



## **Polar Capital Funds plc**

Investment Company with Variable Capital and Segregated Liability between Sub Funds

Annual Report & Accounts 2009



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## Investment Manager's Report

For the year ended 31 December 2009

### Performance and assets under management

Whilst 2009 was a good year for most asset classes it was an excellent one for both the Technology sector and the Fund. Assets under management grew from US\$22m at the beginning of the year to US\$163m at year end. Performance was also encouraging with the Fund returning 71.6% in US Dollar terms, outperforming its benchmark Dow Jones World Tech Index by 11.4% and beating the Lipper technology peer group average fund performance by 16.8%. Stock selection contributed almost all of the outperformance which aligns well with our bottom-up, growth centric investment philosophy.

It was particularly encouraging to see the Technology sector demonstrate clear market leadership, the Dow Jones World Tech Index returning 60.2%, more than twice the 28.8% gains achieved by the FTSE World Index over the same period (both in US Dollar terms). Technology strength was spurred by a number of factors including; relative earnings resilience (initially cost cutting but later also improved demand), balance sheet strength and attractive valuations.

### Market review

Despite a very challenging start to the year, 2009 proved to be a rewarding year for equity investors. Co-ordinated government / central bank efforts to support the financial system played a crucial role, reducing systematic risk and improving credit availability. It should be no surprise that as credit spreads peaked in early March equity markets troughed. The subsequent improvement in risk appetite drove substantial PE expansion which continued for much of the year. It was not until the second half of the year that the economic improvement began to be felt, which combined with aggressive cost cutting taken earlier in the year drove earnings upgrades which further supported the market rally.

The combination of sharply higher equity markets and low interest rates allowed consumers to rebuild their balance sheets whilst mortgage debt write-offs further reduced their debt burden. In addition Government initiatives to prevent unnecessary foreclosures and increase affordability for first time buyers, helped to stabilise property prices in Western economies. With jobs beginning to look more secure and debt levels coming down, consumer confidence began to improve and spending has started returning to more 'normal' levels. That said we do not

anticipate a return to previous levels of consumption (as a % of GDP) as we believe that debt appetite is likely to remain suppressed even as availability improves. Savings rates have already risen considerably and whilst they are likely to remain elevated for several years (reflecting a multi-year deleveraging process) we do not expect them to soar from current levels (hurting consumption further).

Despite this improved outlook there are still economic imbalances which are likely to drag on the current recovery. Whilst consumer balance sheets are starting to show signs of improvement, much of the debt burden has been transferred to governments. The extent of the problem has been highlighted recently by increased sovereign debt concerns in Dubai and the PIIGS (Portugal, Ireland, Italy, Greece and Spain), not to mention the potential loss of triple AAA credit ratings in other major economies including the UK and US. We certainly acknowledge the risks associated with sovereign defaults and the associated pressures on the Euro. Undoubtedly there will be tough times ahead particularly once fiscal stimuli is withdrawn in earnest but we expect this process to be undertaken slowly given the Japanese experience. The risk of a so-called 'policy error' (premature fiscal / monetary tightening) is mitigated by an absence of inflationary pressure (ex. oil and commodities) which should enable "exceptionally low rates" to remain for "an extended period".

Whilst unemployment remains high (10% in the US) it is empirically a lagging indicator. We believe that many companies cut costs and headcount too aggressively last year and as such we would expect employment to begin to recover in 2010. We are certainly seeing this in our sector – two of our team have very recently returned from the US where many technology companies are starting to rehire to meet improving demand.

Investment in productivity enhancing technologies is likely to follow as the "do more with less" mantra becomes increasingly relevant in the low growth environment we see unfolding post the immediate economic rebound.

Fortunately emerging market economies have coped with the crisis better than many expected. China and India look set to emerge as the engines of global growth for much of the next decade. Not only have they become less dependent on exports but they have favourable demographics with large

## Investment Manager's Report

For the year ended 31 December 2009 continued

populations, increasing urbanisation and rising incomes. The US technology sector is uniquely positioned to benefit from these trends due to its global exposure (55% of revenue coming from outside the US – the highest of any sector). Technology companies are also used to dealing with product deflation through innovation – which drives affordability and price elasticity. China is expected to be the largest consumer of many technology products by 2011 including handsets, PC's and LCD TV's (source: CLSA). Whilst the first phase of growth in these economies was about building infrastructure (roads, buildings and utilities etc), the next phase is likely to be focused on driving productivity gains enabled by technology investment.

### Fund activity

Our core themes change infrequently but last year's macroeconomic uncertainty resulted in an atypical number of changes to the portfolio. This time last year we saw very compelling valuations across the sector. Having been relatively defensively positioned towards the end of 2008 we became more fully invested, building positions in a number of stocks we believed had good valuation support; including a basket of small caps trading at or close to their net cash positions. This proved to be a good decision and several of these stocks were amongst our best performers during 2009.

We remained bullish on the sector's prospects for much of the year, but there were periods when we felt near term valuations or sentiment were extended relative to fundamentals and we locked in some profits – tactically increasing our cash levels (up to 10%). One such period was towards the year end when we felt small and large cap stocks still remained attractively valued but a number of our mid cap growth stocks (which had performed strongly) were looking extended. As a result we took profits and rotated the proceeds into a number of attractively valued, high quality large cap stocks including Intel, Microsoft, Google and Apple. This took our large cap weighting up to 45.9% of the Fund by year end and leaving the cash position at 7.9%.

While this may seem somewhat at odds with our investment approach (bottom-up stock picking focused on identifying areas of sustainable secular growth) the sector is currently experiencing a significant cyclical rebound which could last for several more quarters. As a result we have continued to increase our PC exposure in early 2010, adding a

number of new positions including Hewlett Packard, Western Digital and Dolby. We expect that an improving economic outlook, an ageing installed base of PC's and significant product upgrades (including Windows 7.0) should drive an enterprise refresh cycle in 2010.

So far this view is being borne out with fourth quarter earnings season demonstrating broad based strength and many technology companies including Intel, Google, Apple and Microsoft (to mention a few) reporting particularly strong numbers. However the lacklustre stock action that largely accompanied earnings reports likely reflected how expectations had risen commensurate with stock prices over the final months of 2009. Particular weakness was experienced in subsectors that had been strongest in December (such as semiconductors), and stocks that delivered below Street expectations such as Qualcomm and Motorola.

### Outlook

The volatility that characterised 2009 has certainly continued in early 2010 with a sharp sell off, which saw most major indices fall 5-10%, due to sovereign debt concerns and uncertainties surrounding increased financial sector regulation and monetary tightening in China.

The subsequent rally over recent weeks, as risk aversion receded, has seen much of these early losses regained. We are certainly encouraged by the underlying strength of fourth quarter technology earnings and fundamentals – particularly following our recent visits to the US companies. Inventory restocking has only just begun and looks muted relative to the drawdown that preceded it and as such we suspect that cyclical tailwinds will endure for longer than most anticipate, especially whilst emerging market demand remains robust.

Our "new cycle" thesis also continues to play out with a number of incumbents (SAP, Alcatel, IBM, Motorola) beginning to more fully look their age now that their cost cutting is largely complete, whilst next generation peers are significantly outperforming in terms of organic revenue growth. We were also very encouraged by a recent Gartner CIO survey (the largest of its kind) which showed a very significant shift in spending intentions with the top 6 priorities for 2010 being; Virtualisation, Cloud Computing, Web 2.0, Networking, Business Intelligence, Mobile Technologies and Data Management and storage.

Enterprise applications which had been ranked 2nd for the last three years fell to 13th position highlighting the extent of the recent shift in priorities away from legacy infrastructure. This is aligned closely with our core portfolio themes (Cloud computing, Broadband applications and Mobility) and reinforces our confidence that this “new cycle” will be the most significant since the rise of the desktop computer in the early 1990s.

Cloud computing in particular has emerged as a core battle ground within the sector – particularly between industry bellwether stocks Cisco (with its Unified Computing Strategy and entry into blade servers) and Hewlett Packard (with its entry into networking strengthened by the acquisition of 3COM). As a result a number of alliances have been formed with Cisco working more closely with VM Ware and EMC. IBM has as a result expanded its alliances with Juniper who in turn are entering into strategic partnerships with Riverbed and F5 Networks. Oracle also acquired Sun Microsystems last year and is adopting a vertically integrated approach. In fact much of last years M&A in which several of our smaller holdings were also acquired (Starent Networks, Tandberg, Omniture and Data Domain) was driven by these trends which we expect to gather further momentum during 2010.

A recent note by Credit Suisse strategist Andrew Garthwaite suggested one of the “Top 10 surprises of 2010” could be “technology outperforms by a further 30%”. It is tough to predict the magnitude, but we certainly believe the sector is set for a period of significant multi-year outperformance. Current conditions are remarkably similar to this time last year, albeit not as extreme. Investors are preoccupied with macro concerns yet technology valuations remain attractive – the US technology sector is trading on a 10% PE premium to the market having peaked recently at a still reasonable 30% premium. Technology is the only major sector with net cash on its aggregate balance sheet and has the lowest pension liabilities of any sector. As an aside, it is also interesting to note that the 10 year CDS spread on Microsoft and Hewlett Packard is below that of US government debt (indicating they have lower default risk) and that Apple, Google, Microsoft, Qualcomm and Intel combined have \$130bn of net cash.

Most importantly we believe our “new cycle” thesis is not yet widely understood and as a result the secular growth potential of the sector is being under appreciated. We recognise that additional caution is warranted given the macroeconomic concerns (and the potential for punitive changes in financial regulations and/or tax regimes). That said, we are fully invested once again due to the number of attractive investment opportunities we are finding from the “bottom-up” and our increased conviction in “top-down” technology fundamentals. As the economic recovery moves into its second phase we expect revenue and earnings growth, rather than multiple expansion, will drive returns which should favour our small and mid cap growth centric approach.

### **Polar Capital Partners LLP**

February 2010

## Investment Manager's Report

For the year ended 31 December 2009

### Fund Performance

The Fund rose by 10.3% in local currency terms in 2009. This compares to a rise in the Topix (TSE First Section Index) of 5.6%. The US dollar share class rose by 8.17%. During the calendar year there was little movement in the dollar-yen exchange rate. Once again we are pleased to report that stock selection was the driving force behind relative returns versus the benchmark. Over 70% of excess returns were generated from pure stock selection, whereas 30% came from favourable sector selection. Our best decisions regarding sectors came from an overweight position in chemicals and machinery and significant underweight positions in banks and electric utilities. Stock selection within automobiles was outstanding, although our cautiousness led us to be underweight in the sector. The decision to pick up quality names at the back end of 2008 such as Denso proved critical to our success as was the introduction of names such as NOK and Aisin Seiki. The Non-Ferrous Metal sector was helped by excellent performance from Sumitomo Electric. This stock added 116 basis points to relative performance. Other names that are worth mentioning are as follows: C. Uyemura added 100 basis points and Osaka Securities added 99 basis points.

### Market Review

The Japanese market felt the full effect of the global financial crisis bottoming in March 2009, when the market briefly touched 7,054.98 on the Nikkei 225 Index. However, the implementation of the monetary and economic measures by various countries eased concerns about the economy and caused the market to bounce nearly 50% from trough to peak. Signs of improvement in economic data and corporate profits were behind the surge in the market but gains were capped by persistent Yen appreciation and tighter financial regulations. The market was weak in the final quarter as large-scale equity financing and fiscal deficit concerns suppressed sentiment.

### Market Outlook

Japan's economic recovery has proved to be anaemic in 2009 by past standards. In more normal cycles a sharp bounce in the OECD lead indicators would have forced most asset allocators to overweight Japanese equities. Having covered Japan for twenty years, even I have been surprised by the way the market has underperformed its Western counterparts and the Asian markets.

The economy has clearly recovered but not on the scale that it should have done. Real GDP growth initially came in at +4.8% in the third quarter but was revised down subsequently. Whilst private inventory and net exports supported the numbers there were some nasty revisions down to Capital Expenditure only weeks after the data was released and more worryingly the deflator came in at -2.6%. My recent trip to Japan in December highlighted the fragility of the domestic economy and this has been borne out by the recent Tankan survey of non-manufacturing Japan where sentiment is still sluggish. This is partly offset by better sentiment indicators within the manufacturing sector such as automobiles and semiconductors. Some second round effects are also being seen in the economy such as a pick up in manufacturing overtime hours worked and a fall in the unemployment rate. However, the speed of cyclical improvement is likely to slow somewhat in the coming months as the inventory cycle and fiscal policy mature. The real focus will now be on seeing whether end demand really comes through.

Looking forward to 2010 we are more confident that the negative growth factors in 2009 might be alleviated, at least to a degree. The strength of the Yen has crippled manufacturing Japan and as a consequence domestic consumption. Having recently reached a 14 year high against the US dollar and strengthened by 40% against the Korean Won the Japanese currency looks overvalued. It is the combination of the strong Yen, coupled with deflation that has made real interest rates in Japan high relative to the rest of the world. The Yen interest rate has until recently tracked US short rates so we expect either a change in US monetary policy or a move towards quantitative easing in Japan to weaken the Yen significantly. We expect that Japan's tight monetary conditions will ease in 2010 at a time when overseas policy stimulus is withdrawn.

Until December the Bank of Japan had allowed current account balances to fall and also various programmes aimed at easing the corporate sector's access to credit to end. However in December 2009 the bank announced that they were making available another Y10 trillion of funding to keep the three month rate at 10bps and that they were also unwilling to tolerate the consumer price index below 1%. Given we know that the deflator is extremely large it would seem premature, as many

commentators have done, to write off the BOJ's chances of adopting quantitative easing. Japan has a history of changing policy in a series of incremental steps and we think that a very important one has been made already. At a time when most central banks have seen their balance sheets expand the BOJ's balance sheet has shown virtually no growth since the collapse of Lehman Brothers.

Apart from the Yen's strength, a massive surge in new domestic issues has unnerved the market. Over Y2 trillion has recently been announced or actually come to the market, the largest of which was the \$10 billion deal in Mitsubishi Bank to bolster its core Tier One ratio. This has been in conjunction with issues from T&D Life, NEC, Hitachi, Dai-ichi Life Insurance Company and SMFG. Any delays in implementing global bank regulations may mean issue sizes are somewhat smaller than feared.

The stock market adhered to the mantra of "better to travel than to arrive" and has become disenchanted by the new Democratic Party led by Mr Hatoyama. A Government that is left of centre and redistributive has been interpreted by investors as another nail in the coffin for Japan Inc. While we believe that this was a significant shift in the political landscape it is still too early to write off their chances. The policies for supporting the economic recovery are only now starting to emerge and will have a meaningful impact on the real economy. For instance, the recent Y7 trillion supplementary budget will impact early in 2010 and the new Government have been intensely lobbying the Bank of Japan to take action against deflation. Although commentators have painted them as fiscally irresponsible we are holding a watching brief before passing judgement. With gross debt of 200% of GDP, debt markets will not give the new Government a lot of time to send the right signals to the market.

We expect a strong period for profit momentum versus Western markets. The Japan Research team are forecasting earnings per share growth of over 100% in 2010, followed by 16% in 2011/12. Japanese companies in the first half of FY2009 have slashed both fixed and variable costs. This cost cutting will be of huge benefit in the future if sales rise and the currency depreciates significantly. On conservative numbers we believe the TSE First Section Index could trade on 15X earnings 2011 and a Y10 depreciation of the currency could reduce this multiple further. Over 65% of the TSE First Section

Index still trades below book value and the TSE small index trades as a whole on 0.7X book.

### **Fund Activity**

The portfolio is well balanced with an even distribution between large and mid cap companies. The style bias is value, fused with growth at a sensible price. Amongst the stocks we like for 2010 are Mazda (autos) which is trading below book value and where our analyst is assuming earnings to explode upwards next year on the back of recovering sales, cost cutting and a weaker currency. Our small cap selection would include Hoshizaki Electric (refrigerators) which is a true value play on less than book value and trading close to net cash. Another favourite for 2010 would be Ryobi, a die cast manufacturer trading on only 0.5X book and with potential for huge earnings improvement next year.

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February 2010

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For the year ended 31 December 2009

The Fund size at the beginning of 2009 was \$71.5m and at the end of 2009 had decreased to \$70.8m.

### Fund Performance

The US\$ share class returned 13.7% versus a capital return of 17.0% for the MSCI Healthcare Index. The fund lagged its benchmark with the second quarter proving to be a problematic time for the fund. The aggressive sector switching and the announcement of proposed U.S. healthcare reform had a negative impact on the large cap positions held in the fund. In addition, the loss in value of two small cap positions also caused the underperformance.

Looking at the attribution analysis over the period, in terms of geographical impact, on an asset allocation basis no region impacted performance in a major way. Stock selection proved to be a positive in the US and a negative in Europe. On a sector basis, attribution was positive for the pharmaceutical, biotech and services sectors. Asset allocation was positive for the services, facilities and pharmaceutical sectors and negative for biotechnology. Stock selection was positive for biotechnology and negative for medical devices. In terms of market cap, the small and mid cap exposure was a positive contributor but the large cap was negative.

Targacept, Incyte, Covidien, Micromet, and Synergy Health were the top 5 positive contributors to performance. Targacept is a small cap biotechnology company that was purchased for the fund following positive mid-stage clinical trial results for its drug to treat depression. The company subsequently signed a significant partnership with AstraZeneca for the product. Incyte, a mid cap biotechnology company, continued to report positive data for its drug candidate for the treatment of myelofibrosis. It signed a partnership with Novartis for ex-US rights and also announced another deal with Eli Lilly for its drug candidate to treat rheumatoid arthritis. Covidien remains a core large cap holding in the fund with another year of good share price performance as it continues to deliver excellent operating results and expand margins. Micromet moved higher with additional positive data on its cancer drug candidate and the announcement of more technology deals with pharmaceutical partners. Synergy Health enjoyed a strong rebound through out 2009 and showed healthy growth for its service business with a recovery in margins.

Cardionet, AGI Therapeutics, Novartis, Cephalon and Medtronic were the top 5 negative contributors to performance. Cardionet suffered an unexpected reimbursement cut in the U.S. that hit the stock hard. AGI Therapeutics surprisingly reported negative late-stage clinical trial data for its late stage pipeline asset sending the shares sharply lower. Novartis suffered due to a poor set of results in Q1 and a further sell-off due to sector switching and healthcare reform in the US. Cephalon underperformed following very strong performance in 2008. The shares were de-rated as investors remain concerned with regard to patent expiries affecting a large portion of their current revenue base. Medtronic's shares performed very strongly in 2009 as the market appears to be more confident that it can address the operational issues that have hampered results over the last few quarters – our underweight position in the stock had a negative impact on the performance of the fund.

