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Dear Investor,

## **RAB CAPITAL – NOTE TO ALL INVESTORS**

2008 witnessed the most extraordinary upheaval in global capital markets, not just in terms of their absolute decline, but also in the exposure of basis risks through changes in the correlation of asset classes, and the speed with which tightening liquidity impacted both financial markets and the real economy. During the latter part of the year the hedge fund industry has attracted much negative press, partly due to the collapse of strategies that relied on significant leverage, partly due to issues related to liquidity and counterparty risks, and more recently as a result of the alleged fraud in the US. In these circumstances, the Board of RAB Capital believes it would be helpful to remind investors about the governance and the operational risk management processes that surround all RAB funds and to comment briefly on how the Company is positioned for the coming year.

### **RAB Capital's Operating Platform**

The Company takes very seriously its governance and risk management obligations and has put in place a secure infrastructure that can deliver standards consistent with these obligations. The key components of this infrastructure comprise the initial establishment of a fund, fund governance, regulation of the relevant management company, independent fund administration, independent prime brokers and custodians, external fund audits, and a framework of internal systems and controls. Some more details about these components are listed below.

Consistent with the goal of setting high operating standards the Company was an original member of the UK/European based Hedge Fund Working Group, which initiated and established the Hedge Fund Standards Board ("HFSB") best practice standards. The Company was also a founder signatory to the HFSB Standards, more details of which can be found at the HFSB website ([www.hfsb.org](http://www.hfsb.org)).

### **Regulation**

RAB Capital has two operating companies, in London and Hong Kong, which are regulated by the Financial Services Authority ("FSA") and the Securities and Futures Commission ("SFC") respectively. As such the RAB Group is subject to the conduct of business rules, compliance requirements and minimum capital standards of those bodies. In respect of the latter, from 1 January 2009 the capital position of the UK Company requires disclosure under Pillar 3 of the European Capital Requirements Directive, which is available on the Company's website ([www.rabcap.com](http://www.rabcap.com)). RAB is extremely well capitalised by reference to these standards and can demonstrate a strong and liquid balance sheet.

RAB Capital is also listed on the Alternative Investment Market of the London Stock Exchange and is subject to the disclosure requirements and governance processes that this listed status demands.

### **Fund Establishment and Governance**

RAB Capital's funds are domiciled in well-respected jurisdictions, and are primarily built around Cayman incorporated vehicles. The legal infrastructure and the quality of local service providers have made Cayman the leading jurisdiction for the establishment of offshore hedge funds.

All RAB Capital funds have independent Boards of directors who oversee investment activities, all matters associated with the risk management carried out by RAB Capital and the appointment of service providers. These Boards meet at least on a quarterly basis and are made up of respected investment professionals with a depth of experience in fund governance.

The funds' Boards of directors have established a Valuation Committee to oversee each Fund's valuation policy and procedures. In particular, these policies and procedures address the valuation of hard-to-value ("HTV") assets. In the case of RAB Capital's funds, most HTV assets are private equity positions contained within the Special Situations, Energy, Octane and Innovations strategies. No RAB Capital funds have valuations derived from financial models. A summary of RAB Capital's valuation policy is available on the Company's website ([www.rabcap.com](http://www.rabcap.com)).

### **Independent Fund Administrators and Auditors**

RAB Capital funds only use the most reliable and reputable administrators, principally, but not exclusively, Citi Hedge Fund Services (Ireland) Limited ("Citi"), which is part of Citi Hedge Fund Services and has over \$350 billion in assets under administration globally. The administrator is responsible for the calculation of net asset values ("NAV") of each fund including reconciliations with prime brokers and custodians, verification of cash balances and selection of pricing sources for valuation. The administrator is also responsible for producing the statutorily required financial statements of each fund on an annual basis which are then subject to an annual audit.

The Boards of directors of the funds have appointed the following firms as auditors:

- KPMG
- Deloitte
- Grant Thornton

Since the Company's establishment in 1999 and across the management of as many as thirty funds there has never been a material departure of any of the funds' audited financial statements from the dealing NAV at the balance sheet date. The financial statements of all RAB Capital funds are prepared on the basis of Generally Accepted Accounting Principles.

### **Investor Communications**

RAB Capital publishes monthly newsletters with performance data and portfolio analysis together with commentary from the fund manager in respect of all RAB funds. NAV estimates for every strategy are published weekly in the Financial Times, and are available on the Company's website.

Potential investors in RAB Capital strategies have access to a due diligence questionnaire that conforms with industry standards as prescribed by AIMA, which broadly sets out the components of RAB Capital operations as described herein and as they pertain to the particular fund in question.

Potential and current investors can also have access to RAB Capital's HFSB Disclosure Statement, which came into effect on 31 December 2008 and details the Company's adherence to the HFSB Standards.

### **Prime Broker and Counterparty Risks**

Each fund has appointed at least one independent prime broker or custodian who is responsible for the custody of the fund's assets and holding the cash of the fund. In preparing the NAV for each fund, the independent administrators utilise statements and reports provided directly to them by the funds' counterparties.

The events of 2008 have obviously heightened counterparty risks for the industry. RAB has established a number of prime broker and custodian relationships that permit the re-disposition, at short notice, of unencumbered cash. The main institutions which hold the assets of RAB Capital funds are:

- Credit Suisse
- Citigroup
- Deutsche Bank
- Morgan Stanley
- Goldman Sachs
- JPMorgan Chase

RAB Capital funds had very limited leverage as at 31 December 2008. Cash financings across RAB funds at that date represented 3% of AUM.

## **New Developments within RAB Capital**

The Company is committed to maintaining the highest standards in the quality of our operations, and to the extent that investors had not seen RAB Capital's recent announcements, we would like to update you on a number of important internal changes and appointments that we have made.

