



Dear Shareholders,

You are holding in your hands the first annual report of the VLTAVA Fund SICAV Plc (“the Fund”). It is our pleasure to present you with the results of the Fund’s first calendar year of operations.

We launched the Fund on 1 September 2004 with the initial price of 1,000 Czech Koruna (CZK) per share. At the end of 2004, after four months of operations, the price per share was CZK 1,085.99, which reflects the NAV growth of 8.6%. This is a very good start and a very good result and we are certainly very pleased with it. Please keep in mind, however, that four months is a very short time in investment terms. After just four months we cannot say whether our results are so good because we are so smart or because we are lucky. To differentiate between skill and luck takes several years, at least. We believe that the quality of an investment manager really begins to show only after 3-5 years. So please look upon our initial results conservatively, as we do.

Our long-term goal remains unchanged. We aim to achieve, on average, a 10% annual return. A goal is one thing, of course, but reality can be something quite different. The fact that we have so far outperformed our goal by a wide margin is no assurance that we will achieve our goal in future. What we can guarantee is a firm commitment to our investment strategy and a careful and conservative approach to investing.

We began in September with assets of CZK 192.2 million, and, due to the NAV growth and

new subscriptions, we finished 2004 with net assets of CZK 227.7 million.

Since this is our first annual report, we would like to spell out here the main principles governing our investments:

1. We do not believe in an efficient market.

The most common and still dominant approach to investing is based on an assumption that the market is efficient, that stocks are appropriately priced and that it is not possible therefore systematically to beat the market.

We do not share this view. On the contrary, we believe that the market is rather inefficient and that it is possible to find undervalued or overvalued stocks at any time. We aim to exploit these inefficiencies in our investment approach.

2. We do not use indexing or benchmarks.

In accordance with our belief in market inefficiencies, we do not follow any index and do not use benchmarks. Our view is that to rely upon a benchmark for guidance significantly predetermines investment results and ties the hands of the investor. To use a benchmark would be to contradict our goal of exploiting market inefficiencies. It would not be our intent to buy or sell a stock, for example, just because it is in or is dropped from a benchmark. We also believe that it should not be our goal to try and match the return of a benchmark; rather it should be to



help cover the future liabilities of our investors. We think in terms of absolute, not relative, returns.

3. We do not measure risk by volatility.

We believe that the concept of using volatility as a measure of risk is inappropriate. We do not think that the risk of not having a stock that goes up is the same as the risk of having too much of a stock that goes down. We define risk as the probability of losing the invested amount. Therefore, we apply a bottom-up approach in stock selection and try to buy stocks at prices well below their intrinsic values. The bigger the difference between a stock's price and its intrinsic value, the better. This is our way of managing investment risk.

4. We do not diversify beyond sensible limits.

We would not buy stocks that we do not like just to decrease the portfolio weight of stocks we do like. We consider too much diversification a bad thing that has a negative effect on returns. We believe that an investor can only achieve excellent results with a relatively concentrated portfolio. This approach forces us to think long and hard before making an investment.

5. We do not want to be the victims of market movements.

We do not believe that we can time the market, and, at the same time, we consider the markets today to have a mixed rather than generally attractive outlook. Therefore, we use both long and short positions. We are long on individual stocks and short for the market as a whole. This reduces our dependence on

the market's behaviour and increases reliance on our ability to realise alpha by selecting stocks that will perform better than average.

6. We do not play currencies.

We cannot successfully play currencies, and we do not play them. It is not our intention to expose the fund to currency fluctuations. We automatically hedge most of the currency risk back into the Fund's base currency, the Czech Koruna.

7. We put all of our efforts into the selection of good stocks at the right prices.

We realise that our investment results are most dependent upon our ability to select good stocks at good prices. Therefore, we apply a very well defined and strict method for stock selection. We recognise the importance of investment discipline and the danger of style drift. We have designed our selection method with these facts in mind.

8. We have no short-term goals.

We do not set for ourselves short-term investment goals. We regard short-term goals as often in conflict with long-term goals and thus as decreasing investment returns. Our focus on absolute returns while ignoring benchmarks and volatility allows us to think exclusively about the long-term horizon. Everything we do is directed toward long-term goals. We are quite happy to wait patiently until some of the stocks we own "wake up".

Daniel Gladiš



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Disclaimer :

Our estimates and projections concerning the future can and probably will be incorrect. You should not rely upon them solely but use also your own best judgment in making your investment decisions.

This document expresses the opinion of the author as at the time it was written and is intended exclusively for educational purposes.

The information contained in this letter to shareholders may include statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of applicable foreign securities legislation. Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or financial performance, or the estimates underlying any of the foregoing. Any such forward-looking statements are based on assumptions and analyses made by the fund in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the given circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks, assumptions and uncertainties. In evaluating forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those contained in such forward-looking statements. Unless otherwise required by applicable securities laws, we do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements to reflect subsequent information, events, results or circumstances or otherwise.

This letter to shareholders does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer to buy or subscribe for, the securities of the fund.

Before subscribing, prospective investors are urged to seek independent professional advice as regards both Maltese and any foreign legislation applicable to the acquisition, holding and repurchase of shares in the fund as well as payments to the shareholders.

The shares of the fund have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or under any state securities law. The fund is not a registered investment company under the United States Investment Company Act of 1940 (the "1940 Act").

The shares in the fund shall not be offered to investors in the Czech Republic on the basis of a public offer (veřejná nabídka) as defined in Section 34 (1) of Act No. 256/2004 Coll., on Capital Market Undertakings.

The Fund is registered in the Czech National Bank's list in the category Foreign AIFs authorised to offer only to qualified investors (without EuSF and EuVECA) managed by AIFM.

Historical performance over any particular period will not necessarily be indicative of the results that may be expected in future periods.

Returns for the individual investments are not audited, are stated in approximate amounts, and may include dividends and options.