### Market Review

The year of 2009 proved to be highly turbulent for healthcare investors. At the beginning of the year, the sector started off brightly continuing to outperform the market as it had done in 2008. Then came President Obama's budget at the end of the first quarter and the healthcare sector suffered a painful sell-off in response to the initial suggestion of healthcare reform in the United States. The healthcare sector lagged through the middle of the year and then outperformed in Q4 as the concerns regarding reform began to dissipate.

Investors began the year still struggling to come to terms with the shock of 2008. The markets were very weak and continued to head down through February. Healthcare stocks performed well maintaining their defensive characteristics. However with valuations reaching attractive levels, Government support for the global financial system and the extensive stimulus in place, equities bottomed out in March of 2009. With fund flows into equities still negative, the market experienced severe sector switching as investors attempted to sell out of more defensive areas of the market and gain exposure to cyclical stocks. This led to significant underperformance of the healthcare sector as the market bounced extremely hard from its lows through the end of the 1st quarter, and the 2nd quarter.



The situation for healthcare at the low was exacerbated by the announcement of President Obama's first budget which highlighted the first details for his plans for the reform of healthcare in the United States. The reform proposals which had been a key promise for the President in his election campaign were not very detailed and therefore the fear of increased Government involvement in healthcare policy with a lack of clarity lead to a significant sell-off as generalist investors dumped all stocks in the sector. Also to act as a final nail in the coffin, the large cap biotech stocks reported weak results for the 1st quarter started by a negative preannouncement by Celgene. This sub-sector had been the clear winner of 2008, but the lagged effect of the weak economy finally caught up with the companies.

The sell-off in Q1 was indiscriminate, investors showing a "baby out with the bath water" type mentality in response to reform. After the initial step down, investors belatedly realised that some companies such as hospitals, distributors, pharmacy benefit managers and generics would actually enjoy a benefit from this healthcare reform as it would lead to an expansion of coverage of healthcare in the U.S. for those that had previously not been guaranteed coverage. This would theoretically prove to be a major positive both in terms of patient volumes and in terms of ensuring a patient's ability to pay for care as some sub-sectors such as hospitals had suffered rising bad debts over the last few years due to patients not paying their medical bills. Stocks in these sectors recovered following the initial weakness. Other healthcare sub-sectors rallied hard with the market on the presumption that the economy would start to improve. Companies exposed to self-pay markets such as cosmetic surgery started to perform better including companies like Allergan, which sells Botox, as did the life science tools and equipment companies with exposure to industrial end markets. This latter sub-sector also enjoyed a boost alongside healthcare I.T. due to specific stimulus measures put in place with the new budget. A huge expansion was announced for healthcare I.T. at hospitals and doctors' practices of more than \$30bn with the aim of "wiring up" the healthcare system so that patient notes could be converted to electronic medical records. This acted as a major positive catalyst for the healthcare IT companies. The tools and equipment companies rallied on the back of a \$10bn boost to the National

Institutes for Health budget. This agency controls a budget for academic research of over \$30bn per year. The increase in potential grants was seen as a significant bonus for the relevant companies that provide equipment to the laboratories. Stocks such as Thermo Fisher Scientific and Life Technologies responded well to the news.

The laggards proved to be the Pharmaceutical, Devices, Biotech, and healthcare insurance sectors. The Pharmaceutical and Biotech companies suffered uncertainty due to proposed Government reimbursement changes and legislation regarding generic biologics. Medical Devices struggled as reform created the potential for increased taxation on the industry and the prospect that a publicly funded healthcare insurance plan would create negative pricing pressure. The healthcare insurance sector suffered the most at the hands of the Democratic proposals with the stocks collapsing on the proposed changes to Government reimbursement and taxation proposals.

Hence through the 1st half of 2009 there was a real dichotomy between the winners and losers in healthcare. Those that were deemed to benefit from reform enjoyed strong performance while those that were expected to lose out underperformed the market dramatically.

Moving into the second half of the year with investors more attuned to the issues with healthcare reform, the attractive valuation of the sector started to attract investors again. During Q3 it started to become clear that passage of healthcare reform would prove to be more of a challenge than the Democrats had hoped. While proposals from the House were more extreme, those in the Senate were more moderate in an attempt to assuage concerns from certain Republicans whose support was seen as crucial to get a vote through the Senate. However, support gradually started to ebb with too many requirements from different members of Congress to drive meaningful reform. The major issue hinged on the issue of a Public Insurance plan run by the Government that would compete in the market place against public insurers. The Republicans were opposed to this and the Democrats had to back away from the proposal in their bill. This proved to be a major positive for the health insurers, and the stocks rallied strongly into year end. Agreement was reached with many of the sub-sectors in healthcare, such as pharmaceutical and hospital companies, with

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the Government whereby reimbursement would be cut back but for these sectors as they would benefit from increased coverage.

Also proposals were introduced to tax the medical device and insurance companies, but these were seen as manageable although obviously not ideal. Reform discussion and votes continued into year end but final stages were not reached and thus were delayed into the New Year. From the depths of despair that the sector reached in Q1 – when reform plans were first released – to the final bills that look potentially approvable, there has been a dramatic reduction to the planned changes suggested by President Obama.

By the beginning of Q4, the healthcare sector in the US was trading at 30 year lows relative to the market on both price-to-book and price-to-earnings measures. The sector had apparently become too “cheap” and the previous laggards such as pharmaceuticals, medical device and insurance sectors enjoyed a strong upward move as investors became more comfortable with the outlook for reform and thus reduced their low exposures to the sector. The sector outperformed the market in Q4 as it had done at the beginning of the year.

### Fund Activity during the period

In the large caps, a significant number of new US holdings were added at the beginning of Q4 to take advantage of the valuation discount that had arisen relative the market following the ongoing reform overhang. Since reform appeared to be heading to a milder conclusion, the opportunity in US large caps appeared compelling. Positions in Pfizer, Merck, United Health and Express Scripts were added to the fund. Also to take advantage of an improving outlook for the more cyclically exposed healthcare companies, positions in Allergan and Zimmer were initiated. In terms of stocks sold out of the large cap part of the fund, these included some of the better performers in 2008 including CSL, Abbot, and Gilead. Other notable sales included Bristol-Myers Squibb, Medco and Daiichi Sankyo.

In the mid caps, a number of new positions were added to the fund to take advantage of opportunities with investors appearing to be less risk adverse. These included Human Genome Sciences, MedAssets, Actelion, Life Technologies, Community Health, King Pharmaceuticals and Mindray. Positions in China Medical and Cephalon were sold.

At the small cap end of the period, new positions included Targacept, Affymax, Alphatec, Abiomed and Threshold. Stocks sold from the fund included Cardionet, AGI Therapeutics, United Drug and TranS1.

### Market Outlook

The month of March 2010 proved to be highly significant in that healthcare reform was finally voted in by the US Congress and signed into law by President Obama. The Democrats surprised many in a final attempt to push legislation through the House, which ultimately succeeded. The final conclusion to the long-running saga ultimately came down to a final week which began with expectations for reform at low levels. However, an aggressive push by the speaker of the House and President Obama, through deal-making and political manoeuvring, allowed the Democrats to drive through the vote. A companion bill was also voted through, with changes from the House to the original Senate bill, which was also approved by the Senate through the use of the Reconciliation process. This was also signed into law by President Obama. Whilst there are ongoing battles against this legislation, including lawsuits, we view these as unlikely to have an impact, and that reform is now in place as it stands. The longer-term impact of reform is healthcare expansion with an increase in the number of people covered by insurance in the US of up to 30 million lives.

Looking out into 2010, there is every reason to be optimistic for stronger performance from the healthcare sector. The valuation is extremely attractive with the US sector sitting at almost a 3 standard deviation discount to the mean relative to the S&P500 on a forward P/E basis. With regard to reform, there is increased likelihood that it will be limited. This is because the Democrats lost a Senate position in Massachusetts following a contest for the seat after the death of Senator Ted Kennedy. The seat had been held by the Democrats since 1952. The Republican candidate, Scott Brown, campaigned largely on the basis that he was against healthcare reform as proposed by the Democrats and this was enough to drive public support allowing him to achieve a surprise victory. This result sent shudders through the Democratic ranks, thereby placing a huge roadblock in the way of healthcare reform. Within the next few months final clarity is expected on healthcare, driven by the need for the issue to set aside as the politicians head into the mid-term

elections in the US. This clarity could be a major positive for the sector and start a move towards a positive revaluation.

In terms of other drivers for performance, the healthcare IT stimulus and NIH funding continue to be positives for relevant companies. However the generic manufacturers, pharmacy benefit managers (PBM's) and distributors stand to benefit from the enormous generic cliff that begins in 2011 and extends out to 2015. This period sees the largest ever loss of patent protection for branded pharmaceuticals in the history of the industry with approximately \$90bn in revenue exposed to generic entrants. The generic manufacturers such as Teva stand to benefit significantly from the opportunity as do service providers exposed to the supply chain in the US. The PBM's and distributors should enjoy rapid earnings growth as they enjoy much improved margins from the launch of generics to compete with brands.

With valuations compelling, reform coming to an end as an overhang and growth drivers in place, healthcare could enjoy a significant period of outperformance.

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## Investment Manager's Report

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### Assets under management

The Fund size at the beginning of 2009 was £37.6m and at the end of 2009 had increase to £94.7m.

### Fund Performance

The Fund achieved a positive return of 9.99% for the twelve months to 31st December 2009 with an average net long exposure of around 20% and an average gross exposure of less than 120%. This compares with the FTSE All-Share Index which rose by 25% over the same period. The monthly volatility on the Fund and the index was 11.6% and 18.85% respectively.

### Market Review

2009 saw a continued sharp recovery in the UK equity markets spurred on by the success of companies in their ability to strengthen their balance sheets through a tight focus on cash flow as well as the very significant new equity raised through rights issues and convertible bonds. In addition the continued improvement in credit markets, as a result of the quantitative easing by central banks, enabled companies to renegotiate their debt profiles. The risks to the UK financial system were also identified and measures such as the Asset Protection Scheme were put in place.

As the year progressed leading economic indicators as well as business and consumer confidence started to improve as a result of the unprecedented fiscal and monetary stimuli that had been put in place. Unemployment, however, remains at elevated levels although this should start to stabilise during the course of 2010.

### Fund Activity during the Period

We used the unprecedented amount of new equity issuance, which acted as a short term depressant, to add to holdings in both Rio Tinto and GKN. Additionally we used another fund raising to increase the Fund's holding in Segro. The upside return potential was substantially increased as a result of their successful acquisition of their main competitor, Brixton. We also introduced new holdings in Shanks Group and Lloyds Bank. The former is an example of a company that is well positioned to benefit from the continued structural forces to manage and dispose of waste in an efficient and cost effective manner. The latter (see below) is an example of where the market and investors are paying too much attention to near term issues, such as regulatory risks, as well as uncertainty over the level of further bad debt

provisions; this has resulted in a valuation that substantially below its earnings capability, at a time when the balance sheet issues have been addressed and in our opinion bad debt provisions have likely peaked.

Towards the end of August we began to take down the Fund's net exposure as we felt that equity markets had run far enough for the time being, as they were trading approximately 20% above their 200-day moving average. We continued to de-risk the portfolio as we moved through October and November due to concerns that the UK equity market's upward momentum was increasingly reliant on a reduced number of stocks, with a particular focus on mining and emerging market exposed stocks. As a result of this action the Fund's volatility reduced sharply. The Fund gave back some of its returns due to the rotation within the market back into defensive growth sectors and profit taking across a number of the more cyclical sectors. We again used this period of weakness to add to positions where we have very high conviction as well as to initiate a new position in Wolseley, again an example of a company that is undergoing change and self help in response to the global economic and financial crisis. Wolseley has a significantly strengthened balance sheet and the market is underestimating its earning capability and recovery potential.

### Outlook

We remain constructively positive on equities in both absolute terms and relative to other asset classes over the medium term. It is our bottom-up view on stocks that gives us the most conviction to be long. The risk-reward of investing in stocks is clearly not as attractive as at the market lows, but the downside risks from another financial shock, should it occur, are substantially less. It is our opinion that there are a meaningful number of stocks that are mis-priced on current visibility, let alone if one were to apply a little vision to prospects in forthcoming years. That many have pulled back 20-30% from 2009 highs is a bonus. Free cash flow yields and EV/IC are attractive relative to history, as are dividend yields and balance sheet strength. One of the factors that we look for in investing in stocks is option value (where the company in question has a number of attractive opportunities to exploit or levers to pull, with the capital to back it up and management in place to execute) and the more the better. We are finding numerous companies with significant option value

where share prices are not demanding buyers compensate sellers for this. In general, publicly listed companies have benefited from an array of financing options that private equity and grassroots operators can only dream of, and this is enabling them to take market share. When this is combined with upside operational gearing (the result of aggressive cost-cutting over the last 18 months), operating margins may make new highs for many companies.

From speaking to various management teams in recent months, we can see that end demand is starting to pick up, albeit gradually, and we think this is being underestimated by investors. All told, this backdrop makes a significant number of UK stocks attractive on an absolute basis.

We also feel that risk assets remain attractive relative to non-risk assets, such as cash and sovereign debt (hopefully the latter is not an oxymoron), although not as good value as they were a year ago. In spite of the December sell-off in gilts, yields on many FTSE 100 stocks are still greater than UK Government debt and higher than debt coupon payments, and offer inflation protection and currency diversification. While this highlights an attractive feature of equities, it also identifies a key risk to stock markets namely that yields on UK gilts in theory should rise when the Bank of England ceases to purchase the debt being issued by the Treasury. Our view of corporate bond performance in 2009 is that it was a one-off trade that may have now broadly run its course, and equities now offer potentially very attractive relative return potential. On a very long-term view, an argument could potentially be made that equity weightings are at multi-decade lows and the only way from here is up. Inflows into credit in 2009 dwarfed those into equities, which suggests to us that this year's asset allocation decisions ought to be favourable to equities.

In keeping with our view of the attractiveness of free cash flow yields to equity holders relative to coupons available to debt-holders, we are expecting M&A to be a major theme for 2010. This leads us to be cautious of shorting and to have an interest in being long in the mid-cap space. Given the constraints on private equity leverage, this M&A cycle ought in theory to be higher return for listed acquirers than the 2003-2007 period and be focused, initially at least, on mid-cap companies. We have already had a bid for one of our stocks, the waste management

group Shanks, which came in December at a price of 135p. Our average book cost was around 80p so we made a reasonable return for a lot of analysis and a few hours spent wading through rubbish in Dagenham. Slightly frustrated as we felt that when we were buying the shares they could ultimately be worth over 200p, we have not sold our position yet as we feel there could be further upside to come. Another area where we feel that there is a structural shift as a consequence of the credit crunch is supply chain management.

Procurers are realising that exclusive focus on price paid is neither sustainable nor desirable and that there is a substantial premium related to supplier solvency and quality which was forgotten during the boom times. Companies simply cannot afford to operate without product and are increasingly prepared to pay a premium to blue-chip suppliers. GKN taking market share as a result of their rights issue, increasing milk prices worldwide and Centrica vertically integrating upstream are all strong examples of this flight to quality.

In summary, we feel that investors are erroneously finding it easier to be bearish than bullish on the outlook for UK equities at the moment and that, substantial macro tail risks notwithstanding, stocks on over 10% free cash flow yield with substantial levers to pull to create value are neither expensive relative to history nor to other asset classes.

## Strategy

Given the views discussed in the outlook section, we have a preference for being long equities and we have gradually begun to take up the net exposure again as we feel many stocks had retreated to levels where they offer attractive risk reward in favour of being long. We will not initiate shorts for the sake of it and we will tend to favour sector swaps more than at other points in the stock market cycle because of M&A risk. We are taking on risk-reward where it meets our criteria and where we have one or more angles on a stock that the market is not appreciating. It is important to balance workers and sleepers on both sides of the balance sheet, hence the exposure to early cycle stocks with specific bottom-up stories such as ITV and the newspaper names, as well as asset play sleepers such as International Power and Sainsbury. We have a large shopping list of stocks which we are working through and we have recently initiated positions in several.

## Investment Manager's Report

For the year ended 31 December 2009 continued

We bought Lloyds prior to its rights issue and added a trading element to the position when it sold off during the process. That it has been a weak performer is a medium-term positive because it suggests there is potentially a large pool of natural buyers. Our analysis of past financial crises and share price performance suggests there are two key variables to consider in valuation. The first is pre-provision operating profit (i.e. the core underlying earnings power of the business) and the second is the peak quarter for provisions. We think there is a high chance that Lloyds is going to be extremely profitable relative to history due to reduced competition and yet the stock is currently trading at around 3-4x through-cycle pre-provision operating profit. We also think there is a strong chance that provisions have peaked, which would lead to very strong EPS performance and internal capital generation in the coming years. Valuation of 1x TBV, when the quality of the equity is immeasurably higher than historically, suggests a positive scenario is not priced for. We also bought Barclays last month as we feel it is a world-leading franchise that should trade at a significant premium to TBV, but it is currently trading at a discount.

The publisher and data provider Reed was recently introduced to the portfolio as a structural growth play with limited downside but substantial upside. A top-tier global player in all its markets, the company is highly cash generative, has strong barriers to entry and generates sustainable EBIT margins of over 25% and double digit ROCE. It trades at 10% free cash flow yield, 12x 2010 P/E and is paying a 4% dividend. Timing is tricky but we feel sure it the risk-reward is ultimately very attractive.

We would highlight the risks in the portfolio as being mostly macro tail risks, but feel that sector rotation and market narrowness may hopefully be close to peaking. We think it is unlikely that policy makers will raise interest rates while the impact of ceasing unconventional policy measures is still uncertain but would highlight that the Bank of England and the Fed were virtually the only buyers of UK gilts and GSE debt in 2009. As such, it is not unreasonable to expect risk premiums on sovereign debt to rise quite substantially in 2010. How the economy deals with this remains to be seen, but in our opinion equity markets may pass us by if we wait to find out. Indeed, as the last equity bull market was driven by the Fed Funds rate being cut further and for longer than expected, what chance another one emerging if the benchmark rate stays low for longer than anticipated? It's a surprise that is possible but not really considered at the current juncture by investors. It would certainly further aid banks' deleveraging via retained earnings, so long as they keep it as equity capital rather than distributing it as operating cost!

### Polar Capital Partners LLP

February 2010

# Report of the Directors

For the year ended 31 December 2009

The Directors of Polar Capital Funds plc (the "Company") have pleasure in submitting their Annual Report and Audited Financial Statements for the year ended 31 December 2009 to the Members.

