

Occasionally investors ask about the prospects for hedge funds in the light of the below average returns that the industry has experienced recently and the effect of the increased popularity of hedge funds.

It has not been uncommon in the last year to read speculation in the press that Hedge Funds, with their new-found popularity, have lost their ability to make money. It is true that there are a few hedge fund strategies that rely on a limited number of events or instruments to make money. Merger arbitrage for example relies on the actual number of mergers that are being announced at any time. In Ceres Fund we have always limited our exposure to those strategies and they are a minor component of our portfolios. The Managers that we have significant exposure to are those in the equity hedge, trading and macro areas. These Managers operate in markets such as currencies and stock indices that are vast in size where there are virtually no liquidity or capacity constraints.

It has been difficult to make money in the last 18 months, not only for hedge funds. Markets across the board have been slow:

Performance for 18 month period to 30Jun05:

US S&P500: +7% (poor, and still -19% since 1 Jan 00)
 UK Footsie 100: +14% (better, but still -26% since 1 Jan 00, and now highest personal bankruptcies since 1960s)
 World Share Mrkts: +12% (ok)
 World Bond Mrkts: +6% (poor)

Hedge Funds and especially equity hedge, trading and macro managers that rely on up- or downward trends to make money, suffered from a shortage of significant trends recently. When strong trends were established, such as in the period between Oct and Dec 2004, with the Euro strengthening against the US Dollar by about 10% and again in Jun 05 when the Euro weakened against the US Dollar by about 5%, the bulk of the Ceres Managers did extremely well as the figures below clearly show.

We are always on the look-out for investment strategies that have the potential to deliver positive performance year in and out. We are usually fully invested and mostly with Managers that do not take new funds and hence will not let us back in when we redeem. We are therefore unable to trade in and out of positions in pursuit of short-term gains without losing our exposure to the Managers with the long and steady track records we own and treasure in Ceres Fund.

I think the figures support our view that what we are seeing in Ceres Fund is not too much new money chasing too few opportunities, but too few strong trends being established. After a period of significant outperformance over traditional investment classes, the hedge strategies we own in Ceres are experiencing a period with fewer trends. However our patience should be rewarded as and when strong trends return, as we saw in the last quarter of 2004 and in June of this year.

<u>Ceres Fund (Major Share Classes)</u>		Jun05	Q404	since 1Jan00
"A" Low Volatility	*	1.2%	2.9%	+36%
"B" Aggressive	*	2.4%	5.2%	+46%
"C" Equity Hedge combined	*	1.8%	4.9%	+21%
"F" High Growth (1Oct00)	*	1.4%	8.4%	+67%
"J" Alternative GBP (1Mar00)	*	1.5%	4.9%	+50%
"K" Alternative Euro (1Aug02)	*	1.5%	4.8%	n/a