



Hedge ETS

New Star RBC Hedge 250 Index Exchange Traded Securities PCC Limited

Newsletter – January 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: GBE144.1m

Market commentary

The net asset values of the New Star Hedge ETS 1X- and 3X-levered shares fell 1.9% and 7.8% respectively in dollar terms in January while the prices of the 1X- and 3X-levered shares fell 4.3% and 2.3% respectively.

Markets experienced a flight to safety in January, with equities falling significantly. The Federal Reserve aggressively cut interest rates as investors reacted to weak economic data, high energy prices and concerns about contagion from possible credit rating downgrades for the monoline bond insurers.

It was a challenging environment for hedge funds, although many global macro and managed futures strategies posted robust gains.

Event-driven strategies suffered, with long biased/concentrated managers bearing the brunt of the equity and credit market sell-off. Takeover activity continued, albeit at half the pace of December, and the averaged deal size dropped. In these conditions, mergers and special situations strategies fell 4.1%.

Credit fund performance was negative for most of January, with the strategy falling 1.4%, although returns were widely dispersed, with managers' level of directionality and leverage largely determining performance.

Convertible arbitrage strategies delivered a 1.3% return as volatility traders posted positive performance. Gains were, however, offset by weakness among credit-based traders.

Increased interest rate volatility produced profit opportunities for fixed income arbitrage managers, who returned a modest 0.1%. Overall performance was, however, dragged down by managers with credit and/or mortgage-backed exposure.

Equity strategies faced tough trading as shares fell. Long/short strategies fell 3.5% while equity market neutral strategies fell 3.1%. High levels of short exposure to financials, homebuilders and retailers were rewarded but momentum stocks endured heavy selling.

Global macro and managed futures strategies gained 2.5% and 3.1% respectively although returns were widely dispersed. Managers who invested to gain from increased inflation did well as did those who were long of the euro versus the dollar.

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	37.2%	93	-3.5%
Multi-strategy	16.6%	42	-1.6%
Credit	12.9%	32	-1.4%
Merger & special situations	10.4%	27	-4.1%
Macro	8.2%	21	2.5%
Managed futures	6.1%	15	3.1%
Fixed income arbitrage	4.1%	12	0.1%
Equity market neutral	2.6%	7	-3.1%
Convertible arbitrage	2.1%	9	1.3%
Total	100%	258	

Source: RBC Capital Markets, 31 January 2008, data sourced on 27 February 2008.

NAVs and share prices

	1X Class		3X Class	
	NAV	Share price	NAV	Share price
US\$	1.0329	1.0000	1.0074	1.0600
EUR€	1.0180	1.0175	0.9884	1.0450
GB£	1.0341	1.0400	1.0066	1.0075

Past performance is not a guide to future returns

Source: New Star Asset Management, Datastream, at 31 January 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	HXSpl.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.