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Company's Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by The Institute of Chartered Accountants in Ireland.

The Company's Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Acts 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended). They are also responsible for safeguarding the assets of the Company. In this regard, they have entrusted the assets of the Company to a Custodian for safe-keeping. They have general responsibility for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts.

## Basis of Presentation

The format and certain wording of the Financial Statements have been adapted from those contained in the Companies (Amendment) Act, 1986, so that, in the opinion of the Directors, they more appropriately reflect the nature of the Company's business as an investment fund.

## Directors' Statement on Proper Books of Account

The Directors believe that they have complied with the requirements of section 202 of the Companies Act, 1990 with regard to books of account by employing personnel with appropriate expertise and by providing adequate resources to finance this function. The books of account of the Company are maintained by Northern Trust Fund Administration Services (Ireland) Limited (the "Administrator"), at Georges Court, 54-62 Townsend Street, Dublin 2, Ireland.

## Activities and Business Review

Polar Capital Funds plc is an open-ended investment company with variable capital organised under the laws of Ireland. The Company was incorporated on 28 September 2001. A detailed review of the Company's activities for the year ended 31 December 2009 is included in the Investment Manager Reports. The Japan Fund changed its base currency from US \$ to JPY ¥ on 2 April 2009.

## Risk Management Objectives and Policies

The principal risks and uncertainties faced by the Company are the investment risks associated with the portfolio of investments held for the account of each sub-fund and the operational risks associated with their management and administration. A more detailed analysis of some of the risks facing the Company is included in Note 12 of the Notes to the Financial Statements.

## Directors' Interests in Shares of the Company

Neither the Directors nor the Secretary have an interest in the share capital of the Company.

# Report of the Directors

For the year ended 31 December 2009 continued

## Transactions Involving Directors

Other than as disclosed in Note 10 to the Financial Statements, there were no contracts or agreements of any significance in relation to the business of the Company in which the Directors had any interest, as defined in the Companies Act, 1990, at any time during the period.

## Results

The results of operations for the period are set out in the Profit and Loss Account.

## Events during the Period

The Japan Fund changed its base currency from US dollar to JPY ¥ on 2 April 2009 and the prospectus for Polar Capital Funds Plc was updated on 6 November 2009.

The Japan Fund NAV was valued on 30 December 2009 due to a public holiday in Japan on 31 December 2009.

## Subsequent Events

There have been no events subsequent to the period end, which, in the opinion of the Directors of the Company, may have had an impact on the Financial Statements for the year ended 31 December 2009.

## Future Developments

The Company will continue to act as an investment vehicle as set out in its prospectus.

## Auditor

In accordance with Section 160 (2) of the Companies Act, 1963, KPMG, Chartered Accountants, have indicated their willingness to continue in office.

On behalf of the Board

**Jonathan Quigley**

**David Hammond**

Directors

14 April 2010



# Report of the Custodian to the Members

For the year ended 31 December 2009

We have enquired into the conduct of Polar Capital Funds plc (“the Company”) for the year ended 31 December 2009, in our capacity as Custodian to the Company.

This report including the opinion has been prepared for and solely for the members in the Company as a body, in accordance with the Financial Regulator’s UCITS Notice 4, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

## Responsibilities of the Custodian

Our duties and responsibilities are outlined in the Financial Regulator’s UCITS Notice 4. One of those duties is to enquire into the conduct of the Company in each annual accounting period and report thereon to the shareholders.

Our report shall state whether, in our opinion, the Company has been managed in that period in accordance with the provisions of the Company’s Memorandum and Articles of Association and the UCITS Regulations. It is the overall responsibility of the Company to comply with these provisions. If the Company has not so complied, we as Custodian must state why this is the case and outline the steps which we have taken to rectify the situation.

## Basis of Custodian Opinion

The Custodian conducts such reviews as it, in its reasonable opinion, considers necessary in order to comply with its duties as outlined in UCITS Notice 4 and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the Company’s constitutional documentation and the appropriate regulations.

## Opinion

In our opinion, the Company has been managed during the year, in all material respects:

- (i) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Memorandum & Articles of Association and by the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003, as amended, (‘the Regulations’); and
- (ii) otherwise in accordance with the provisions of the Memorandum & Articles of Association and the Regulations.

## Northern Trust Fiduciary Services (Ireland) Limited

Georges Court  
54-62 Townsend Street  
Dublin 2

14 April 2010

## Independent Auditor's Report to the Members of Polar Capital Funds plc

We have audited the Financial Statements of Polar Capital Funds Plc (the "Company") for the year ended 31 December 2009 which comprise the Profit and Loss Account, Balance Sheet and Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares, with the related notes and the Portfolio Statements. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and accounting standards issued by the Accounting Standards Board and promulgated by The Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities on page 13.

Our responsibility is to audit the Financial Statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in

Transferable Securities) Regulations, 2003. We also report to you whether in our opinion proper books of account have been kept by the Company and whether the information given in the Directors report is consistent with the Financial Statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the Company's Financial Statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Report of the Directors the Report of the Custodian, and the Investment Manager's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

### **Opinion**

In our opinion:

- the Financial Statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2009 and of its results of operations for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003.

### **Other matters**

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Financial Statements are in agreement with the books of account.

In our opinion, the information given in the Directors' report is consistent with the Financial Statements.

### **KPMG Chartered Accountants**

Registered Auditors  
1 Harbourmaster Place  
IFSC  
Dublin 1

14 April 2010

**Portfolio Statement**

as at 31 December 2009

**Financial assets at fair value through profit or loss**

<b>Transferable securities Equities</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value US\$</b>	<b>% of Net Assets</b>
<b>Canada</b>				
Redknee Solutions	CAD	1,099,200	1,048,505	0.64
Research In Motion	USD	20,500	1,384,570	0.85
			2,433,075	1.49
<b>China</b>				
Asiainfo Holdings	USD	59,550	1,814,489	1.11
Baidu	USD	3,270	1,344,722	0.82
Longtop Financial Technologies	USD	36,750	1,360,485	0.83
Tencent Holdings	HKD	79,000	1,716,716	1.05
			6,236,412	3.81
<b>France</b>				
GameLoft	EUR	250,900	1,270,725	0.78
<b>Germany</b>				
Aixtron	EUR	40,250	1,357,094	0.83
Dialog Semiconductor	EUR	110,850	1,211,900	0.74
			2,568,994	1.57
<b>Hong Kong</b>				
ASM Pacific Technology	HKD	149,000	1,419,084	0.87
<b>India</b>				
Infosys Technologies	USD	29,000	1,602,830	0.98
<b>Israel</b>				
Allot Communications	USD	290,820	1,137,106	0.70
Ceragon Networks	USD	98,450	1,155,803	0.71
Check Point Technologies	USD	45,750	1,550,010	0.95
Nice Systems ADR	USD	49,832	1,546,785	0.95
			5,389,704	3.31
<b>Japan</b>				
Keyence	JPY	6,960	1,435,437	0.88
Square Enix Holdings	JPY	76,100	1,597,287	0.98
			3,032,724	1.86
<b>Netherlands</b>				
ASML	EUR	51,480	1,772,662	1.09
<b>South Korea</b>				
Samsung Electronics	KRW	2,569	1,762,709	1.08
<b>Sweden</b>				
Telefonaktiebolaget LM Ericsson	SEK	138,450	1,277,833	0.78
<b>Taiwan</b>				
Catcher Technology	TWD	427,300	1,192,993	0.73
Hon Hai Precision Industry	TWD	380,000	1,799,906	1.10
MediaTek	TWD	77,056	1,344,294	0.83
			4,337,193	2.66

## Financial assets at fair value through profit or loss

Transferable securities Equities	Currency	Nominal Holding	Fair Value US\$	% of Net Assets
<b>United Kingdom</b>				
ARM Holdings	GBP	700,255	2,007,182	1.23
Autonomy	GBP	83,510	2,037,676	1.25
Fidessa	GBP	58,591	1,111,734	0.68
Imagination Technologies	GBP	314,127	1,222,516	0.75
Inmarsat	GBP	145,675	1,627,883	1.00
Telety	GBP	195,000	1,206,051	0.74
			9,213,042	5.65
<b>United States</b>				
3PAR	USD	172,543	2,044,635	1.25
Adobe Systems	USD	36,640	1,347,619	0.83
Altera	USD	81,520	1,844,798	1.13
Amazon.com	USD	15,690	2,110,619	1.29
Amdocs	USD	62,137	1,772,769	1.09
Analog Devices	USD	61,826	1,952,465	1.20
Ansys	USD	31,200	1,355,952	0.83
Apple	USD	44,740	9,433,876	5.79
Arcsight	USD	52,750	1,349,345	0.83
Ariba	USD	121,000	1,514,920	0.93
Art Technology	USD	278,020	1,253,870	0.77
Aruba Networks	USD	112,350	1,197,651	0.73
Atmel	USD	441,250	2,034,163	1.25
Cisco Systems	USD	190,010	4,548,839	2.79
Citrix Systems	USD	34,950	1,454,269	0.89
Cognizant Technology Solutions	USD	56,083	2,540,560	1.56
Commvault Systems	USD	50,950	1,207,006	0.74
Compellent Technologies	USD	49,600	1,124,928	0.69
Concur Technologies	USD	28,420	1,214,955	0.75
Digital River	USD	45,600	1,230,744	0.75
Dolby Laboratories	USD	24,650	1,176,544	0.72
EMC	USD	113,500	1,982,845	1.22
F5 Networks	USD	34,657	1,836,128	1.13
Google	USD	12,260	7,600,955	4.66
Informatica	USD	54,200	1,401,612	0.86
Intel	USD	224,300	4,575,720	2.81
Isilon Systems	USD	154,284	1,058,388	0.65
Juniper Networks	USD	116,730	3,113,189	1.91
LAM Research	USD	49,300	1,933,053	1.19
Lattice Semiconductor	USD	461,616	1,246,363	0.76
Micron Technology	USD	163,000	1,721,280	1.06
Microsoft	USD	265,300	8,088,997	4.96
Monolithic Power Systems	USD	79,420	1,903,697	1.17
NetApp	USD	55,710	1,915,867	1.18
Netezza	USD	119,200	1,156,240	0.71
Netlogic Microsystems	USD	27,750	1,283,715	0.79
Netscout Systems	USD	81,724	1,196,439	0.73

**Portfolio Statement**

as at 31 December 2009 continued

**Financial assets at fair value through profit or loss** continued

<b>Transferable securities Equities</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value US\$</b>	<b>% of Net Assets</b>
<b>United States continued</b>				
NVIDIA	USD	119,550	2,233,194	1.37
O2Micro International	USD	279,733	1,463,004	0.90
Oracle	USD	76,050	1,866,267	1.14
Qualcomm	USD	79,000	3,654,540	2.24
RightNow Technologies	USD	64,300	1,116,891	0.69
Riverbed Technology	USD	58,965	1,354,426	0.83
Salesforce.com	USD	29,830	2,200,559	1.35
Silicon Laboratories	USD	33,300	1,609,722	0.99
Skyworks Solutions	USD	81,950	1,162,871	0.71
Sourcefire	USD	38,850	1,039,238	0.64
STEC	USD	68,070	1,112,264	0.68
Sybase	USD	40,200	1,744,680	1.07
Veeco Instruments	USD	40,400	1,334,816	0.82
Vmware	USD	27,150	1,150,617	0.71
			108,768,104	66.74
<b>Total equities</b>			<b>151,085,091</b>	<b>92.67</b>
<b>Total transferable securities</b>			<b>151,085,091</b>	<b>92.67</b>

## OTC Financial derivative instruments Open forward foreign currency contracts

Transactions Currency sold	Currency bought	Currency rate	Maturity date	Unrealised gain	% of Net Assets
USD 62,960	GBP	0.626	04/01/2010	726	0.00
<b>Total unrealised gain on open forward foreign currency contracts</b>				<b>726</b>	<b>0.00</b>
<b>Total OTC financial derivative instruments</b>				<b>726</b>	<b>0.00</b>
<b>Total financial assets at fair value through profit or loss</b>				<b>151,085,817</b>	<b>92.67</b>
Cash at bank				11,743,953	7.20
Other net assets				207,930	0.13
<b>Total net assets attributable to holders of redeemable participating shares</b>				<b>163,037,700</b>	<b>100.00</b>

All investments are transferable and are admitted to an official stock exchange or dealt on a regulated market at the year end.

The counterparty for all over the counter financial derivative instruments is Northern Trust (Guernsey) Limited.

**31 December 2009**  
**% of Total**  
**Asset Value**

<b>Portfolio classification</b>	
Transferable securities	92.67
OTC financial derivative instruments	0.00
Other net assets	7.33
	<b>100.00</b>

**Portfolio Statement**

as at 31 December 2008

**Financial assets at fair value through profit or loss**

<b>Transferable securities Equities</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value US\$</b>	<b>% of Net Assets</b>
<b>Bermuda</b>				
Vistaprint	USD	10,800	200,988	0.90
<b>Canada</b>				
Research In Motion	USD	7,000	284,060	1.28
<b>China</b>				
China Medical Technologies	USD	9,000	182,340	0.82
<b>Finland</b>				
Nokia	EUR	17,700	273,103	1.23
<b>Germany</b>				
Aixtron	EUR	35,000	231,582	1.04
Q-Cells	EUR	2,500	87,921	0.39
SAP	EUR	9,050	317,518	1.43
Wincor Nixdorf	EUR	6,600	309,267	1.39
			946,288	4.25
<b>India</b>				
Bharti Airtel	INR	19,000	279,033	1.26
Educomp Solutions	INR	3,850	189,896	0.85
			468,929	2.11
<b>Israel</b>				
Check Point Technologies	USD	13,500	256,365	1.15
Nice Systems ADR	USD	12,867	289,121	1.30
			545,486	2.45
<b>Japan</b>				
Fanuc	JPY	5,400	374,694	1.69
Ibiden	JPY	11,000	220,607	0.99
Keyence	JPY	1,900	381,467	1.71
Nintendo	JPY	900	335,080	1.51
Nidec	JPY	2,700	102,460	0.46
			1,414,308	6.36
<b>Netherlands</b>				
ASML	EUR	18,500	327,878	1.47
<b>South Korea</b>				
Samsung Electronics	KRW	1,179	422,158	1.90
<b>Sweden</b>				
Telefonaktiebolaget LM Ericsson	SEK	32,400	240,912	1.08
<b>Taiwan</b>				
High Tech Computer	TWD	37,000	368,670	1.66
Taiwan Semiconductor Manufacturing	TWD	294,772	398,802	1.79
			767,472	3.45



## Financial assets at fair value through profit or loss

Transferable securities Equities	Currency	Nominal Holding	Fair Value US\$	% of Net Assets
<b>United Kingdom</b>				
Autonomy	GBP	23,000	314,479	1.41
Aveva	GBP	19,200	157,347	0.71
Inmarsat	GBP	40,800	276,583	1.24
QinetiQ	GBP	92,000	209,983	0.95
			958,392	4.31
<b>United States</b>				
3PAR	USD	35,000	267,050	1.20
Activision	USD	21,000	181,440	0.82
Adobe Systems	USD	12,000	255,480	1.15
Aerovironment	USD	2,500	92,025	0.41
Altera	USD	16,800	280,728	1.26
Amdocs	USD	14,800	270,692	1.22
Apple	USD	6,000	512,100	2.30
Ariba	USD	36,000	259,560	1.17
Aspen Technology	USD	40,000	296,800	1.34
Atheros Communications	USD	13,000	186,030	0.84
Broadcom	USD	17,600	298,672	1.34
Cavium Networks	USD	18,950	199,164	0.90
Ciena	USD	23,000	154,100	0.69
Cisco Systems	USD	32,000	521,600	2.35
Cognizant Technology Solutions	USD	29,000	523,740	2.35
Concur Technologies	USD	9,550	313,431	1.41
Data Domain	USD	7,500	141,000	0.63
DemandTec	USD	36,550	294,959	1.33
Digital River	USD	14,000	347,200	1.56
EV3	USD	41,000	250,100	1.12
F5 Networks	USD	10,250	234,315	1.05
First Solar	USD	1,500	206,940	0.93
GameStop	USD	9,000	194,940	0.88
Google	USD	1,600	492,240	2.21
Informatica	USD	13,500	185,355	0.83
Intel	USD	24,500	359,170	1.62
Juniper Networks	USD	21,400	374,714	1.68
Lattice Semiconductor	USD	182,400	275,424	1.24
Lawson Software	USD	49,826	236,175	1.06
McAfee	USD	11,500	397,555	1.79
Microsemi	USD	15,000	189,600	0.85
Microsoft	USD	25,650	498,636	2.24
Monolithic Power Systems	USD	18,000	226,980	1.02
NetApp	USD	26,400	368,808	1.66
Netlogic Microsystems	USD	11,700	257,517	1.16
O2Micro International	USD	80,000	156,800	0.70

**Portfolio Statement**

as at 31 December 2008 continued

**Financial assets at fair value through profit or loss** continued

<b>Transferable securities Equities</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value US\$</b>	<b>% of Net Assets</b>
<b>United States (continued)</b>				
Omniture	USD	21,050	223,972	1.01
Oracle	USD	31,750	562,928	2.53
OYO Geospace	USD	5,400	94,338	0.42
Qualcomm	USD	14,000	501,620	2.25
Riverbed Technology	USD	18,000	205,020	0.92
Salesforce.com	USD	9,600	307,296	1.38
SanDisk	USD	24,250	232,800	1.05
Skyworks Solutions	USD	33,000	182,820	0.82
Sonus Networks	USD	100,000	158,000	0.71
SPX	USD	5,700	231,135	1.04
Starent Networks	USD	20,700	246,951	1.11
STEC	USD	45,000	191,700	0.86
Tessera Technologies	USD	17,200	204,336	0.92
Trimble Navigation	USD	12,000	259,320	1.17
Varian Semiconductor Equipment	USD	10,000	181,200	0.82
VMware	USD	6,700	158,723	0.71
Vocus	USD	12,500	227,625	1.02
Yahoo!	USD	28,500	347,700	1.56
			14,818,524	66.61
<b>Total equities</b>			<b>21,850,838</b>	<b>98.22</b>
<b>Total transferable securities</b>			<b>21,850,838</b>	<b>98.22</b>
<b>Total financial assets at fair value through profit or loss</b>			<b>21,850,838</b>	<b>98.22</b>
Cash at bank			422,300	1.90
Other net liabilities			(26,671)	(0.12)
<b>Total net assets attributable to holders of redeemable participating shares</b>			<b>22,246,467</b>	<b>100.00</b>

All investments are transferable and are admitted to an official stock exchange or dealt on a regulated market at the year end.

