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Dear Investor,

This letter provides fund investors with a brief update on developments within RAB Capital plc ("RAB") during the first half of 2009, both in terms of the performance of the RAB investment strategies and at the corporate level.

## RAB Strategies' Investment Performance<sup>1</sup>

This has been a challenging period with a continued spell of very volatile markets in both equity and credit, and despite a firmer tone to the markets recently, the fact remains that by 30 June major equity markets had yet to recover their 2009 opening levels. Notwithstanding this difficult background, the Company's strength in stock selection, active hedging and a cautious approach to directional risks have rewarded a number of RAB strategies with strong returns. Importantly, RAB's strategies generally performed well in both the first and second quarters of 2009, even recording strong relative performance during the most challenging period at the beginning of the year.

It is also the case that certain aspects of the markets' evolution in 2009 have provided a better context for some RAB funds than for the market more generally. Firmer commodity prices have stimulated a rally among natural resources producers and in that sector and more generally in smaller capitalisation markets a number of successful new financings have provided some evidence of improving liquidity. Nevertheless, overall this has been a nervous environment which has seen the more liquid RAB strategies take low levels of directional risk, typically edging up from January's market neutral stance to modest net long positions at the end of the first half.

Strategy performance <sup>1</sup> for six months to 30 June 2009		% <sup>2</sup>
<b>Long/Short</b>	RAB Emerging Market Opportunities Fund	6.48
	RAB Europe Fund	4.83
	RAB European Credit Opportunities Fund	20.51
	RAB Innovations Fund	5.65
	RAB-Pi Asia Fund	8.17
<b>Market Neutral</b>	RAB Cross Europe Fund	2.01
<b>Natural Resources</b>	RAB Energy Fund <sup>3</sup>	54.78
	RAB Global Mining and Resources Fund <sup>3</sup>	41.72
	RAB Gold Fund	20.38
	RAB Octane Fund	2.45
	RAB Special Situations Fund	-5.51
<b>Multi Manager</b>	RAB External Managers Fund	0.20
<b>UCITS III</b>	RAB European Dynamic Fund	8.33

## Restructured Funds

With regard to RAB Special Situations, the team has been working hard on improving the liquidity profile of the RAB Special Situations (Master) Fund Limited (the "Master Fund"). At the end of June 54% of the gross asset value of the Master Fund was in publicly listed securities, up from 35% at the end of 2008. Although there has been sustained pressure on valuations in the private portfolio, which represented 51% of the gross asset value at the end of June, down from 71% at year end, the revised terms agreed by investors last year have given the Master Fund space for the realisation of several positions at levels significantly above their 2008 closing market values.

<sup>1</sup>Past Performance is not a guide to future returns. Performances are shown net of all fees and charges.

<sup>2</sup>All performance numbers are based on final NAVs.

<sup>3</sup>At the end of June 2009, the Fund was also in the top decile of performance for the first six months of 2009 in the EuroHedge analysis of hedge fund strategies. Your attention is drawn to the important information at the end of this letter.

## **Restructured Funds** (continued)

We understand that the Board of the RAB Special Situations Fund and the General Partner of RAB Special Situations LP will be writing to investors towards the end of the third quarter to provide a fuller update on the improving liquidity of their respective entities.

The RAB Energy strategy's redemption classes have now returned circa 63% of their 1 October 2008 value to investors; and the unsold assets of the October redemption share class have generated performance<sup>4</sup> of +21.7% in the first half of this year.

With regard to the RAB Octane strategy, which has a high percentage of assets under management invested in unlisted securities, approximately 28% of the redemption classes' original value has now been repaid to investors.

Overall, while acknowledging the difficulties that may have arisen following the fund boards' restructuring proposals, we are convinced that these measures are already being validated and will result in improved long term value for shareholders.

## **New Developments within RAB Capital**

The RAB Group has continued to develop the strength of its infrastructure with the appointment of Adam Grant as Director of Finance and Chief Operating Officer. Adam has recently joined us from the Nobel group before which he enjoyed a long career at Morgan Stanley. This is the final key appointment that completes the operational line up at RAB.

Dhaval Joshi, our group strategist, has received regular recognition in the Financial Times and other leading publications for his RAB Market Cycles macro commentary.

As stated in previous investor communications, RAB has sought to rationalise its offering to those products where we can demonstrate a comparative advantage in fundamental securities analysis. The Group also had regard to matters of scale, infrastructure and distribution in determining the range of its products. In this context, and pursuant to announcements made in September 2008 in connection with the Northwest range of products, the Group concluded that a complete disposal of this activity best served the wider interests of the business. RAB is still represented in the market neutral space by the RAB Cross Europe Fund and in the Asian market by the RAB-Pi Asia Fund, both of which have strong long and short term performance records.

RAB has today published its interim statement for 2009. Whilst this is not a matter of particular focus for fund investors, it is nevertheless important to note that the group is on target to produce very much better results than in 2008 and has maintained a strong balance sheet with £102 million of net current assets and investments. Moreover, in the second quarter of 2009 asset flows recommenced into RAB single strategies.

## **Regulatory Developments**

Many of you will already be aware of the European Commission's proposed Alternative Investment Fund Managers Directive which was released on 30 April 2009. The Directive touches on several issues relevant to RAB's funds such as leverage, marketing, valuation, liquidity and custody. While parts of the new regulation, as drafted, will have a relatively limited effect on the Group, certain elements are more impactful particularly in so far as they relate to distributing Cayman domiciled funds in the EU. The Group is monitoring the evolution of this regulation very closely in order to ensure early preparedness for its eventual form.

<sup>4</sup>Past Performance is not a guide to future returns. Performances are shown net of all fees and charges. Your attention is drawn to the important information at the end of this letter.

## Conclusion

It is far too early to predict an outcome for 2009, and even the last two months have indicated how fragile markets remain, notwithstanding marginally improving macro news. That said the Group is encouraged by the performance of our strategies year to date and will continue to work hard to maximise risk-adjusted investment returns as the year progresses.

RAB will seek to keep investors updated on the developments within the Group at regular intervals, but in the meantime please call me or your normal RAB contact if you have any questions arising from the above.

Yours faithfully



**STEPHEN COUTTIE**  
Chief Executive Officer

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