Dear investors,

Last year the value of your assets rose by 201.8%, which is almost 9 times the growth of world stock markets in the same period. Even while acknowledging that we still have catching up to do after the slump of 2008, we are immensely pleased with this result. Indeed, according to various rankings we might just be the global investment fund with the best result for last year. So let us relish this together, because we probably will never achieve anything like it again.

How is it even possible to treble assets in just one year? While we have no general recipe, last year three fundamental positive circumstances converged. First (and mainly), the shares that we were holding or bought in 2009 were almost absurdly cheap and it was clear that, save for the end of the world, their prices must rise significantly. The only questions were when and how quickly. In the event, they went up much more quickly than we had ourselves expected. Second, the economic recession had less negative impact on the operations of our companies than had originally appeared, and thirdly, we had a lucky hand in the transactions we executed during the year. One could say that everything we touched turned to gold.

What is in store for us this year? We do not know, of course, but we have the following view on the situation.

We do not think that a return to recession is very likely in the present global economic situation. We regard a return to global economic growth as much more likely, albeit at a somewhat slower pace than has been the long-term trend. The interventions of governments and central banks pulled the world out of the worst of the recession. Now the private sector must take the initiative, but its growth will be curbed by worsened accessibility to credit. The balance sheets of banks in the developed world are still weak, and, if they do not strengthen themselves and begin to grow, then the volume of loans provided will not grow either. But this is crucial for economic expansion.

In our view, slow growth would be the preferred alternative. That would be better in the present situation than a return to strong economic growth, which once again could bring with it an unsubstantiated rise in asset prices and the threat of another collapse. This would present governments and central banks with an even more difficult task than last year, since they already have used up a large part of their ammunition.

One probably cannot expect equity markets to grow as fast as they did last year. That does not bother us too much, however, since we do not buy whole markets but, rather, hold a relatively concentrated portfolio of 28 companies. We still see in the markets a host of good investment opportunities.

We have recently been seeing better opportunities on developed markets. A number of large and high-quality companies are trading at share prices corresponding to expected annual returns of 15–20%. As the markets were rising last year, they left a number of companies and even whole sectors decidedly undervalued. That is where we have been buying in the last several months. For instance, we invested in segments such as pharmaceuticals, health care, insurance, vegetable and furniture businesses, and the like. On the other hand, we sold our Wienerberger shares last quarter.

Our portfolio as a whole is trading at approximately 8 times the earnings achieved during the last 12 months (the recession year). For this year, we expect their earnings to grow by 15–17%. We look for the expected return of the portfolio to remain above a 17% yearly average for several (let's say seven) years. We have not the slightest clue how our portfolio will develop in the approaching months and quarters, but in the long term we are set for very handsome returns. Of that much we are convinced.

One more essential comment about last year's result: Our main problem in 2008 was excessive use of long and short positions. That is why, a year ago, we adjusted our strategy and markedly diminished the extent to which we use long and short positions, and we will continue gradually in that reduction. This means that we achieved last year's result with the lowest risk ever, and that pleases us even more. We thank you for your loyalty and again wish you a happy and successful 2010.

The Partners of Vltava Fund SICAV, Plc

VLTAVA FUND

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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.

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