	<b>31 December 2008 % of Total Asset Value</b>
<b>Portfolio classification</b>	
Transferable securities	98.22
OTC financial derivative instruments	–
Other net assets	1.78
	<b>100.00</b>

**Portfolio Statement**

as at 31 December 2009

**Financial assets at fair value through profit or loss**

<b>Transferable securities</b>			<b>Nominal</b>	<b>Fair Value</b>	<b>% of</b>
<b>Equities</b>	<b>Currency</b>		<b>Holding</b>	<b>US\$</b>	<b>Net Assets</b>
<b>China</b>					
Mindray Medical	USD		43,000	1,458,560	2.06
<b>Cyprus</b>					
Micromet	USD		70,588	143,294	0.20
<b>France</b>					
Ipsen	EUR		32,500	1,807,355	2.55
<b>Germany</b>					
Rhoen Klinikum	EUR		60,000	1,473,775	2.08
<b>Ireland</b>					
Covidien	USD		70,000	3,352,300	4.73
<b>Italy</b>					
DiaSorin	EUR		33,000	1,177,987	1.66
<b>Japan</b>					
CMIC	JPY		2,700	525,528	0.74
EPS	JPY		194	760,621	1.07
				1,286,149	1.81
<b>Netherlands</b>					
Qiagen	USD		75,000	1,674,000	2.36
<b>Switzerland</b>					
Actelion	CHF		22,000	1,174,752	1.66
Basilea Pharmaceutica	CHF		24,500	1,527,473	2.16
Novartis	CHF		60,000	3,279,323	4.63
				5,981,548	8.45
<b>United Kingdom</b>					
Osmetech	GBP	31,050,436		979,269	1.38
Synergy Healthcare	GBP	125,000		1,312,066	1.86
				2,291,335	3.24
<b>United States</b>					
Abbott Laboratories	USD		65,000	3,509,350	4.96
Abiomed	USD		116,716	1,020,098	1.44
Affymax	USD		53,314	1,318,988	1.86
Alexion Pharmaceuticals	USD		43,502	2,123,767	3.00
Allergan	USD		40,000	2,520,400	3.57
Alphatec	USD		245,200	1,309,368	1.85
Amgen	USD		50,000	2,828,500	3.99
Cerner	USD		24,000	1,978,560	2.79
Community Health Systems	USD		59,000	2,100,400	2.97
Express Scripts	USD		32,000	2,766,400	3.91
Incyte Corp	USD		144,300	1,314,573	1.86
King Pharmaceuticals	USD		145,000	1,779,150	2.51
LHC	USD		45,000	1,512,450	2.14

**Portfolio Statement**

as at 31 December 2009 continued

**Financial assets at fair value through profit or loss** continued

<b>Transferable securities</b>		<b>Nominal</b>	<b>Fair Value</b>	<b>% of</b>
<b>Equities</b>	<b>Currency</b>	<b>Holding</b>	<b>US\$</b>	<b>Net Assets</b>
<b>United States (continued)</b>				
Life Technologies	USD	39,000	2,036,970	2.88
Merck	USD	95,000	3,471,300	4.90
Pfizer	USD	230,000	4,183,700	5.91
ResMed	USD	40,000	2,090,800	2.95
Savient Pharmaceuticals	USD	100,000	1,361,000	1.92
Targacept	USD	55,000	1,150,600	1.62
Thermo Fisher Scientific	USD	48,000	2,289,120	3.23
Threshold Pharmaceuticals	USD	303,300	545,940	0.77
Threshold Pharmaceuticals Warrants	USD	83,769	–	0.00
United Healthcare	USD	120,000	3,657,600	5.17
Zimmer Holdings	USD	50,000	2,955,500	4.17
			49,824,534	70.37
<b>Total equities</b>			<b>70,470,837</b>	<b>99.51</b>
<b>Total transferable securities</b>			<b>70,470,837</b>	<b>99.51</b>

**OTC Financial derivative instruments**

<b>Options</b>		<b>Nominal</b>	<b>Fair Value</b>	<b>% of</b>
<b>Luxembourg</b>	<b>Currency</b>	<b>Holding</b>	<b>US\$</b>	<b>Net Assets</b>
DJ Healthcare Call 19/03/2010	EUR	750	538,031	0.76
<b>Total options</b>			<b>538,031</b>	<b>0.76</b>
<b>Total OTC financial derivative instruments</b>			<b>538,031</b>	<b>0.76</b>
<b>Total financial assets at fair value through profit or loss</b>			<b>71,008,868</b>	<b>100.27</b>
Cash at bank			73,208	0.10
Other net liabilities			(271,038)	(0.37)
<b>Total net assets attributable to holders of redeemable participating shares</b>			<b>70,811,038</b>	<b>100.00</b>

All investments are transferable and are admitted to an official stock exchange or dealt on a regulated market at the year end.

The counterparty for all over the counter financial derivative instruments is Morgan Stanley.

	<b>31 December</b>
	<b>2008</b>
	<b>% of Total</b>
	<b>Asset Value</b>
<b>Portfolio classification</b>	
Transferable securities	99.52
OTC financial derivative instruments	0.76
Other net liabilities	(0.28)
	<b>100.00</b>

## Financial assets at fair value through profit or loss

<b>Transferable securities</b>			<b>Nominal</b>	<b>Fair Value</b>	<b>% of</b>
<b>Equities</b>	<b>Currency</b>		<b>Holding</b>	<b>US\$</b>	<b>Net Assets</b>
<b>Australia</b>					
CSL	AUD		135,000	3,171,912	4.43
<b>Brazil</b>					
Amil Participacoes	BRL		328,843	1,015,296	1.42
<b>China</b>					
China Medical Technologies	USD		65,137	1,319,676	1.84
<b>Germany</b>					
Fresenius Medical Care	EUR		82,816	3,834,593	5.36
Gerresheimer	EUR		57,183	1,550,001	2.17
Medigene	EUR		277,237	1,657,105	2.32
Rhoen Klinikum	EUR		89,695	2,128,297	2.97
				9,169,996	12.82
<b>Ireland</b>					
AGI Therapeutics	EUR		1,165,000	388,658	0.54
United Drug	EUR		<b>451,500</b>	<b>1,399,565</b>	<b>1.96</b>
				1,788,223	2.50
<b>Japan</b>					
CMIC	JPY		4,505	1,119,168	1.56
Daiichi Sankyo	JPY		130,000	3,011,583	4.21
Nichi-iko Pharmaceutical	JPY		51,800	1,585,714	2.22
Systemex	JPY		52,400	1,878,654	2.62
				7,595,119	10.61
<b>Netherlands</b>					
Qiagen	USD		120,944	2,123,777	2.97
<b>Sweden</b>					
Karo Bio	SEK		1,534,865	1,572,140	2.20
<b>Switzerland</b>					
Novartis	CHF		75,000	3,713,534	5.19
<b>United Kingdom</b>					
Osmetech	GBP		66,951,936	1,795,252	2.50
Prostrakan Group	GBP		1,160,500	1,472,459	2.06
Synergy Healthcare	GBP		238,658	1,321,910	1.85
				4,589,621	6.41

## Portfolio Statement

as at 31 December 2009

### Financial assets at fair value through profit or loss

Transferable securities Equities	Currency	Nominal Holding	Fair Value US\$	% of Net Assets
<b>United States</b>				
Abbott Laboratories	USD	74,000	3,949,380	5.52
Alexion Pharmaceuticals	USD	53,800	1,947,022	2.72
Amgen	USD	58,000	3,349,500	4.68
BioMarin Pharmaceutical	USD	91,000	1,619,800	2.26
Cephalon	USD	27,100	2,087,784	2.92
Covidien	USD	102,600	3,718,224	5.20
Gilead Sciences	USD	54,500	2,787,130	3.90
Incyte Corp	USD	386,860	1,466,199	2.05
Medco Health Solutions	USD	58,806	2,464,559	3.44
Micromet	USD	258,604	1,127,513	1.58
Optimer Pharmaceuticals	USD	165,427	2,003,321	2.80
St. Jude Medical	USD	90,000	2,966,400	4.15
Synthes	CHF	25,000	3,133,368	4.38
TranS1	USD	215,637	1,554,743	2.17
Vertex Pharmaceuticals	USD	54,676	1,661,057	2.32
			35,836,000	50.09
<b>Total transferable securities</b>			<b>71,895,294</b>	<b>100.48</b>
<b>Total financial assets at fair value through profit or loss</b>				
			<b>71,895,294</b>	<b>100.48</b>
Cash at bank			135,865	0.19
Other net liabilities			(479,425)	(0.67)
<b>Total net assets attributable to holders of redeemable participating shares</b>			<b>71,551,734</b>	<b>100.00</b>

All investments are transferable and are admitted to an official stock exchange or dealt on a regulated market at the year end.

	<b>31 December 2008</b>
	<b>% of Total Asset Value</b>
<b>Portfolio classification</b>	
Transferable securities	100.48
OTC financial derivative instruments	-
Other net liabilities	(0.48)
	<b>100.00</b>

<b>Transferable securities Equities</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value JPY ¥</b>	<b>% of Net Assets</b>
<b>Basic Materials</b>				
Air Water	JPY	504,000	551,376,000	1.79
C Uyemura	JPY	155,800	559,322,000	1.81
Chugoku Marine Paints	JPY	535,000	347,750,000	1.13
Kyoei Steel	JPY	193,000	331,188,000	1.07
Sakai Chemical Industry	JPY	992,000	418,624,000	1.36
Sanyo Special Steel	JPY	1,085,000	439,425,000	1.43
Shin-Etsu Chemical	JPY	268,000	1,401,640,000	4.55
			4,049,325,000	13.14
<b>Communications</b>				
KDDI	JPY	2,420	1,193,060,000	3.87
<b>Consumer, Cyclical</b>				
Aisin Seiki	JPY	280,000	742,000,000	2.41
Bridgestone	JPY	299,000	486,174,000	1.58
Canon Marketing Japan	JPY	220,800	302,496,000	0.98
Doutor Nichires Holdings	JPY	245,000	293,755,000	0.95
Hoshizaki Electric	JPY	280,000	371,560,000	1.21
Japan Wool Textile	JPY	366,000	206,424,000	0.67
Katakura Industries	JPY	47,400	37,967,400	0.12
Mazda Motor	JPY	4,296,000	910,752,000	2.96
Mitsubishi	JPY	322,000	742,210,000	2.41
Mitsui	JPY	653,800	857,131,800	2.78
Mitsui-Soko	JPY	1,036,000	348,096,000	1.13
Nisshinbo Holdings	JPY	510,000	437,580,000	1.42
NOK	JPY	1,095,500	1,401,144,500	4.55
Parco	JPY	389,900	312,309,900	1.01
Sankyo	JPY	85,000	394,400,000	1.28
Sekisui Chemical	JPY	1,311,000	755,136,000	2.45
Shimachu	JPY	184,400	335,976,800	1.09
Shinmaywa Industries	JPY	786,000	222,438,000	0.72
Sumitomo Electric Industries	JPY	660,000	759,000,000	2.46
Takamatsu	JPY	191,900	224,714,900	0.73
Toei	JPY	783,000	386,802,000	1.26
Xebio	JPY	154,800	252,169,200	0.82
			10,780,237,500	34.99
<b>Consumer, Non-cyclical</b>				
Benesse Holdings	JPY	100,000	389,000,000	1.26
CMIC	JPY	13,720	248,606,400	0.81
Daiseki	JPY	421,800	792,140,400	2.57
EPS	JPY	412	150,380,000	0.49
Kamigumi	JPY	590,000	400,610,000	1.30
Nakanishi	JPY	45,500	336,700,000	1.09
			2,317,436,800	7.52
<b>Energy</b>				
Showa Shell Sekiyu KK	JPY	786,700	594,745,200	1.93

## Portfolio Statement

as at 31 December 2009 continued

### Financial assets at fair value through profit or loss continued

Transferable securities Equities	Currency	Nominal Holding	Fair Value JPY ¥	% of Net Assets
<b>Financial</b>				
Daibiru	JPY	331,800	220,978,800	0.72
Mitsubishi UFJ Financial	JPY	2,796,100	1,263,837,200	4.10
NTT Urban Development	JPY	12,180	750,288,000	2.43
Sumitomo Mitsui Financial	JPY	215,500	569,997,500	1.85
Sumitomo Real Estate Sales	JPY	82,380	316,339,200	1.03
T&D Holdings	JPY	586,250	1,113,288,750	3.61
Tachihi Enterprise	JPY	43,100	217,655,000	0.71
			4,452,384,450	14.45
<b>Industrial</b>				
Amada	JPY	604,000	350,924,000	1.14
Fuji Machine Manufacturing	JPY	105,900	121,785,000	0.40
Futaba	JPY	229,900	376,806,100	1.22
Hisaka Works	JPY	228,000	209,760,000	0.68
Hitachi Transport System	JPY	336,100	399,286,800	1.30
Icom	JPY	140,000	280,000,000	0.91
JGC	JPY	381,000	649,986,000	2.11
Kubota	JPY	956,000	812,600,000	2.64
Mitsubishi Heavy Industries	JPY	1,565,000	510,190,000	1.66
Mitsui OSK Lines	JPY	1,580,000	772,620,000	2.51
Murata Manufacturing	JPY	115,000	529,000,000	1.72
Nichias	JPY	821,000	302,128,000	0.98
Nippon Pillar Packing	JPY	68,000	27,744,000	0.09
Nitta	JPY	176,000	216,304,000	0.70
Ryobi	JPY	514,000	124,902,000	0.41
Sankyu	JPY	915,000	435,540,000	1.41
Sintokogio	JPY	311,000	204,638,000	0.66
Tenma	JPY	188,000	196,460,000	0.64
Tsubakimoto Chain	JPY	876,000	318,864,000	1.03
West Japan Railway	JPY	1,790	558,480,000	1.81
			7,398,017,900	24.02
<b>Technology</b>				
Mimasu Semiconductor Industry	JPY	423,000	471,222,000	1.53
Ricoh	JPY	473,000	621,522,000	2.02
Transcosmos	JPY	328,100	244,106,400	0.79
			1,336,850,400	4.34
<b>Total equities</b>			<b>32,122,057,250</b>	<b>104.26</b>
<b>Total transferable securities</b>			<b>32,122,057,250</b>	<b>104.26</b>



## OTC Financial derivative instruments Open forward foreign currency contracts

Transactions Currency sold	Currency bought	Currency rate	Maturity date	Unrealised gain JPY ¥	% of Net Assets
GBP 307,192	USD	0.620	04/01/2010	778,529	0.00
GBP 115,764	USD	0.624	05/01/2010	182,833	0.00
JPY 11,818,138	USD	91.423	05/01/2010	107,206	0.00
GBP 15,291	USD	0.625	06/01/2010	21,316	0.00
JPY 363,130,958	USD	86.250	03/03/2010	25,169,702	0.08
JPY 173,640	USD	86.820	03/03/2010	10,816	0.00
JPY 10,912,500	USD	87.300	03/03/2010	615,990	0.00
JPY 10,632,480	USD	88.604	03/03/2010	434,822	0.00
JPY 19,338,660	USD	87.903	03/03/2010	951,442	0.00
JPY 5,640,333	USD	88.455	03/03/2010	240,558	0.00
JPY 39,370,718	USD	89.185	03/03/2010	1,343,040	0.00
JPY 6,770,208	USD	89.655	03/03/2010	194,236	0.00
JPY 13,480,500	USD	89.870	03/03/2010	353,569	0.00
JPY 97,540,000	USD	90.320	03/03/2010	2,059,426	0.01
JPY 41,910,137	USD	91.427	03/03/2010	366,556	0.00
JPY 319,372	USD	90.320	03/03/2010	6,743	0.00
JPY 1,912,282,262	GBP	140.700	03/03/2010	73,949,607	0.24
JPY 4,995,521	GBP	141.400	03/03/2010	167,478	0.00
JPY 317,598	GBP	142.805	03/03/2010	7,416	0.00
JPY 1,314,806	GBP	142.805	03/03/2010	30,701	0.00
JPY 288,550	GBP	143.700	03/03/2010	4,898	0.00
JPY 5,092,850	GBP	145.510	03/03/2010	21,968	0.00
JPY 26,494,024	GBP	145.510	03/03/2010	114,285	0.00
JPY 48,015,000	GBP	145.500	03/03/2010	210,435	0.00
JPY 2,784,861	GBP	144.796	03/03/2010	25,814	0.00
JPY 145,207,200	GBP	142.360	03/03/2010	3,855,442	0.01
JPY 3,124,707	GBP	143.480	03/03/2010	57,910	0.00
JPY 134,045,366	GBP	144.303	03/03/2010	1,705,030	0.01
JPY 713,434	GBP	144.303	03/03/2010	9,074	0.00
JPY 496,923,808	GBP	145.017	03/03/2010	3,841,332	0.01
JPY 646,503,146	GBP	143.650	03/03/2010	11,201,656	0.04
JPY 85,398,632	GBP	143.650	03/03/2010	1,479,663	0.00
JPY 54,767,335	GBP	144.840	03/03/2010	490,855	0.00
JPY 29,342,846	GBP	144.840	03/03/2010	262,987	0.00
JPY 16,569,547	GBP	144.620	03/03/2010	173,955	0.00
JPY 751,590	GBP	144.620	03/03/2010	7,891	0.00
JPY 89,646,753	GBP	146.073	03/03/2010	39,452	0.00
JPY 29,111,788	GBP	145.809	03/03/2010	65,580	0.00
JPY 38,346,104	GBP	145.760	03/03/2010	99,312	0.00
JPY 48,668,244	GBP	145.760	03/03/2010	126,044	0.00
GBP 291,799	JPY	146.165	03/03/2010	8,106	0.00
<b>Total unrealised gain on open foreign currency contracts</b>				<b>130,793,675</b>	<b>0.40</b>
<b>Total financial assets at fair value through profit or loss</b>				<b>32,252,850,925</b>	<b>104.66</b>

## Portfolio Statement

as at 31 December 2009 continued

### OTC Financial derivative instruments Open forward foreign currency contracts continued

Transactions Currency sold	Currency bought	Currency rate	Maturity date	Unrealised gain JPY ¥	% of Net Assets
USD 82,732	GBP	0.624	04/01/2010	(81,509)	0.00
USD 162,913	GBP	0.625	05/01/2010	(141,847)	0.00
USD 17,067	JPY	86.353	03/03/2010	(100,272)	0.00
USD 94,471	JPY	87.355	03/03/2010	(460,349)	0.00
USD 6,099	JPY	88.912	03/03/2010	(20,221)	0.00
JPY 613,625,914	GBP	147.753	03/03/2010	(2,574,396)	(0.01)
JPY 1,212,842	GBP	147.136	03/03/2010	(8,239)	0.00
JPY 49,403,478	GBP	146.165	03/03/2010	(9,390)	0.00
JPY 18,422,429	GBP	146.341	03/03/2010	(25,668)	0.00
JPY 402,877	GBP	146.341	03/03/2010	(562)	0.00
GBP 3,820	JPY	145.017	03/03/2010	(4,282)	0.00
<b>Total unrealised loss open foreign currency contracts</b>				<b>(3,426,735)</b>	<b>(0.01)</b>
<b>Total financial liabilities at fair value through profit or loss</b>				<b>(3,426,735)</b>	<b>(0.01)</b>
<b>Total financial assets and liabilities at fair value through profit or loss</b>				<b>32,249,424,190</b>	<b>104.65</b>
Net Cash Overdrawn				(1,461,454,115)	(4.75)
Other net assets				29,584,670	0.10
<b>Total net assets attributable to holders of redeemable participating shares</b>				<b>30,817,554,745</b>	<b>100.00</b>

All investments are transferable and are admitted to an official stock exchange or dealt on a regulated market at year end.

