The Ascot Fund

March 2011 Monthly Report

INVESTMENT PERFORMANCE

The Ascot Fund generated an approximate net return for the month of February of +0.10%.

Returns as at end March 2011	Performance (Net) %	Cash Rate %	Relative Performance %
1 month	0.10	0.40	-0.30
3 months	1.46	1.17	0.28
6 months	4.08	2.33	1.74
1 year	1.10	4.58	-3.48
2 years (annualised)	8.25	3.88	4.37
3 years (annualised)	6.20	4.52	1.68
4 years (annualised)	11.12	5.12	6.01
5 years (annualised)	10.77	5.33	5.44

ATTRIBUTION

Main positive contributors for the month included LONG positions in Santos, Commonwealth Bank, ANZ Bank, Westpac Bank and Rio Tinto US listed stock as well as SHORT positions in Rio Tinto Australian listed stock, Boral Limited and Leighton Holdings.

Main negative contributors for the month included LONG positions in Fortescue Metals, National Australia Bank and Telstra as well as SHORT positions in Worley Parsons and Woolworths.

Index puts also cost us marginally for the month, though at the market nadir on 15 March, these were working wonderfully protecting fund downside as markets tumbled circa 7% in 11 trading days.

THE MONTH THAT WAS

March 2011 was such an amazing month I thought I'd spend a little time reflecting on it. March 2011 bore many similarities to nervous markets we experienced through 2008 and 2009. Obviously the catalysts are different at any given time, but market reaction in the first half of March 2011 was close to panic, and it was a similar feel to January 2008, June/July 2008 and then of course the 6 months from September 2008 to February 2009.

What was different last month was the amazing snap back we saw in just 12 trading days which saw the market essentially flat by month end, having been -7% by 15 March. We worked very hard to limit the fund's downside exposure as markets imploded, which we did very successfully, and then worked equally hard to work our way back to a small positive return for the month.

In fact, when I read back on our February report to you, during March we did exactly what we said we would. We ran a reduced net exposure with downside protection in place and stock picked our way through the market.

OUR THOUGHTS ON MARKETS

If we drew a ledger of macro issues we believe either currently influence or have the capacity to influence financial markets, it would look something like this:

POSITIVE INFLUENCE	NOW	FUTURE	NEGATIVE INFLUENCE	NOW	FUTURE
Excess Liquidity (QE2)	YES		Removal of excess liquidity (no QE3 and move to higher interest rates)	Maybe	Maybe
			Sustained High Oil Price	YES	YES
			Political Unrest	YES	YES
			European Sovereign Debt	YES	YES
US economic recovery	YES	Maybe			
			Rising Inflation	Maybe	YES
China Growth/Inflation outlook	YES	Maybe	China Growth/Inflation outlook		Maybe
Strong corporate balance sheets and probable corporate activity	YES	YES			

Oh, and we then need to consider company specific issues.

As one person said to me late last year, "…when will we get some clear air from all of these macro issues…"? It does not seem like anytime soon.

Obviously producing such a table is fraught with danger. Attempting to condense the myriad issues facing the world, without even considering what seems to be a very high incidence of natural disasters locally and offshore, is an interesting exercise. What is obvious to any reader is that the sheer number of macro issues either impacting or possibly impacting equity markets is significant.

As you can see from the above ledger, we believe the actual and possible negative issues do somewhat outweigh the actual and possible positive issues. Despite this, the market has a great capacity to "look through" negative issues at the moment, possibly due to excess liquidity provided by the FED.

You might also glean from the ledger that we would prefer the US policy makers take some tough decisions and remove their Quantitative Easing policy at the end of June 2011, letting the US economy try to stand on its own two feet. It seems that many European countries are taking some tough medicine, invoking austerity measures designed to fix their respective fiscal imbalances. The US should do the same.

The obvious risk with such a decision is that the US economy will not sustain the growth trajectory in the December half of 2011 that markets are currently pricing in. That would be a negative for equity markets in our opinion.

At the same time as US policymakers have to make some very tough decisions, the Chinese policy makers are trying to manufacture a sustained growth profile whilst minimising inflationary pressures. Failure on either front would also prove dire for equity markets as the “risk on” trade would quickly turn “off” and risk aversion would increase appreciably. This would also be negative for equity markets.

We also do not believe people in the street are ready to start spending their money, particularly domestically. Higher interest rates, higher energy bills, higher government charges and higher petrol prices make us wary of expecting a strong consumer led recovery domestically. This is despite the views of many economists, who continue to expect a strong rebound in domestic activity levels in the second half of 2011. We are yet to be convinced of this argument.

So, there you have it. A lot of thoughts this month, designed to remind you all that we continue to manage your investment for risk. When global equity markets rise unabated by 5, 6 and 7% in a fortnight or so, we get very nervous. We have again reduced our net exposure and seek to stock pick our way through markets.

As always, if you have any queries at all regarding your investment, please do not hesitate to contact any of Tony Cooper, Craig Temby or myself.

Kind Regards

Craig Connelly
Managing Director