Charles Kirwan-Taylor has been appointed Chief Investment Officer ("CIO") for the RAB Capital Group, taking over this responsibility from Philip Richards who will henceforth concentrate on the management of our fund strategies in natural resources, and in particular on the RAB Special Situations and the RAB Global Mining and Resources strategies. Charles, who has been at RAB Capital since March 2008, brings with him a wealth of management and capital markets experience, both as a hedge fund manager, and more broadly on the sell side during a long career at Credit Suisse. This is the first time the Company has separated the role of CIO from active fund management and emphasises our commitment to reinforce the resources devoted to the investment aspects of our business. We believe that this will bring investors in our funds significant benefits in process, in transparency and in investor communications in the future.

The Group has also appointed John Mattimore as Chief Risk Officer. John is an experienced buy side risk officer, recently holding positions in Gartmore and Old Mutual Asset Management. John has already started to build on the risk framework that the Company has been developing over the course of 2008 and has joined the Company's Investment and Risk Committee which meets monthly to review the activities and positioning of each of our funds.

We expect to make an appointment to fill the roles of Finance Director and Chief Operating Officer very shortly.

## **RAB Capital Fund Strategies**

Although we sought to adapt to changing conditions in 2008 as rapidly as possible we nevertheless acknowledge that we had to ask our investors to accept some difficult outcomes in a number of our strategies. This was caused by market developments, liquidity issues and the changing availability of credit constraining the ability of certain funds to meet redemptions without considerable damage to the interests of shareholders as a whole. We remain convinced that the actions taken by the Boards of the funds concerned, such as RAB Special Situations and RAB Energy/RAB Octane, were taken with the interests of investors as a whole in mind. We believe that subsequent events, and the actions taken by a number of other fund groups in response to the sustained global de-leveraging later in the year, have demonstrated that moving early to address these issues has proved to be prudent. However, we recognise that these actions have had difficult consequences for some of our investors and, once again, we would like to extend our apologies to those investors who have been negatively affected by these events over the past year.

We would also observe that even in this most difficult of years for certain RAB funds, a number of strategies nevertheless performed particularly well and have demonstrated a resilience and market poise that characterise the best of hedge funds. In particular, the RAB Cross Europe Fund, an event driven strategy run for the last ten years by Roddy Campbell, ended the year up 0.7% (Euro class, estimated), its tenth consecutive year of profitability. The RAB-Pi Asia Fund, an equity long short strategy operating across the Asian markets, including Japan, also made money for investors in a market where the underlying index fell by 33%. Equally, our Gold Fund, an uncorrelated investment strategy run by Steve Ellis and focussing on particular aspects of the gold markets, returned 1.7% (\$ B class, estimated) last year. The RAB Europe Fund outperformed the market average for its strategy, as did our RAB External Managers fund of funds. We are pleased with the results of these funds and believe that they are well placed to continue to do well in the future.

As we have previously stated we spent some time in 2008 reviewing the Company's strategic proposition to our investors. In examining this we have sought to determine where we might offer a real comparative advantage to our investors in a demonstrable and cost effective manner. Our ambition is to exploit our capabilities in fundamental corporate analysis, in securities valuation, in event driven strategies and in the natural resources sector. We have consequently refined the Company's offering in single strategy funds to include the following funds:

<b>Natural Resources</b>	<b>Market Neutral</b>	<b>Long/Short</b>
RAB Special Situations	RAB Cross Europe	RAB-Pi Asia
RAB Energy	Northwest Market Neutral Funds	RAB Europe
RAB Octane		RAB European Credit Opportunities
RAB Global Mining and Resources		RAB UK
RAB Gold Fund		RAB Emerging Markets
		RAB Innovations

In addition we continue to offer the RAB European Dynamic Fund to retail investors across Europe, the RAB External Managers Fund to investors seeking a diversified portfolio of hedge funds in a single vehicle, and, pending resolution of the matter mentioned below, directional risk in Asian equity markets through the Northwest Warrant Fund.

As stated in September 2008, we are in the process of reviewing the structure and level of our engagement with the Northwest family of funds. More details are expected to be available in respect of this shortly.

### **Outlook for 2009**

Within RAB Capital there are different expectations as to what markets are likely to bring in 2009. It has been a feature of our style to allow our investment managers the freedom to express their convictions within their given strategy without the imposition of a "house view" and none of the changes we have made will alter this. However, it is fair to say that most managers are running cautious balance sheets and small positions so their revealed investment stance is still conservative. In summary, we are alert to deflationary risks in the global economy, perhaps more than inflationary risks in the near term, but both credit and equity markets should present patient investors with interesting opportunities as the year progresses.

### **Conclusion**

2008 was a difficult year for markets and it appears that 2009 may be as well. However we believe that RAB Capital is now better positioned to weather the storms we face than it has ever been. The Company considers it a privilege to be the steward of investors' assets and takes its obligations to run a business of institutional strength and quality extremely seriously. We believe that the framework described above, combined with these new appointments into key positions in the Company, underscore RAB Capital's commitment to achieving the best standards of governance and investment practice. We will continue to develop and refine our processes in line with this commitment. The Company's financial condition is very strong and we are focussed on achieving excellent results for our investors in our chosen strategies over 2009.

The Board of RAB Capital would like to take this opportunity to thank our investors for their support during a very difficult period for financial markets and recognise the stresses in liquidity that the events of 2008 have caused. We look forward to continuing to work with investors in 2009.

If you have any questions concerning anything in this letter, please contact me or your normal contact at RAB Capital.

Yours faithfully



Stephen Couttie

**Chief Executive Officer**