The counterparty for all over the counter financial derivative instruments is Northern Trust (Guernsey) Limited.

	<b>31 December 2008 % of Total Asset Value</b>
<b>Portfolio classification</b>	
Transferable securities	104.26
OTC financial derivative instruments	0.39
Other net liabilities	(4.65)
	<b>100.00</b>

## Portfolio Statement

as at 31 December 2008

### Financial assets at fair value through profit or loss

Transferable securities Equities	Currency	Nominal Holding	Fair Value JPY ¥	% of Net Assets
<b>Basic Materials</b>				
Nittetsu Mining	JPY	316,000	86,765,829	0.42
Sakai Chemical Industry	JPY	354,000	85,847,907	0.42
Sumitomo Chemical	JPY	1,741,000	526,886,355	2.56
			699,500,091	3.40
<b>Communications</b>				
KDDI	JPY	2,096	1,333,755,478	6.48
<b>Consumer, Cyclical</b>				
Denso	JPY	347,000	511,161,390	2.48
Doutor Nichires Holdings	JPY	245,000	483,172,749	2.35
Hoshizaki Electric	JPY	760,000	597,091,516	2.90
Japan Wool Textile	JPY	537,000	332,563,032	1.62
Nitto Boseki	JPY	1,285,000	227,922,745	1.11
Parco	JPY	283,800	233,489,199	1.13
Sekisui Chemical	JPY	496,000	276,355,227	1.35
Shimachu	JPY	223,700	449,460,558	2.18
Shinmaywa Industries	JPY	786,000	190,611,477	0.93
Showa	JPY	516,000	163,915,596	0.80
Sumitomo Electric Industries	JPY	666,000	455,165,978	2.21
Sumitomo Rubber Industries	JPY	939,100	732,154,396	3.56
Takamatsu	JPY	223,500	329,011,093	1.60
Toei	JPY	1,117,000	455,573,903	2.21
Yamada Denki	JPY	99,790	617,997,491	3.00
			6,055,646,350	29.43
<b>Consumer, Non-cyclical</b>				
CMIC	JPY	9,770	220,482,556	1.07
Daiichi Sankyo	JPY	137,000	288,304,257	1.40
EPS	JPY	412	158,953,143	0.77
Kamigumi	JPY	463,000	370,250,044	1.80
Kyorin	JPY	444,000	568,623,791	2.77
Miraca Holdings	JPY	182,000	352,544,921	1.71
Nakanishi	JPY	36,000	206,352,487	1.00
OZEKI	JPY	127,600	329,899,463	1.60
Systemex	JPY	271,700	884,879,704	4.30
Toppan Forms	JPY	105,100	120,381,659	0.59
			3,500,672,025	17.01
<b>Energy</b>				
Showa Shell Sekiyu KK	JPY	368,700	323,659,570	1.57
<b>Financial</b>				
Aioi Insurance	JPY	850,000	391,821,209	1.90
Century Leasing System	JPY	59,100	46,905,483	0.23
Chuo Mitsui Trust Holdings	JPY	1,077,000	464,082,675	2.26
Daibiru	JPY	410,000	390,318,141	1.90
Daito Trust Construction	JPY	123,800	580,600,922	2.82

## Portfolio Statement

as at 31 December 2008 continued

### Financial assets at fair value through profit or loss continued

Transferable securities Equities	Currency	Nominal Holding	Fair Value JPY ¥	% of Net Assets
<b>Financial (continued)</b>				
Jafco	JPY	262,200	592,502,904	2.88
NTT Urban Development	JPY	5,695	542,161,333	2.63
T&D Holdings	JPY	160,000	593,243,424	2.88
Tachihi Enterprise	JPY	80,100	397,327,834	1.93
			3,998,963,925	19.43
<b>Industrial</b>				
Ibiden	JPY	72,000	131,170,913	0.64
Icom	JPY	140,000	266,558,682	1.30
Kinki Sharyo	JPY	531,000	245,837,270	1.19
Kintetsu World Express	JPY	145,300	255,537,092	1.24
Makino Milling Machine	JPY	655,000	158,842,913	0.77
Mitsubishi Heavy Industries	JPY	1,134,000	448,870,789	2.18
Mitsui OSK Lines	JPY	864,000	469,271,572	2.28
Nichias	JPY	1,176,000	262,798,792	1.28
Nichicon	JPY	362,500	207,422,248	1.01
Nihon Dempa Kogyo	JPY	190,000	199,157,415	0.97
Nippon Pillar Packing	JPY	157,000	49,558,899	0.24
Nippon Sharyo	JPY	334,000	95,724,678	0.47
Nippon Thompson	JPY	631,000	236,489,714	1.15
Tenma	JPY	158,000	214,064,717	1.04
West Japan Railway	JPY	1,560	639,380,104	3.11
Yokogawa Electric	JPY	478,200	278,896,963	1.36
			4,159,582,761	20.23
<b>Technology</b>				
IT Holdings	JPY	202,500	281,051,532	1.37
<b>Utilities</b>				
Tokyo Gas	JPY	593,000	270,381,755	1.31
<b>Total equities</b>			<b>20,623,213,487</b>	<b>100.23</b>
<b>Total transferable securities</b>			<b>20,623,213,487</b>	<b>100.23</b>
<b>Total financial assets at fair value through profit or loss</b>				
			<b>20,623,213,487</b>	<b>100.23</b>
Net Cash Overdrawn			(375,762,199)	(1.83)
Other net assets			328,001,976	1.60
<b>Total net assets attributable to holders of redeemable participating shares</b>			<b>20,575,453,264</b>	<b>100.00</b>

All investments are transferable and are admitted to an official stock exchange or dealt on a regulated market at year end.

	<b>31 December 2008</b>
	<b>% of Total Asset Value</b>
<b>Portfolio classification</b>	
Transferable securities	100.23
OTC financial derivative instruments	0.00
Other net liabilities	(0.23)
	<b>100.00</b>

**Portfolio Statement**

as at 31 December 2009

**Financial assets at fair value through profit or loss**

<b>Transferable securities Equities</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value GBP£</b>	<b>% of Net Assets</b>
<b>France</b>				
Rhodia	EUR	69,069	775,576	0.82
<b>Netherlands</b>				
TNT	EUR	86,543	1,649,661	1.74
<b>United Kingdom</b>				
Ark Therapeutics	GBP	943,840	132,619	0.14
AstraZeneca	GBP	35,000	1,019,200	1.08
BP	GBP	350,102	2,104,813	2.22
Compass Group	GBP	195,617	879,494	0.93
Daily Mail & General	GBP	167,331	698,272	0.74
GKN	GBP	344,066	400,837	0.42
International Power	GBP	367,500	1,132,635	1.20
ITV	GBP	3,206,276	1,712,151	1.81
J Sainsbury	GBP	605,100	1,951,447	2.06
Lloyds TSB	GBP	2,570,000	1,286,285	1.36
Mecom	GBP	70,960	81,604	0.09
Pendragon	GBP	56,468	12,988	0.01
Petropavlovsk	GBP	144,658	1,495,764	1.58
Rank Group	GBP	27,867	22,869	0.02
RSA Insurance	GBP	242,605	291,126	0.32
Shanks Group	GBP	1,603,409	2,149,530	2.27
Tanfield	GBP	535,000	144,450	0.15
			15,516,084	16.40
<b>Total equities</b>			<b>17,941,321</b>	<b>18.96</b>
<b>Total transferable securities</b>			<b>17,941,321</b>	<b>18.96</b>

## Portfolio Statement

as at 31 December 2009 continued

### OTC Financial derivative instruments

Contracts for difference	Currency	No. of Contracts	Unrealised Gain GBP£	% of Net Assets
<b>Netherlands</b>				
TNT	EUR	20,424	41,500	0.04
<b>United Kingdom</b>				
Astrazeneca	GBP	83,000	133,453	0.14
BP	GBP	284,800	153,365	0.16
Genus	GBP	(113,667)	51,150	0.05
GKN	GBP	1,995,447	29,113	0.03
HSBC	GBP	302,600	34,392	0.04
Inmarsat	GBP	154,439	181,049	0.19
International Power	GBP	323,200	151,628	0.16
ITV	GBP	3,817,538	208,412	0.22
Petropavlovsk	GBP	15,000	13,125	0.01
Rank Group	GBP	42,217	27	0.00
Regus	GBP	(738,239)	113,883	0.12
Rio Tinto	GBP	131,338	856,980	0.91
Shanks Group	GBP	855,400	382,316	0.40
William Hill	GBP	402,825	13,870	0.01
Wolseley	GBP	111,000	63,946	0.07
Xstrata	GBP	170,500	230,281	0.24
			2,616,990	2.75

<b>Total unrealised gain on contracts for difference</b>	<b>2,658,490</b>	<b>2.79</b>
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Options	Currency	Nominal Holding	Fair Value GBP£	% of Net Assets
<b>Germany</b>				
Allianz Jan C90 Call 15/01/2020	EUR	12,360	63,736	0.07
Muenchener Rueckver Jan C115 Call 15/01/2020	EUR	13,285	31,891	0.03
			95,627	0.10
<b>Switzerland</b>				
Roche Holdings Jan C170 Call 15/01/2010	CHF	1,800	689,144	0.73
<b>United Kingdom</b>				
FTSE 100 Index Jan 5000 Put 15/01/2010	GBP	500	47,500	0.05
FTSE 100 Index Jan 5500 Call 15/01/2010	GBP	500	195,000	0.22
			242,500	0.27

<b>Total options</b>	<b>1,027,271</b>	<b>1.10</b>
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### Open forward foreign currency contracts

Transactions	Currency bought	Currency rate	Maturity date	Unrealised gain	% of Net Assets
Currency sold					
USD 1,000,000	GBP	0.618	03/03/2010	198	0.00
GBP 9,128,447	USD	0.604	03/03/2010	206,078	0.22
GBP 3,828,343	USD	0.613	03/03/2010	32,200	0.03
<b>Total unrealised gain on open forward foreign currency contracts</b>				<b>238,476</b>	<b>0.25</b>

<b>Total unrealised gain on OTC financial derivative instruments</b>	<b>3,924,237</b>	<b>4.14</b>
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<b>Total financial assets at fair value through profit or loss</b>	<b>21,865,558</b>	<b>23.10</b>
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## Total financial liabilities at fair value through profit or loss

OTC Financial derivative instruments Contracts for difference	Currency	No. of Contracts	Unrealised Loss	% of Net Assets
<b>France</b>				
Pernod Ricard	EUR	(37,295)	(240,929)	(0.25)
<b>Germany</b>				
Banco Santander	EUR	(198,100)	(81,438)	(0.09)
<b>Spain</b>				
Goldman Sachs	EUR	(174,100)	(168,332)	(0.18)
<b>United Kingdom</b>				
Admiral Group	GBP	(108,417)	(35,466)	(0.04)
Barclays	GBP	528,400	(214,157)	(0.23)
Barratt Dev	GBP	590,000	(82,594)	(0.09)
BG Group	GBP	244,000	(85,400)	(0.09)
British Airways	GBP	723,000	(266,420)	(0.28)
British American Tobacco	GBP	(144,000)	(74,160)	(0.08)
British Land	GBP	330,000	(69,392)	(0.07)
Daily Mail & General	GBP	205,446	(5,511)	(0.01)
Game Group	GBP	1,110,900	(525,406)	(0.55)
HMV Group	GBP	705,000	(159,603)	(0.17)
Ladbrokes	GBP	685,257	(181,822)	(0.19)
Lloyds TSB	GBP	5,537,610	(574,563)	(0.61)
Marks & Spencer	GBP	(575,700)	(158,991)	(0.17)
Mecom Group	GBP	528,439	(349,472)	(0.37)
Pendragon	GBP	1,027,468	(143,955)	(0.15)
Persimmon	GBP	723,657	(72,032)	(0.08)
Rangold Resources	GBP	(34,500)	(23,871)	(0.03)
Reed Elsevier	GBP	270,000	(2,012)	0.00
Royal & Sun Alliance	GBP	1,013,500	(43,291)	(0.05)
Segro	GBP	794,517	(200,721)	(0.21)
SIG	GBP	616,000	(119,326)	(0.13)
Tanfield	GBP	209,995	(61,424)	(0.06)
Trinity Mirror	GBP	494,315	(59,946)	(0.06)
Vedanta Resource	GBP	(70,500)	(280,210)	(0.30)
			(3,789,745)	(4.02)
<b>Total unrealised loss on contracts for difference</b>			<b>(4,280,444)</b>	<b>(4.54)</b>
<b>Futures</b>				
<b>United Kingdom</b>				
FTSE 100 Index Futures March 2010	GBP	(288)	(302,400)	(0.32)
<b>Total futures</b>			<b>(302,400)</b>	<b>(0.32)</b>

**Portfolio Statement**

as at 31 December 2009 continued

**Total financial liabilities at fair value through profit or loss** continued

<b>Swaps Luxembourg</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value GBP£</b>	<b>% of Net Assets</b>
EIS DJ STOXX Euribor Equity Index Fund	EUR	(9,600)	(4,250,315)	(4.49)
<b>Total swaps</b>			<b>(4,250,315)</b>	<b>(4.49)</b>

**Open forward foreign currency contracts**

<b>Transactions Currency sold</b>	<b>Currency bought</b>	<b>Currency rate</b>	<b>Unrealised loss GBP£</b>	<b>% of Net Assets</b>
GBP 188,780	USD	0.629	(3,472)	0.00
GBP 3,539,380	EUR	0.909	(77,342)	(0.08)
<b>Total open foreign currency contracts</b>			<b>(80,814)</b>	<b>(0.08)</b>
<b>Total unrealised loss on OTC financial derivative instruments</b>			<b>(8,913,973)</b>	<b>(9.43)</b>
<b>Total financial assets and liabilities at fair value through profit or loss</b>			<b>12,951,585</b>	<b>13.67</b>
Cash at bank			80,209,911	84.71
Other net assets			1,528,497	1.62
<b>Total net assets attributable to holders of redeemable participating shares</b>			<b>94,689,993</b>	<b>100.00</b>

All investments are transferable securities admitted to an official stock exchange or dealt on a regulated market at the year end.

The counterparty for all over the counter financial derivative instruments are Morgan Stanley and Northern Trust (Guernsey) Limited.

	<b>31 December 2009 % of Total Asset Value</b>
<b>Portfolio classification</b>	
Transferable securities	18.95
OTC financial derivative instruments	(5.27)
Other net assets	86.32
	<b>100.00</b>



## Financial assets at fair value through profit or loss

<b>Transferable securities</b>		<b>Nominal</b>	<b>Fair Value</b>	<b>% of</b>
<b>Equities</b>	<b>Currency</b>	<b>Holding</b>	<b>GBP£</b>	<b>Net Assets</b>
<b>France</b>				
Rhodia	EUR	19,069	83,037	0.22
<b>Netherlands</b>				
TNT	EUR	32,400	431,032	1.15
<b>United Kingdom</b>				
Ark Therapeutics	GBP	550,940	216,244	0.57
BP	GBP	350,102	1,841,537	4.89
Daily Mail & General Trust	GBP	120,409	325,104	0.86
Enterprise Inns	GBP	40,000	22,200	0.06
GKN	GBP	311,679	302,329	0.80
ITV	GBP	2,255,172	896,431	2.38
Legal & General	GBP	1,219,755	936,772	2.49
Lloyds TSB	GBP	202,403	255,028	0.68
Marston	GBP	325,000	380,250	1.01
Mecom	GBP	1,013,720	10,644	0.03
Pendragon	GBP	56,468	932	0.00
Peter Hambro Mining	GBP	144,658	546,807	1.45
Prudential	GBP	100,963	420,511	1.12
Rank Group	GBP	248,092	168,082	0.45
RSA Insurance	GBP	242,605	335,038	0.89
Tanfield	GBP	75,000	3,750	0.01
Travis Perkins	GBP	35,000	119,000	0.32
			6,780,659	18.01
<b>Total equities</b>			<b>7,294,728</b>	<b>19.38</b>
<b>Total transferable securities</b>			<b>7,294,728</b>	<b>19.38</b>
<b>Financial derivative instruments</b>				
<b>Contracts for difference</b>	<b>Currency</b>	<b>No. of</b>	<b>Unrealised</b>	<b>% of</b>
		<b>Contracts</b>	<b>Gain GBP£</b>	<b>Net Assets</b>
<b>France</b>				
Danone	EUR	(25,600)	139,662	0.37
LVMH	EUR	(12,200)	169,276	0.45
			308,938	0.82
<b>Germany</b>				
Volkswagen	EUR	(2,371)	52,685	0.14
<b>Netherlands</b>				
Phillips	EUR	(3,677)	34,114	0.09
<b>Spain</b>				
Ferrovial	EUR	(5,525)	96,918	0.26

