Hedge ETS

New Star RBC Hedge 250 Index Exchange Traded Securities PCC Limited

Newsletter – September 2007

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£157.2m

Market commentary

The net asset values of the New Star Hedge ETS 1X- and 3X-leveraged shares rose 1.6% and 4.0% respectively in sterling terms in September whilst the GBP 1X- and 3X-leveraged share prices rose 2.5% and 0.9% respectively.

Global financial markets rebounded considerably, resulting in favourable trading conditions for hedge funds. Buoyed by sentiment that the worst of August's market turmoil might have passed, traders rushed back into equities, so hedge funds produced solid returns.

Global macro and managed futures managers performed particularly well, posting robust returns of 2.9% and 4.4% respectively. This reversed their sharp August declines as several long-term trends in equities, fixed income, currencies, and commodities re-asserted themselves.

Mergers and special situations returned 1.2% as long value and widely held equities snapped back from August's de-leveraging and merger spreads tightened. Despite being well below its pace earlier this year, takeover activity picked up slightly from August's levels with $57bn in public deals announced.

Credit managers benefited from substantially improved market conditions, with credits rallying sharply after the US Federal Reserve cut interest rates. High yield bonds, for example, gained 2.67% as measured by the Bear Stearns High Yield Index. Spread tightening was more pronounced among lower rated/longer maturity bonds, reversing August's flight to quality and the strategy rose 1.3%.

Convertible arbitrage managers had a strong month with positive returns of 1.7% as bonds continued to recover from the lows of mid-August.

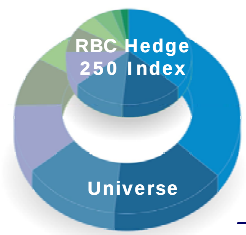
Fixed income managers reported solid gains of 1.7%, driven mainly by the Fed rate cut, continuing commercial paper market dislocations and international currency volatility.

Long-biased equity long/short managers posted strong performances as equities in both developed and emerging markets rallied. Equity long/short managers returned 2.2% whereas equity market neutral was the only losing strategy in September, down 0.43%.

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	August 07 return
Equity long/short	37.7%	92	2.2%
Multi-strategy	15.9%	40	1.4%
Credit	12.6%	32	1.3%
Merger & special situations	10.5%	27	1.2%
Macro	8.1%	23	2.9%
Managed futures	5.7%	15	4.4%
Fixed income arbitrage	4.7%	13	1.7%
Equity market neutral	2.6%	7	0.4%
Convertible arbitrage	2.2%	9	1.7%
Total	100%	258	

Source: RBC Capital Markets, 28 September 2007, data sourced on 15 October 2007.

NAVs and share prices

	1X Class		3X Class	
	NAV	Share price	NAV	Share price
US$	1.0444	1.05	1.0896	1.08
EUR€	1.0328	1.04	1.0735	1.07
GB£	1.0449	1.05	1.0883	1.08

Past performance is not a guide to future returns
Source: New Star Asset Management, London Stock Exchange, at 28 September 2007. 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.