

MARKET REVIEW DECEMBER 2010

2010 was a mixed year with lots of up and down swings and lots of good and bad news. Generally speaking there were three main issues of which all were on the negative side. Starting from the beginning of the year investors were worried that the US economic growth/recovery would not be sustainable, even ending up with double-dip recession. This was the first of the issues and was disproved by stronger than expected growth figures published, especially in the last quarter. The second and may be most disturbing issue was the worries about Europe's debt problems. While Greece and Ireland was starring in this problem Portugal and Spain were the co-stars. This issue was put on table in the first quarter, but shook the markets in the second quarter. However, the concerns diminished by the end of the year, causing only slight corrections in the rally in equity markets. Although governments were unable to manage such problems successfully, they finally managed to convince the markets that they would do everything to keep the wheels turning. The third issue was about the slowing down of the economy in China, as government put some efforts like increasing the reserve requirements and interest rates to cool down its economy. Since the economy of China acted like a spare tire for the last two-three years, slowing down of its economy would also mean the slowing down of global growth. Likewise the other issues, this issue also turned out to be affectless as the rate hikes by the Chinese government remained insufficient to have a slowing down effect on the global economy.

2010 was a good year for equity, commodity (especially precious metals) and credit markets. The S&P 500 index soared by 12.8% during 2010, while gold price increased by almost 30% within the year, testing \$1,420 level three times in the last quarter. The credit markets outperformed in 2010, in spite of the credit issues in Eurozone. The yields on 10-year US treasury bonds shrank to 2.4% level, but couldn't hold on at this level.

SNAPSHOT & PORTFOLIO ACTIVITY

| Reef New World Fund (USD) | |
|-----------------------------------|------------|
| Month net return | 0.75% |
| Average monthly return | 0.96% |
| YTD | 4.49% |
| Annualized return since inception | 11.75% |
| Fund AUM in USD | 40,251,450 |

| Reef New World Fund (EUR) | |
|-----------------------------------|-----------|
| Month net return | 0.75% |
| Average monthly return | 0.25% |
| YTD | 4.34% |
| Annualized return since inception | 2.40% |
| Fund AUM in EUR | 5,231,472 |

Following the sell-off in the last quarter the 10-year US treasury yields closed the year around 3.30%. The EM credits also followed a similar path. After increasing by almost 15% within 2010, the EMBI+ index closed the year by a 11.8% increase in the overall.

In the shadow of all negative issues, we remained cautious most of the year. We kept our liquidity level relatively high and were very selective while investing. The cost of being cautious was to fall behind our benchmark in terms of return performance. Although we foresee moderate benchmark yield risks (long term yield could push higher) especially in US and Eurozone in 2011, we believe that the Emerging Market credits could perform positively. We see potential for further tightening in 2011, however due to historically narrow spreads this move will be relatively restrained. Consequently, we aim to invest in relative value trades rather than having direct investments.