## Portfolio Statement

as at 31 December 2009 continued

<b>Financial derivative instruments – assets</b>				
<b>Contracts for difference</b>	<b>Currency</b>	<b>No. of Contracts</b>	<b>Unrealised Gain GBP£</b>	<b>% of Net Assets</b>
<b>United Kingdom</b>				
Admiral	GBP	(14,361)	11,676	0.03
BP	GBP	100,000	58,086	0.15
British Airways	GBP	502,500	97,986	0.26
British Foods	GBP	(29,111)	19,121	0.05
British Land	GBP	72,000	14,790	0.04
Diageo	GBP	(74,804)	9,774	0.03
Dominos	GBP	(215,000)	24,688	0.07
Easyjet	GBP	(37,000)	31,383	0.08
Genus	GBP	(54,489)	4,375	0.01
GKN	GBP	159,118	21,144	0.06
Intertek	GBP	(47,000)	13,161	0.03
ITV	GBP	650,000	74,477	0.20
Premier	GBP	(194,121)	122,414	0.32
Prudential	GBP	88,300	128,883	0.34
Reckitt Benckiser	GBP	(26,200)	47,555	0.13
Regus	GBP	(133,761)	37,553	0.10
Rexam	GBP	(235,138)	82,719	0.23
Rightmove	GBP	(17,000)	23,650	0.06
Rio Tinto	GBP	108,700	182,554	0.48
Segro	GBP	444,692	107,447	0.29
Stagecoach	GBP	(269,737)	96,460	0.26
			1,209,896	3.22
<b>Total contracts for difference</b>			<b>1,702,551</b>	<b>4.53</b>
<b>Futures</b>				
<b>United Kingdom</b>				
FTSE 100 Index Futures March 2009	GBP	135	207,135	0.56
<b>Total futures</b>			<b>207,135</b>	<b>0.56</b>
<b>Options</b>				
<b>United Kingdom</b>				
	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value GBP£</b>	<b>% of Net Assets</b>
FTSE Jan 3800 Put 16/01/09	EUR	400	48,000	0.13
<b>Total options</b>			<b>48,000</b>	<b>0.13</b>
<b>Total financial derivative instruments</b>			<b>1,957,686</b>	<b>5.22</b>
<b>Total financial assets at fair value through profit or loss</b>			<b>9,252,414</b>	<b>24.60</b>

## Portfolio Statement

as at 31 December 2008

### Financial assets at fair value through profit or loss

Financial derivative instruments		No. of	Unrealised	% of
Contracts for difference	Currency	Contracts	Loss GBP£	Net Assets
<b>France</b>				
Pernod Ricard	EUR	(42,300)	(94,065)	(0.25)
<b>Netherlands</b>				
TNT	EUR	4,600	(49,052)	(0.13)
<b>United Kingdom</b>				
British American Tobacco	GBP	(91,000)	(175,830)	(0.47)
Capita Group	GBP	(154,577)	(60,014)	(0.16)
Daily Mail & General	GBP	4,000	(3,779)	(0.01)
Enterprise Inns	GBP	116,284	(133,737)	(0.36)
Imperial Tobacco	GBP	(50,000)	(10,583)	(0.03)
Lloyds TSB	GBP	293,000	(102,679)	(0.27)
Mecom	GBP	3,099,142	(471,212)	(1.25)
Next	GBP	(80,000)	(106,130)	(0.28)
Pendragon	GBP	256,468	(22,607)	(0.06)
Persimmon	GBP	275,986	(56,571)	(0.15)
Royal & Sun Alliance	GBP	44,000	(5,236)	(0.01)
Royal Bank Scotland	GBP	828,525	(44,749)	(0.12)
Tanfield	GBP	54,976	(2,485)	(0.01)
Travis	GBP	74,031	(31,690)	(0.08)
Xstrata	GBP	162,600	(474,892)	(1.26)
			(1,702,194)	(4.52)
<b>Total contracts for difference</b>			<b>(1,845,311)</b>	<b>(4.90)</b>
<b>Swaps</b>				
<b>United Kingdom</b>	<b>Currency</b>	<b>Nominal Holding</b>	<b>Fair Value GBP£</b>	<b>% of Net Assets</b>
EIS Dow Jones Index Fund	EUR	(2,864)	(890,532)	(2.38)
<b>Total swaps</b>			<b>(890,532)</b>	<b>(2.38)</b>
<b>Total financial derivative instruments</b>			<b>(2,735,843)</b>	<b>(7.28)</b>
<b>Total financial liabilities at fair value through profit or loss</b>			<b>(2,735,843)</b>	<b>(7.28)</b>
<b>Total financial assets and liabilities at fair value through profit or loss</b>			<b>6,516,571</b>	<b>17.32</b>
Cash at bank			30,997,108	82.37
Other net assets			118,122	0.31
<b>Total net assets attributable to holders of redeemable participating shares</b>			<b>37,631,801</b>	<b>100.00</b>

## Portfolio Statement

as at 31 December 2008 continued

### Total financial liabilities at fair value through profit or loss continued

All investments are transferable securities admitted to an official stock exchange or dealt on a regulated market at the year end.

The counterparty for all over the counter financial derivative instruments is Morgan Stanley. This Fund launched 3 June 2008.

	<b>31 December 2008</b>
	<b>% of Total Asset</b>
<b>Portfolio classification</b>	<b>Value</b>
Transferable securities	19.38
OTC financial derivative instruments	(2.06)
Other net assets	82.68
	<b>100.00</b>

**Balance Sheet**

as at 31 December 2009

		<b>Global Technology Fund 31 December 2009</b>	<b>Healthcare Opportunities Fund 31 December 2009</b>	<b>Japan Fund* 31 December 2009</b>	<b>UK Absolute Return Fund 31 December 2009</b>	<b>Total 31 December 2009</b>
	<b>Notes</b>	<b>US\$</b>	<b>US\$</b>	<b>JPY ¥</b>	<b>GBP£</b>	<b>US\$</b>
<b>Assets</b>						
Transferable securities		151,085,091	70,470,837	32,122,057,250	17,941,321	597,119,533
Financial derivative instruments		726	538,031	130,793,675	3,924,237	8,287,056
Dividends and interest receivable	5	–	35,161	34,501,698	66,395	514,646
Amounts receivable on sale of securities	5	3,864,457	–	12,026,479	–	3,994,220
Amounts receivable on sale of redeemable participating shares	5	3,020,494	310,545	189,473,124	2,156,612	8,858,027
Sundry debtors	5	40,699	12,584	–	15,189	77,811
Cash at bank		11,743,953	73,208	–	80,209,911	141,344,253
<b>Total Assets</b>		<b>169,755,420</b>	<b>71,440,366</b>	<b>32,488,852,226</b>	<b>104,313,665</b>	<b>760,195,546</b>
<b>Liabilities</b>						
Transferable securities		–	–	–	–	–
Financial derivative instruments		–	–	(3,426,735)	(8,913,973)	(14,431,716)
Bank overdraft	4	–	–	(1,461,454,115)	–	(15,768,818)
Amounts payable on issue of redeemable participating shares	6	–	(34,394)	(90,214,628)	(28,741)	(1,054,206)
Amounts payable on purchase of securities	6	(5,877,893)	(412,527)	(25,033,872)	–	(6,560,530)
Investment management fee payable	6	(331,714)	(118,667)	(58,921,583)	(103,810)	(1,253,772)
Performance fee payable	6	(364,454)	–	(7,464,231)	(475,525)	(1,212,894)
Sundry creditors	6	(143,659)	(63,740)	(24,782,317)	(101,623)	(638,902)
<b>Total liabilities (excluding net assets attributable to holders of redeemable participating shares)</b>		<b>(6,717,720)</b>	<b>(629,328)</b>	<b>(1,671,297,481)</b>	<b>(9,623,672)</b>	<b>(40,920,837)</b>
<b>Net assets attributable to holders of redeemable participating shares</b>		<b>163,037,700</b>	<b>70,811,038</b>	<b>30,817,554,745</b>	<b>94,689,993</b>	<b>719,274,708</b>

**Balance Sheet**

as at 31 December 2009 continued

	<b>Global Technology Fund</b>	<b>Healthcare Opportunities Fund</b>	<b>Japan Fund*</b>	<b>UK Absolute Return Fund</b>
	<b>31 December 2009</b>	<b>31 December 2009</b>	<b>31 December 2009</b>	<b>31 December 2009</b>
	<b>US\$</b>	<b>US\$</b>	<b>JPY ¥</b>	<b>GBP£</b>
<b>Number of redeemable participating shares outstanding</b>	11			
Class A Japanese Yen	N/A	N/A	2,361,695	N/A
Class A US dollar	1,936,114	602,397	6,377,794	106,253
Class A Sterling	1,317,536	5,024,214	5,356,758	1,418,628
Class A Euro	10	37,661	N/A	43,416
Class I US dollar	931,435	755,642	760,798	62,565
Class I Sterling	836,315	665,646	67,552	5,510,372
Class I Euro	12,551	30,350	N/A	132,079
Class I JPY	N/A	N/A	2,047,008	N/A
Class R US dollar	8,382,393	40,279	90,882	N/A
Class R Sterling	1,634	16,727	8,447	N/A
Class R Euro	1,607	2,375	N/A	N/A
Class R JPY	N/A	N/A	1,508,713	N/A
Class I Hedged US dollar	N/A	N/A	359,352	1,907,949
Class R Hedged US dollar	N/A	N/A	256,285	N/A
Class I Hedged Euro	N/A	N/A	N/A	356,823
Class I Hedged GBP	N/A	N/A	857,892	N/A
Class R Hedged GBP	N/A	N/A	1,973,760	N/A
<b>Net asset value per redeemable participating share</b>				
Class A Japanese Yen	N/A	N/A	¥1,465.53	N/A
Class A US dollar	\$13.45	\$9.04	\$15.89	\$17.47
Class A Sterling	£8.33	£5.61	£10.02	£10.79
Class A Euro	€9.40	€6.30	N/A	€12.13
Class I US dollar	\$11.75	\$12.93	\$12.15	\$17.53
Class I Sterling	£7.27	£8.01	£7.66	£10.83
Class I Euro	€8.19	€9.01	N/A	€12.18
Class I JPY	N/A	N/A	¥1,120.84	N/A
Class R US dollar	\$11.73	\$12.91	\$12.11	N/A
Class R Sterling	£7.26	£7.99	£7.64	N/A
Class R Euro	€8.18	€9.00	N/A	N/A
Class R JPY	N/A	N/A	¥1,117.27	N/A
Class I Hedged US dollar	N/A	N/A	\$11.19	\$10.68
Class R Hedged US dollar	N/A	N/A	\$11.16	N/A
Class I Hedged Euro	N/A	N/A	N/A	€10.77
Class I Hedged GBP	N/A	N/A	£11.23	N/A
Class R Hedged GBP	N/A	N/A	£11.14	N/A

\* The Japan Fund changed base currency from US dollar to JPY on 02 April 2009.

The Financial Statements were approved by the Board of Directors of Polar Capital Funds plc on 14 April 2010 and signed on its behalf by:

**Jonathan Quigley**

**David Hammond**

Directors

The accompanying notes form an integral part of these Financial Statements

**Balance Sheet**

as at 31 December 2008

		Asia ex Japan Fund*	Global Technology Fund	Healthcare Opportunities Fund	Japan Fund	UK Absolute Return Fund**	Total
	Notes	31 December 2008 US\$	31 December 2008 US\$	31 December 2008 US\$	31 December 2008 JPY ¥	31 December 2008 GBP£	31 December 2008 US\$
<b>Assets</b>							
Transferable securities		–	21,850,838	71,895,294	20,623,213,487	7,294,728	331,737,864
Financial derivative instruments		–	–	–	–	1,957,686	2,814,664
Dividends and interest receivable	5	–	2,118	42,007	22,625,605	73,074	398,780
Amounts receivable on sale of securities	5	–	–	104,746	643,815,790	–	7,206,961
Amounts receivable on sale of redeemable participating shares	5	–	23,467	128,701	97,304,979	17,119	1,250,195
Sundry debtors	5	4,981	71,658	29,488	57,472	209,679	403,246
Cash at bank		15,602	422,300	135,865	–	30,997,108	45,124,271
<b>Total Assets</b>		<b>20,583</b>	<b>22,370,381</b>	<b>72,336,101</b>	<b>21,387,017,333</b>	<b>40,549,394</b>	<b>388,935,981</b>
<b>Liabilities</b>							
Transferable securities		–	–	–	–	–	–
Financial derivative instruments		–	–	–	–	(2,735,843)	(3,933,460)
Bank overdraft	4	–	–	–	(375,762,199)	–	(4,145,198)
Amounts payable on issue of redeemable participating shares	6	–	(21,509)	(416,432)	(155,592,748)	(74,483)	(2,261,441)
Amounts payable on purchase of securities	6	–	–	(180,542)	(227,266,167)	–	(2,687,615)
Investment management fee payable	6	–	(39,543)	(130,374)	(34,942,856)	(50,954)	(628,646)
Performance fee payable		–	–	–	–	–	–
Sundry creditors	6	(20,583)	(62,862)	(57,019)	(18,000,099)	(56,313)	(399,412)
<b>Total liabilities (excluding net assets attributable to holders of redeemable participating shares)</b>		<b>(20,583)</b>	<b>(123,914)</b>	<b>(784,367)</b>	<b>(811,564,069)</b>	<b>(2,917,593)</b>	<b>(14,055,772)</b>
<b>Net assets attributable to holders of redeemable participating shares</b>		<b>–</b>	<b>22,246,467</b>	<b>71,551,734</b>	<b>20,575,453,264</b>	<b>37,631,801</b>	<b>374,880,209</b>

**Balance Sheet**

as at 31 December 2008 continued

	Notes	Asia ex Japan Fund* 31 December 2008 US\$	Global Technology Fund 31 December 2008 US\$	Healthcare Opportunities Fund 31 December 2008 US\$	Japan Fund 31 December 2008 JPY ¥	UK Absolute Return Fund** 31 December 2008 GBP£	Total 31 December 2008 US\$
<b>Number of redeemable participating shares outstanding</b>							
	11						
Class A Japanese Yen		N/A	N/A	N/A	3,281,023	N/A	
Class A US dollar		N/A	1,908,131	2,427,178	6,589,851	1,000	
Class A Sterling		N/A	929,289	6,449,612	5,581,742	197,316	
Class A Euro		N/A	10	120,695	N/A	1,000	
Class I US dollar		N/A	N/A	N/A	N/A	95,810	
Class I Sterling		N/A	N/A	N/A	N/A	3,179,252	
Class I Euro		N/A	N/A	N/A	N/A	1,000	
Class I Hedged US dollar		N/A	N/A	N/A	N/A	386,364	
Class I Hedged Euro		N/A	N/A	N/A	N/A	76,948	
<b>Net asset value per redeemable participating share</b>							
Class A Japanese Yen		N/A	N/A	N/A	¥1,328.73	N/A	
Class A US dollar		N/A	\$7.71	\$7.91	\$14.69	\$14.23	
Class A Sterling		N/A	£5.34	£5.48	£10.08	£9.86	
Class A Euro		N/A	€5.45	€5.59	N/A	€10.06	
Class I US dollar		N/A	N/A	N/A	N/A	\$14.21	
Class I Sterling		N/A	N/A	N/A	N/A	£9.85	
Class I Euro		N/A	N/A	N/A	N/A	€10.05	
Class I Hedged US dollar		N/A	N/A	N/A	N/A	\$9.66	
Class I Hedged Euro		N/A	N/A	N/A	N/A	€9.67	

\* The Asia ex Japan Fund had been fully redeemed as at 31 December 2008.

\*\* The UK Absolute Return Fund launched 03 June 2008.



## Profit and Loss Account

for the year ended 31 December 2009

	Notes	Global Technology Fund 31 December 2009 US\$	Healthcare Opportunities Fund 31 December 2009 US\$	Japan Fund* 31 December 2009 JPY ¥	UK Absolute Return Fund 31 December 2009 GBP £	Total 31 December 2009 US\$
<b>Investment income</b>						
Investment income		283,268	696,921	694,589,817	78,314	8,533,378
Deposit interest		-	-	-	-	-
Net realised and unrealised gain on investments	19	29,712,083	4,281,870	(2,594,038,322)	7,299,730	17,669,300
Income equalisation		(20)	(17,792)	3,274,678	-	17,220
<b>Net investment income</b>		<b>29,995,331</b>	<b>4,960,999</b>	<b>(1,896,173,827)</b>	<b>7,378,044</b>	<b>26,219,898</b>
<b>Expenses</b>						
Investment management fees	3	(881,519)	(776,401)	(394,163,807)	(624,732)	(6,852,485)
Administration fees	3	(142,385)	(132,295)	(55,997,338)	(137,704)	(1,089,272)
General expenses		(148,756)	(175,071)	(43,217,440)	(168,974)	(1,050,648)
Performance fee	3	(364,454)	-	(7,519,432)	(477,527)	(1,192,348)
Custodian's fees	3	(68,490)	(42,539)	(24,810,014)	(43,903)	(445,162)
Legal fees		(25,994)	(20,452)	(6,922,971)	(28,849)	(165,663)
Directors fees		(23,155)	(16,924)	(13,271,690)	(18,635)	(211,226)
Auditors fees		(22,812)	(20,565)	(7,206,853)	(12,811)	(140,527)
Withholding tax		(69,971)	(158,511)	(48,574,745)	(54,693)	(833,735)
<b>Operating expenses</b>		<b>(1,747,536)</b>	<b>(1,342,758)</b>	<b>(601,684,290)</b>	<b>(1,567,828)</b>	<b>(11,981,066)</b>
<b>Net income from operations before finance costs</b>						
		<b>28,247,795</b>	<b>3,618,241</b>	<b>(2,497,858,117)</b>	<b>5,810,216</b>	<b>14,238,832</b>
<b>Finance costs</b>						
Bank interest		(13,979)	(89,875)	(12,648,402)	(197,815)	(548,795)
Distributions to holders of redeemable participating shares		-	-	-	(289,092)	(452,503)
<b>Total finance costs</b>		<b>(13,979)</b>	<b>(89,875)</b>	<b>(12,648,402)</b>	<b>(486,907)</b>	<b>(1,001,298)</b>
<b>Change in net assets attributable to holders of redeemable participating shares</b>						
		<b>28,233,816</b>	<b>3,528,366</b>	<b>(2,510,506,519)</b>	<b>5,323,309</b>	<b>13,237,534</b>

\* The Japan Fund changed base currency from US dollar to JPY on 02 April 2009.

Gains and losses arose solely from continuing operations. There were no gains or losses other than those dealt with in the Profit and Loss Account.

