Star Hedge ETS 1X- and 3X-levered shares rose 1.2% and 2.9% respectively in dollar terms in February. The dollar 1X-levered share price rose 4.5% while the 3X-levered share price fell 5.2%.

Global markets were relatively stable after January's sell-off although the impact of the liquidity crisis diverged significantly across asset classes. There was further forced selling in the credit and fixed income markets while there were strong gains within the commodity markets. The weakness in credit markets meant that a number of high-profile hedge funds reported difficulties in meeting higher margin requirements.

This environment, combining weakness in the dollar and in equity and credit markets combined with commodity market gains, allowed many macro managers to outperform. Global macro and managed futures strategies were up 3.2% and 4.8% respectively.

Less directional equity funds performed well, benefitting from the diverging fortunes of the financial and energy sectors. Global stock markets were mixed. Most G7 economies ended the month flat, whilst a number of emerging markets such as Brazil gained significantly. Equity long/short strategies rose 2.0% and equity neutral funds were up 1.1%.

Event-driven managers also delivered strong returns. Although takeover activity was dominated by non-financial buyers, the average deal size increased marginally, helping merger and special situations strategies to end the month 1.8% higher.

Despite credit market weakness, credit strategies gained 0.6%. There was significant dispersion in returns, however, as less directional and lower leveraged managers outperformed as risk aversion spilled over from January.

Convertible arbitrage strategies were down 0.4% as they were hit by the volatile trading market and general credit spread widening while fixed income arbitrage managers fell 0.7%. Although interest rate volatility and rate cut speculation increased managers' profit opportunities, overall performance was hurt by funds with credit and/or mortgage exposure.

Further information on the RBC Hedge 250 Index and intra-month index estimates can be found at www.rbchedge250.com.

Charles Tritton, New Star Asset Management

Composition of Hedge ETS by strategy



Strategy	Strategy weight	No. of funds	Jan 08 return
Equity long/short	36.8%	93	2.0%
Multi-strategy	16.3%	42	-2.2%
Credit	12.7%	31	0.6%
Merger & special situations	10.8%	27	1.8%
Macro	8.3%	21	3.2%
Managed futures	6.4%	15	4.8%
Fixed income arbitrage	4.2%	12	-0.7%
Equity market neutral	2.6%	7	1.1%
Convertible arbitrage	2.1%	9	-0.4%
Total	100%	257	

Source: RBC Capital Markets, 29 February 2008, data sourced on 30 March 2008.

NAVs and share prices

	1X Class		3X Class	
	NAV	Share price	NAV	Share price
US\$	1.0452	1.0450	1.0365	1.0050
EUR€	1.0299	1.0100	1.0164	0.9950
GB£	1.0467	1.0500	1.0371	1.0150

Past performance is not a guide to future returns

Source: New Star Asset Management, Datastream, at 29 February 2008. Share prices shown are mid-market values.

Fund details

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	Mnemonic	Reuters	Sedol		Mnemonic	Reuters	Sedol
1X EUR	HXE	HXSpb.L	B1FBH47	3X EUR	H3XE	HXS_pb.L	B1FBH92
1X GBP	HXS	HXSp.L	B1FBH69	3X GBP	H3XS	HXS_p.L	B1FBHF8
1X US\$	HXU	HXSpa.L	B1FBH70	3X US\$	H3XU	HXS_pa.L	B1FBHG9

Risk warning

An investment in shares carries substantial risk and is suitable only for financially sophisticated investors capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss (including total loss) which may result from the investment. The value of an investment and the income from it can go down as well as up, it may be affected by exchange rate variations and you may not get back the amount invested. Past performance is not necessarily a guide to future performance. There is no assurance that Hedge ETS shares will appreciate or outperform hedge fund returns generally. Investors should be aware that a liquid secondary market in the shares cannot be guaranteed. Redemptions may only be exercised if the Directors choose to operate such a facility and the Directors are entitled to suspend the processing of redemptions at any time. 3X shares are levered and are exposed to a greater degree of loss and volatility than 1X shares. Please ensure you refer to your financial adviser to understand the full features and risks of this product before investing. Investors in Hedge ETS may not have the right to access the Financial Compensation Scheme or the Financial Ombudsman Scheme. Hedge funds are unregulated and carry additional risks, including the use of derivatives and gearing. This document is issued by New Star Asset Management Limited, which is authorised and regulated in the UK by the Financial Services Authority.