The Financial Statements were approved by the Board of Directors of Polar Capital Funds plc on 14 April 2010 and signed on its behalf by:

**Jonathan Quigley**  
**David Hammond**  
Directors

## Profit and Loss Account

for the year ended 31 December 2009

		Asia ex Japan Fund	Global Technology Fund	Healthcare Opportunities Fund	Japan Fund	UK Absolute Return Fund	Total
	Notes	31 December 2008 US\$	31 December 2008 US\$	31 December 2008 US\$	31 December 2008 JPY ¥	31 December 2008 GBP£	31 December 2008 US\$
<b>Investment income</b>							
Investment income		123,846	327,684	226,973	508,117,105	183,417	5,916,955
Deposit interest		11,687	40,385	89,380	–	252,244	586,097
Securities lending income	18	–	90,316	–	43,766,368	–	513,678
Net realised and unrealised gain/(loss) on investments	19	(16,153,523)	(33,891,299)	(16,765,213)	(5,241,813,827)	1,553,933	(114,776,084)
Income equalisation		(1,755)	–	12,410	7,140,327	(12,334)	57,983
<b>Net investment income</b>		<b>(16,019,745)</b>	<b>(33,432,914)</b>	<b>(16,436,450)</b>	<b>(4,682,790,027)</b>	<b>1,977,260</b>	<b>(107,701,371)</b>
<b>Expenses</b>							
Investment management fees	3	(213,631)	(890,120)	(637,464)	(427,600,643)	(119,626)	(6,088,365)
Administration fees	3	(43,880)	(146,197)	(105,783)	(60,364,965)	(29,307)	(931,445)
General expenses		(224,900)	(83,253)	(55,054)	(30,097,402)	(37,570)	(720,573)
Performance fee	3	–	–	–	–	–	–
Custodian's fees	3	(40,529)	(80,247)	(31,893)	(26,962,254)	(8,538)	(428,531)
Legal fees		(16,942)	(14,876)	(45,451)	(15,289,210)	(18,377)	(257,559)
Directors' fees		(5,990)	(7,438)	(22,726)	(7,644,915)	(9,189)	(126,303)
Auditor's fees		(13,900)	(4,950)	(15,919)	(5,220,182)	(12,451)	(107,213)
Withholding tax		(16,713)	(56,723)	(38,977)	(35,568,173)	(20,797)	(493,132)
<b>Operating expenses</b>		<b>(576,485)</b>	<b>(1,283,804)</b>	<b>(953,267)</b>	<b>(608,747,744)</b>	<b>(255,855)</b>	<b>(9,153,121)</b>
<b>Net income/(expense) from operations before finance costs</b>		<b>(16,596,230)</b>	<b>(34,716,718)</b>	<b>(17,389,717)</b>	<b>(5,291,537,771)</b>	<b>1,721,405</b>	<b>(116,854,492)</b>
<b>Finance costs</b>							
Bank interest		–	–	–	(15,303,890)	–	(148,038)
<b>Total finance costs</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(15,303,890)</b>	<b>–</b>	<b>(148,038)</b>
<b>Change in net assets attributable to holders of redeemable participating shares</b>							
		<b>(16,596,230)</b>	<b>(34,716,718)</b>	<b>(17,389,717)</b>	<b>(5,306,841,661)</b>	<b>1,721,405</b>	<b>(117,002,530)</b>

The Polar Asia exJapan Fund was fully redeemed during the year.

The Polar UK Absolute Return Fund launched on 3 June 2008.

Gains and losses arose solely from continuing operations. There were no gains or losses other than those dealt with in the Profit and Loss Account.

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares

for the year ended 31 December 2009

	Healthcare Technology Fund 31 December 2009 US\$	Opportunities Fund 31 December 2009 US\$	Japan Fund* 31 December 2009 JPY ¥	UK Absolute Return Fund 31 December 2009 GBP£	Total 31 December 2009 US\$
<b>Net assets attributable to holders of redeemable participating shares at the beginning of the period</b>	<b>22,246,467</b>	<b>71,551,734</b>	<b>20,575,453,264</b>	<b>37,631,801</b>	<b>374,880,209</b>
Issue of redeemable shares during the year	191,612,855	39,212,589	19,190,494,431	70,360,372	553,760,457
FX gain on consolidation	–	–	–	–	70,625
Foreign Exchange adjustment arising on translation of Japan Fund	–	–	4,379,021,391	–	47,248,829
Redemption of redeemable shares during the year	(79,055,438)	(43,481,651)	(10,816,907,822)	(18,625,489)	(269,922,946)
Net gain for the period attributable to holders of redeemable shares	28,233,816	3,528,366	(2,510,506,519)	5,323,309	13,237,534
<b>Net assets attributable to holders of redeemable participating shares at the end of the period</b>	<b>163,037,700</b>	<b>70,811,038</b>	<b>30,817,554,745</b>	<b>94,689,993</b>	<b>719,274,708</b>

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares

for the year ended 31 December 2009

	Asia ex Japan Fund 31 December 2008 US\$	Global Technology Fund 31 December 2008 US\$	Healthcare Opportunities Fund 31 December 2008 US\$	Japan Fund 31 December 2008 JPY ¥	UK Absolute Return Fund 31 December 2008 GBP £	Total 31 December 2008 US\$
<b>Net assets attributable to holders of redeemable participating shares at the beginning of the period</b>	<b>95,104,055</b>	<b>115,062,425</b>	<b>18,228,064</b>	<b>37,311,039,988</b>	<b>–</b>	<b>562,378,700</b>
Issue of redeemable shares during the year	789,117	2,811,231	74,769,641	9,395,906,957	40,918,422	228,089,207
FX loss on consolidation	–	–	–	–	–	(559,467)
Redemption of redeemable shares during the year	(79,296,942)	(60,910,471)	(4,056,254)	(20,824,652,020)	(5,008,026)	(298,025,701)
Net (loss)/gain for the period attributable to holders of redeemable shares	(16,596,230)	(34,716,718)	(17,389,717)	(5,306,841,661)	1,721,405	(117,002,530)
<b>Net assets attributable to holders of redeemable participating shares at the end of the period</b>	<b>–</b>	<b>22,246,467</b>	<b>71,551,734</b>	<b>20,575,453,264</b>	<b>37,631,801</b>	<b>374,880,209</b>

The Asia ex Japan fund was fully redeemed during the year.

The UK Absolute Return Fund launched on 3 June 2008.

The accompanying notes form an integral part of these Financial Statements.

## Notes to the financial statements

for the year ended 31 December 2009

### 1. Organisation and nature of business

Polar Capital Funds plc (the "Company") is an open-ended investment company with variable capital and segregated liability between its sub-funds (the "Funds"), organised under the laws of Ireland. The Company has been authorised by the Irish Financial Services Regulatory Authority (the "Financial Regulator") as a UCITS within the meaning of the Regulations. The redeemable participating shares of the Funds are listed on the Irish Stock Exchange. The Company is structured as an umbrella fund in that different funds thereof may be established with the prior approval of Financial Regulator.

Shares in the following classes are available:

Global Technology Fund	Date of first issue of shares of sub-fund	Investment management fee	Performance fee
EUR Class A	22/10/2001	1.5%	10%
GBP Class A	22/10/2001	1.5%	10%
JPY Class A	Not yet in issue	1.5%	10%
USD Class A	22/10/2001	1.5%	10%
Class I EUR	08/09/2009	1.0%	10%
Class I GBP	08/09/2009	1.0%	10%
Class I JPY	Not yet in issue	1.0%	10%
Class I USD	08/09/2009	1.0%	10%
Class I GBP Hedged	Not yet in issue	1.0%	10%
Class I EUR Hedged	Not yet in issue	1.0%	10%
Class I USD Hedged	Not yet in issue	1.0%	10%
Class R EUR	08/09/2009	1.5%	10%
Class R GBP	08/09/2009	1.5%	10%
Class R JPY	Not yet in issue	1.5%	10%
Class R USD	08/09/2009	1.5%	10%
Class R GBP Hedged	Not yet in issue	1.5%	10%
Class R EUR Hedged	Not yet in issue	1.5%	10%
Class R USD Hedged	Not yet in issue	1.5%	10%

Healthcare Opportunities Fund	Date of first issue of shares of sub-fund	Investment management fee	Performance fee
EUR Class A	03/12/2007	1.5%	10%
GBP Class A	03/12/2007	1.5%	10%
JPY Class A	Not yet in issue	1.5%	10%
USD Class A	03/12/2007	1.5%	10%
Class I EUR	27/03/2009	1.0%	10%
Class I GBP	27/03/2009	1.0%	10%
Class I JPY	Not yet in issue	1.0%	10%
Class I USD	27/03/2009	1.0%	10%
Class I GBP Hedged	Not yet in issue	1.0%	10%
Class I EUR Hedged	Not yet in issue	1.0%	10%
Class I USD Hedged	Not yet in issue	1.0%	10%
Class R EUR	27/03/2009	1.5%	10%
Class R GBP	27/03/2009	1.5%	10%
Class R JPY	Not yet in issue	1.5%	10%
Class R USD	27/03/2009	1.5%	10%
Class R GBP Hedged	Not yet in issue	1.5%	10%
Class R EUR Hedged	Not yet in issue	1.5%	10%
Class R USD Hedged	Not yet in issue	1.5%	10%

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 1. Organisation and nature of business continued

<b>Japan Fund</b>	<b>Date of first issue of shares of sub-fund</b>	<b>Investment management fee</b>	<b>Performance fee</b>
EUR Class A	Not yet in issue	1.5%	10%
GBP Class A	22/10/2001	1.5%	10%
JPY Class A	22/10/2001	1.5%	10%
USD Class A	22/10/2001	1.5%	10%
Class I EUR	Not yet in issue	1.0%	10%
Class I GBP	27/03/2009	1.0%	10%
Class I JPY	27/03/2009	1.0%	10%
Class I USD	27/03/2009	1.0%	10%
Class I GBP Hedged	27/03/2009	1.0%	10%
Class I EUR Hedged	Not yet in issue	1.0%	10%
Class I USD Hedged	27/03/2009	1.0%	10%
Class R EUR	Not yet in issue	1.5%	10%
Class R GBP	27/03/2009	1.5%	10%
Class R JPY	27/03/2009	1.5%	10%
Class R USD	27/03/2009	1.5%	10%
Class R GBP Hedged	27/03/2009	1.5%	10%
Class R EUR Hedged	Not yet in issue	1.5%	10%
Class R USD Hedged	27/03/2009	1.5%	10%

<b>UK Absolute Return Fund</b>	<b>Date of first issue of shares of sub-fund</b>	<b>Investment management fee</b>	<b>Performance fee</b>
EUR Class A	28/05/2008	1.5%	20%
GBP Class A	28/05/2008	1.5%	20%
JPY Class A	Not yet in issue	1.5%	20%
USD Class A	28/05/2008	1.5%	20%
Class I EUR	28/10/2008	1.0%	20%
Class I GBP	28/10/2008	1.0%	20%
Class I JPY	Not yet in issue	1.0%	20%
Class I USD	28/10/2008	1.0%	20%
Class I GBP Hedged	Not yet in issue	1.0%	20%
Class I EUR Hedged	28/10/2008	1.0%	20%
Class I USD Hedged	28/10/2008	1.0%	20%
Class R EUR	Not yet in issue	1.5%	20%
Class R GBP	Not yet in issue	1.5%	20%
Class R JPY	Not yet in issue	1.5%	20%
Class R USD	Not yet in issue	1.5%	20%
Class R GBP Hedged	Not yet in issue	1.5%	20%
Class R EUR Hedged	Not yet in issue	1.5%	20%
Class R USD Hedged	Not yet in issue	1.5%	20%

## 2. Principal Accounting Policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

### Basis of preparation

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in Ireland, Irish statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (as amended). Accounting standards generally accepted in Ireland in preparing Financial Statements giving a true and fair view are those published and issued by the Accounting Standards Board (“ASB”).

The format and certain wordings of the Financial Statements has been adapted from those contained in the Companies (Amendment) Act, 1986 and FRS 3 “Reporting Financial Performance” so that, in the opinion of the directors, they more appropriately reflect the nature of the Company’s business as an investment fund.

The Company has availed of the exemption available to open-ended investment funds under FRS 1 not to prepare a Cash Flow Statement.

The Financial Statements have been prepared on a fair value basis for financial assets and financial liabilities designated at fair value through profit or loss and derivative financial instruments in accordance with the relevant accounting standards. All other assets and liabilities are stated at amortised cost or redemption amount (redeemable participating shares).

### Foreign exchange translation

#### (a) Functional currency

Items included in the Company’s Financial Statements are measured using the currency of the primary economic environment in which it operates (the ‘functional currency’). The functional currency for Polar Capital Funds plc is US Dollar (“US\$”) as the directors have determined that this reflects the Company’s primary economic environment, being the functional currency of the majority of investors.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account.

<b>Fund</b>	<b>Presentation Currency</b>
Asia Ex-Japan Fund (fully redeemed 2008)	US\$
Global Technology Fund	US\$
Healthcare Opportunities Fund	US\$
Japan Fund	JPY ¥
UK Absolute Return Fund	GBP £

The presentation currency of the Japan Fund was changed from US\$ to JPY¥ 2 April 2009 as the Directors have determined that this reflects the Japan Fund’s primary economic environment given the majority of the Japan Fund’s investments are JPY¥ denominated. On 2 April 2009, all items in the Japan Fund’s financial statements at that time were translated to JPY¥ from US\$ at the exchange rate prevailing on that date.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 2. Principal Accounting Policies continued

For the purposes of aggregation, the amounts in the financial statements for the UK Absolute Return Fund and the Japan Fund have been translated to US\$ at the exchange rate ruling at the year end. This method of translation has no effect on the net asset value per share attributable to the UK Absolute Return Fund and the Japan Fund. The foreign exchange gain arising from the retranslation of net assets at the start of the year is shown in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares. The foreign currency translation adjustment of US\$ 473,399 (2008: US\$ (559,467)) included in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares is due to the movement in exchange rates between 1 January 2009 and 31 December 2009 and the rate difference arising on the translation of the Profit and Loss Account and the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares at average rates.

Proceeds from subscriptions and amounts paid on redemption of redeemable preference shares are translated at average rates, which approximate the rates prevailing at the dates of the transactions.

#### Investments at fair value

##### (i) Classification

In accordance with FRS 25 and FRS 26 the Company designates its equity investments into the financial assets at fair value through profit or loss category.

This category has two sub-categories: financial assets and liabilities held for trading, and those designated by management at fair value through profit or loss at inception. Financial assets or liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorised as held for trading, as the Company does not designate any derivatives as hedges in a hedging relationship for valuation purposes.

##### (ii) Recognition and derecognition

Purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

##### (iii) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Profit and Loss Account. Other financial assets are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate method. Financial liabilities arising from the redeemable participating shares issued by the sub-fund are carried at the redemption amount representing the investors' right to a residual interest in the sub-fund's assets.

#### Gains and losses on investments

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Profit and Loss Account in the period in which they arise.



Investment transactions are accounted for on a trade date basis. Profits and losses on the disposal of investments are calculated by reference to the net proceeds received on disposal and the cost attributable to those investments based on the first in first out basis and is included in the Profit and Loss Account.

#### (iv) Fair value measurement principles

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the Balance Sheet date. Financial assets are priced at bid price, while financial liabilities are priced at asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

#### Contracts for Difference and Swaps

Contracts for difference and equity swaps are agreements between the Company and third parties, which allow the Company to acquire an exposure to the price movement of specific securities without actually purchasing the securities. The changes in contract values are recorded as unrealised gains or losses and the Company recognizes a realised gain or loss when the contract is closed. Unrealised gains and losses on contracts for difference are recognized in the Profit and Loss Account.

#### Futures

A futures contract is an agreement between two parties to buy or sell a security, index or currency at a specific price or rate at a future date. Upon entering into a futures contract, the Company is required to deposit with a broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as "initial cash margin". Subsequent payments ("variation margin") are made or received by the Company each day, depending upon the daily fluctuation in the value of the contract. The daily changes in contract value are recorded as unrealised gains or losses and the Company recognizes a realised gain or loss when the contract is closed. Unrealised gains and losses on futures contracts are recognized in the Profit and Loss Account.

#### Forwards

A forward currency contract involves an obligation to purchase or sell a specific currency at a future date at a price set at the time the contract is made. Forward foreign exchange contracts will be valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. The unrealised gain or loss on open forward currency contract is calculated as the difference between the contract rate and this forward price and recognised in the income statement. Where a forward contract is purchased to hedge the currency risk of a specific class which is issued in a currency other than the measurement currency of the Company, all gains or losses on that contract are allocated to that class.

#### Options

As part of the Company's investment strategy, it enters into options which are recognized in the balance sheet at fair value. Premiums received on written call and put options are recorded as a liability and the premiums paid on acquired call and put options are recorded initially as an asset. Subsequently, realised and unrealised gains and losses on options are recognized in the Profit and Loss Account.

#### Income from investments

Income arising on investments is accounted for on an ex-dividend basis. Bank interest income or expenses is accrued on the basis of the actual amounts credited or debited to the accounts.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 2. Principal Accounting Policies continued

#### (iv) Fair value measurement principles continued

##### Cash

Cash and other liquid assets are valued at their face value with interest accrued, where applicable.

##### Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are recognised initially at amortised cost plus transaction costs that are directly attributable to their acquisition.

##### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

##### Adoption of FRS 29

The Accounting Standards Board published Amendments to FRS 29 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments in May 2009 in order to improve the disclosure of how entities measure the fair value of their financial instruments. The disclosure requirements in FRS 29 have been extended to introduce a fair value hierarchy and enhanced liquidity risk disclosures. The new disclosures are effective for annual periods beginning on or after 1 January 2009. Please refer to note 12 of these financial statements.

##### Distribution Policy

The Company will aim to seek capital growth rather than a significant income return. However, the Company intends to declare annual dividends in respect of any Share Classes for which certification will be sought as a "distributing fund" for the purposes of sections 757-764 of the UK Income and Corporation Taxes Act 1988 (all Share Classes of the Company at present). Dividends, if declared will only be paid out of the Company's net investment income return (i.e. income from dividends, interest or otherwise, less the Company's accrued expenses to be certified for the accounting period), realised and unrealised profits on the disposal/revaluation of investments and other assets less realised and unrealised losses of the Company and will normally be paid in May of each year. Any dividend paid on a redeemable participating share that is not claimed will not earn interest and, if not claimed within six years of its declaration, shall be forfeited for the benefit of the Company.

##### Redeemable participating Shares

Redeemable participating shares are redeemable at the shareholder's option and are classified as financial liabilities in accordance with FRS 25. Financial Instruments: Presentation. An amendment to FRS 25 became effective for financial periods beginning on or after 1 January 2009 relating to reclassification of certain financial instruments from financial liabilities to equity where equity features are exhibited. The adoption of this revised standard does not have any impact on the financial instruments of the Company. Distributions on these redeemable participating shares are recognised in the Profit and Loss Account as finance costs.

Redeemable participating shares can be put back to the Company at any time for cash equal to a proportionate share of the Company's net asset value. The redeemable participating shares are carried at the present value of the redemption amount that is payable at the Balance Sheet date if the shareholders exercised their rights to put the shares back to the Company.

##### Operating Expenses

The Company is responsible for all normal operating expenses including audit fees, stamp and other duties and charges incurred on the acquisition and realisation of investments. The Investment Manager, Polar Capital LLP, ("the Investment Manager") meets all other operating expenses incurred by it in connection with its services.

### 3. Fees and Expenses

The Investment Manager is entitled to receive an investment management fee and a performance fee together with any extraordinary out of pocket expenses. The investment management fee is accrued daily and is payable monthly in arrears, please see note 1 for breakdown of Investment Manager fee and Performance fee for each of the funds subclasses.

Investment management fees are calculated before deduction for any accrued performance fees. An initial payment of the investment management fee based on the most recently published Net Asset Value will be made on the last day of each month, with an adjustment being made where necessary, on the last day of the next month.

The Investment Manager in addition to the investment management fee, is entitled to receive out of the assets of each Fund a performance fee equal to a percentage of the amount by which the increase in the Net Asset Value (prior to the provision for a performance fee) during the relevant performance period exceeds the increase in the Indexed Net Asset Value over the same period. The performance fee is payable annually on 31st December where there is a performance fee payable.

The Administrator, Northern Trust Fund Administration Services (Ireland) Limited (the "Administrator") is entitled to receive a fee of 0.25% per annum of the first US\$70 million of each Fund (adjusted so as to not include any deduction for performance fees deemed to have accrued) and 0.20% of all amounts in excess of US\$70 million of the net asset value of each Fund subject to a monthly minimum fee of US\$3,500 per Fund. The Administrator shall also be entitled to be repaid out of the assets of the Fund all its reasonable out-of-pocket expenses.

The Custodian, Northern Trust Fiduciary Services (Ireland) Limited (the "Custodian"), is entitled to an annual fee of 0.075% of the Net Asset Value of the Company payable monthly in arrears, subject to a minimum monthly fee of US\$1,200 per fund. In addition, the Custodian shall be entitled to a transaction fee of GBP£35 for each transaction conducted.

The Austrian Paying Agent, Meisl Bank, is entitled to receive an annual fee of €8,000 and is entitled to receive reimbursement of agreed costs incurred in transmitting dividends, redemption proceeds and documentation to Shareholders in Austria.

The German Paying and Information Agent, Deutsche Bank AG, is entitled to receive an annual fee of 18,000, a proportional handling fee per new fund and agreed costs in transmitting dividends, redemption proceeds and documentation to Shareholders in Germany.

The French paying and information agent, BNP Paribas Securities Services, is entitled to receive an annual fee of 7,000, a proportional handling fee per new fund and agreed costs in transmitting dividends, redemption proceeds and documentation to Shareholders in France.

Under the Swiss Representation and Paying Agency Agreement, the Swiss Representative and Swiss Paying Agent are entitled to receive the following fees:

- (i) an annual fee of CHF 12,000;
- (ii) an annual fee per Fund of the Company of CHF 1,500;
- (iii) an annual sub-distribution fee (where applicable) of CHF 1,500 per sub distributor.

The Austrian, German, French, Sweden and Swiss paying agents are also entitled to receive reimbursement of any reasonable out of pocket expenses incurred by them in the performance of their duties.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 4. Bank Overdraft

The Company has an overdraft facility with Northern Trust (Guernsey) Limited for liquidity purposes. The assets of the Company are held as collateral for the overdraft when it is utilised. As at the year end the overdraft for Polar Capital Funds Plc is US\$15,768,818 (2008: US\$4,145,198).

### 5. Debtors: Amounts falling due within one year

	Global Technology Fund 31 December 2009 US\$	Healthcare Opportunities Fund 31 December 2009 US\$	Japan Fund 31 December 2009 JPY ¥	UK Absolute Return Fund 31 December 2009 GBP£	Total 31 December 2009 US\$
Amounts receivable on sale of redeemable participating shares	3,020,494	310,545	189,473,124	2,156,612	8,858,027
Amounts receivable on sale of securities	3,864,457	–	12,026,479	–	3,994,220
Dividends and interest receivable	–	35,161	34,501,698	66,395	514,646
Sundry debtors	40,699	12,584	–	15,189	77,811
	<b>6,925,650</b>	<b>358,290</b>	<b>236,001,301</b>	<b>2,238,196</b>	<b>13,444,704</b>

	Asia ex Japan Fund* 31 December 2008 US\$	Global Technology Fund 31 December 2008 US\$	Healthcare Opportunities Fund 31 December 2008 US\$	Japan Fund 31 December 2008 JPY ¥	UK Absolute Return Fund 31 December 2008 GBP£	Total 31 December 2008 US\$
Amounts receivable on sale of redeemable participating shares	–	23,467	128,701	97,304,959	17,119	1,250,195
Amounts receivable on sale of securities	–	–	104,746	643,815,794	–	7,206,961
Dividends and interest receivable	–	2,118	42,007	22,625,590	73,074	398,780
Sundry debtors	4,981	71,658	29,488	57,499	209,679	408,227
	<b>4,981</b>	<b>97,243</b>	<b>304,942</b>	<b>763,803,842</b>	<b>299,872</b>	<b>9,264,163</b>

\* Fully redeemed during the period.

### 6. Creditors: Amounts falling due within one year

	Global Technology Fund 31 December 2009 US\$	Healthcare Opportunities Fund 31 December 2009 US\$	Japan Fund 31 December 2009 JPY ¥	UK Absolute Return Fund 31 December 2009 GBP£	Total 31 December 2009 US\$
Redemptions payable	–	(34,394)	(90,214,628)	(28,741)	(1,054,206)
Payable for securities purchased	(5,877,893)	(412,527)	(25,033,872)	–	(6,560,531)
Investment management fee payable	(331,714)	(118,667)	(58,921,583)	(103,810)	(1,253,772)
Performance fee payable	(364,454)	–	(7,464,231)	(475,525)	(1,212,894)
Interest payable	(227)	–	(1,557,781)	(28,785)	(63,519)
Sundry creditors	(143,432)	(63,740)	(23,224,536)	(72,838)	(575,383)
	<b>(6,717,720)</b>	<b>(629,328)</b>	<b>(206,416,631)</b>	<b>(709,699)</b>	<b>(10,720,306)</b>

	<b>Asia ex Japan Fund* 31 December 2008 US\$</b>	<b>Global Technology Fund 31 December 2008 US\$</b>	<b>Healthcare Opportunities Fund 31 December 2008 US\$</b>	<b>Japan Fund 31 December 2008 JPY ¥</b>	<b>UK Absolute Return Fund 31 December 2008 GBP£</b>	<b>Total 31 December 2008 US\$</b>
Redemptions payable	–	(21,509)	(416,432)	(155,592,745)	(74,483)	(2,261,441)
Payable for securities purchased	–	–	(180,542)	(227,266,201)	–	(2,687,615)
Investment management fee payable	–	(39,543)	(130,374)	(34,942,859)	(50,954)	(628,646)
Interest payable	–	(706)	(293)	(1,199,115)	–	(14,227)
Sundry creditors	(20,583)	(62,156)	(56,726)	(16,801,018)	(56,313)	(405,768)
	<b>(20,583)</b>	<b>(123,914)</b>	<b>(784,367)</b>	<b>(435,801,938)</b>	<b>(181,750)</b>	<b>(5,997,697)</b>

## 7. Soft Commission

The Investment Manager may effect transactions or arrange for the effecting of transactions through brokers with whom it has “soft commission” arrangements. The benefits provided under such arrangements will assist the Investment Manager in the provision of investment services to the Company. Specifically, the Investment Manager may agree that a broker shall be paid a commission in excess of the amount another broker would have charged for effecting such transaction so long as, in the good faith judgment of the Investment Manager the amount of the commission is reasonable in relation to the value of the brokerage and other services provided or paid for by such broker. Such services, which make take the form of research services, quotation services, news wire services, portfolio and trade analysis software system, special execution and clearance capabilities, may be used by the Investment Manager in connection with transactions in which the Company will not participate. All transactions undertaken on a soft commission basis will be subject to the fundamental rule of overall “best execution”.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 8. Exchange Rates

The exchange rates used at 31 December 2009 were as follows:

Exchange Rate	31 December 2009 to US\$	Exchange Rate	31 December 2008 to US\$
Australian dollar	–	Australian dollar	1.4343
Brazilian real	–	Brazilian real	2.3320
Canadian dollar	1.0484	Canadian dollar	1.2345
China yuan renminbi	–	China yuan renminbi	6.8230
Danish krona	–	Danish krona	5.3547
Euro	0.6970	Euro	0.7153
Hong Kong dollar	7.7541	Hong Kong dollar	7.7502
Indian rupee	–	Indian rupee	48.7200
Japanese yen	92.2550	Japanese yen	90.4600
Korean won	1164.4750	Korean won	1,259.55
Malaysian ringgit	–	Malaysian ringgit	3.4575
Norwegian krone	5.7768	Norwegian krone	7.0021
Philippines peso	–	Philippines peso	47.3750
Singapore dollar	–	Singapore dollar	1.4441
Sterling	0.6193	Sterling	0.6859
Swedish krone	7.1401	Swedish krone	7.9080
Swiss franc	1.0338	Swiss franc	1.0639
Taiwan dollar	31.9850	Taiwan dollar	32.8200
Thai bhat	–	Thai bhat	34.6850

  

Exchange Rate	to GBP£	Exchange Rate	to GBP£
Euro	1.1248	Euro	1.0343
Norwegian krone	9.3344	Norwegian krone	10.0673
United States dollar	1.6195	United States dollar	1.4378
Swiss franc	1.6690	Swiss franc	–

  

Exchange Rate	to JPY ¥	Exchange Rate	to JPY ¥
Euro	132.1737	Euro	126.0080
Sterling	146.2380	Sterling	130.3320
United States dollar	92.2550	United States dollar	90.6500

All exchange rates are official rates and come from quoted sources.

## 9. Taxation

The Company will not be liable to tax in respect of its income and gains, other than on a distribution, redemption or transfer of shares by an Irish resident shareholder or on the ending of a "Relevant Period". A "Relevant Period" is an eight year period beginning with the acquisition of the shares by the Shareholder and also each subsequent period of eight years, beginning immediately after the preceding Relevant Period. The Company will deduct the amount of tax due from the amount paid to the Irish resident shareholder on the value of shares held as required by Irish tax rules.

No Irish tax will arise on:

- (i) any transactions in relation to shares held in a recognised clearing system as designated by order of the Revenue Commissioners of Ireland; or
- (ii) an exchange of units representing one Sub-fund for another Sub-fund of the Company; or
- (iii) an exchange of shares arising on a qualifying amalgamation or reconstruction of the Company with another fund; or
- (iv) certain exchanges of units between spouses and former spouses.

Irish tax will not arise either on redemptions, transfers or dividends paid to shareholders who are neither resident nor ordinarily resident in Ireland provided the Company has received a relevant declaration to that effect.

In the absence of an appropriate declaration, the Company will be liable to deduct Irish tax on the occurrence of such an event.

There were no chargeable events during the period under review.

Capital gains, dividends and interest received may be subject to withholding taxes imposed by the country of origin and such taxes may not be recoverable by the Company or its shareholders.

In accordance with FRS 16, dividends and bank interest are reported gross of withholding tax.

## 10. Related party disclosure

The Company operates under an investment management agreement with Polar Capital LLP.

All fees in relation to the Investment Manager, including any performance fees, are disclosed separately in the Profit and Loss Account. US\$ 1,212,894 (31 December 2008: US\$ 628,646) was due to the Investment Manager at 31 December 2009 which includes both investment management and performance fees. Certain Directors hold shares in the ultimate holding company of the Investment Manager or may be in a position to exert significant influence over the holders of such shares.

Jonathan Quigley is a Director and employee of the administrator. David Hammond is a Director and employee of Bridge Consulting, which provides governance and monitoring services to the Board of the Company.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 11. Shareholders' Funds

On incorporation, the authorised share capital of the Company was US\$40,000 divided into 40,000 Subscriber Shares of a par value of US\$1 each and 500,000,000,000 redeemable participating shares of no par value. There are 7 Subscriber Shares currently in issue which are held by the Investment Manager and nominees of the Investment Manager. These subscriber shares do not participate in any of the company's funds and are not included as part of the net asset value of the Company as the Directors consider this treatment is most appropriate, given the nature of the Company as an investment fund.

	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>
<b>Global Technology Fund</b>	<b>USD Class A</b>	<b>GBP Class A</b>	<b>EUR Class A</b>
Shares in issue at 1 January 2009	1,908,131	929,289	10
Shares issued during the year	5,899,812	1,546,725	–
Shares redeemed during the year	(5,871,829)	(1,158,478)	–
<b>Shares in issue at 31 December 2009</b>	<b>1,936,114</b>	<b>1,317,536</b>	<b>10</b>

	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>
<b>Global Technology Fund</b>	<b>USD Class I</b>	<b>GBP Class I</b>	<b>EUR Class I</b>
Shares in issue at 1 January 2009	–	–	–
Shares issued during the year	954,935	838,315	12,551
Shares redeemed during the year	(23,500)	(2,000)	–
<b>Shares in issue at 31 December 2009</b>	<b>931,435</b>	<b>836,315</b>	<b>12,551</b>

	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>
<b>Global Technology Fund</b>	<b>USD Class R</b>	<b>GBP Class R</b>	<b>EUR Class R</b>
Shares in issue at 1 January 2009	–	–	–
Shares issued during the year	8,382,393	1,634	1,607
Shares redeemed during the year	–	–	–
<b>Shares in issue at 31 December 2009</b>	<b>8,382,393</b>	<b>1,634</b>	<b>1,607</b>

	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>	<b>31 December 2009 Shares Number</b>
<b>Healthcare Opportunities Fund</b>	<b>USD Class A</b>	<b>GBP Class A</b>	<b>EUR Class A</b>
Shares in issue at 1 January 2009	2,427,178	6,449,612	120,695
Shares issued during the year	331,668	2,051,420	5,249
Shares redeemed during the year	(2,156,449)	(3,476,819)	(88,283)
<b>Shares in issue at 31 December 2009</b>	<b>602,397</b>	<b>5,024,214</b>	<b>37,661</b>



	<b>31 December 2009 Shares Number USD Class I</b>	<b>31 December 2009 Shares Number GBP Class I</b>	<b>31 December 2009 Shares Number EUR Class I</b>
<b>Healthcare Opportunities Fund</b>			
Shares in issue at 1 January 2009	–	–	–
Shares issued during the year	755,642	666,146	85,642
Shares redeemed during the year	–	(500)	(55,292)
<b>Shares in issue at 31 December 2009</b>	<b>755,642</b>	<b>665,646</b>	<b>30,350</b>

	<b>31 December 2009 Shares Number USD Class R</b>	<b>31 December 2009 Shares Number GBP Class R</b>	<b>31 December 2009 Shares Number EUR Class R</b>
<b>Healthcare Opportunities Fund</b>			
Shares in issue at 1 January 2009	–	–	–
Shares issued during the year	40,279	16,727	2,375
Shares redeemed during the year	–	–	–
<b>Shares in issue at 31 December 2009</b>	<b>40,279</b>	<b>16,727</b>	<b>2,375</b>

	<b>31 December 2009 Shares Number JPY Class A</b>	<b>31 December 2009 Shares Number USD Class A</b>	<b>31 December 2009 Shares Number GBP Class A</b>
<b>Japan Fund</b>			
Shares in issue at 1 January 2009	3,281,023	6,589,851	5,581,742
Shares issued during the year	1,335,635	1,662,387	2,561,820
Shares redeemed during the year	(2,254,963)	(1,874,444)	(2,866,990)
<b>Shares in issue at 31 December 2009</b>	<b>2,361,695</b>	<b>6,377,794</b>	<b>5,276,572</b>

	<b>31 December 2009 Shares Number USD Class I</b>	<b>31 December 2009 Shares Number GBY Class I</b>	<b>31 December 2009 Shares Number JPY Class I</b>
<b>Japan Fund</b>			
Shares in issue at 1 January 2009	–	–	–
Shares issued during the year	760,798	75,281	2,687,765
Shares redeemed during the year	–	(7,729)	(640,756)
<b>Shares in issue at 31 December 2009</b>	<b>760,798</b>	<b>67,552</b>	<b>2,047,008</b>

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 11. Shareholders' Funds continued

	31 December 2009 Shares Number USD Class R	31 December 2009 Shares Number GBP£ Class R	31 December 2009 Shares Number JPY Class R
<b>Japan Fund</b>			
Shares in issue at 1 January 2009	–	–	–
Shares issued during the year	90,882	12,027	1,522,619
Shares redeemed during the year	(2,429)	(3,580)	(13,906)
<b>Shares in issue at 31 December 2009</b>	<b>88,453</b>	<b>8,447</b>	<b>1,508,713</b>

	31 December 2009 Shares Number USD Class I Hedged	31 December 2009 Shares Number USD Class R Hedged	31 December 2009 Shares Number GBP Class I Hedged	31 December 2009 Shares Number GBP Class R Hedged
<b>Japan Fund</b>				
Shares in issue at 1 January 2009	–	–	–	–
Shares issued during the year	381,032	256,285	937,445	1,996,499
Shares redeemed during the year	(21,680)	–	(79,553)	(22,738)
<b>Shares in issue at 31 December 2009</b>	<b>359,352</b>	<b>256,285</b>	<b>857,892</b>	<b>1,973,760</b>

	31 December 2009 Shares Number USD Class A	31 December 2009 Shares Number GBP Class A	31 December 2009 Shares Number EUR Class A	31 December 2009 Shares Number GBP Class I
<b>UK Absolute Return Fund</b>				
Shares in issue at 1 January 2009	1,000	197,316	1,000	3,179,252
Shares issued during the year	105,253	1,481,945	54,860	3,364,076
Shares redeemed during the year	–	(260,634)	(12,443)	(1,032,956)
<b>Shares in issue at 31 December 2009</b>	<b>106,253</b>	<b>1,418,628</b>	<b>43,416</b>	<b>5,510,372</b>

	31 December 2009 Shares Number USD Class I	31 December 2009 Shares Number EUR Class I	31 December 2009 Shares Number USD Class I Hedged	31 December 2009 Shares Number EUR Class I Hedged
<b>UK Absolute Return Fund</b>				
Shares in issue at 1 January 2009	95,810	1,000	386,364	76,948
Shares issued during the year	309,715	131,079	1,694,668	285,865
Shares redeemed during the year	(342,961)	–	(173,083)	(5,990)
<b>Shares in issue at 31 December 2009</b>	<b>62,565</b>	<b>132,079</b>	<b>1,907,949</b>	<b>356,823</b>

	31 December 2008 Shares Number	31 December 2008 Shares Number	31 December 2008 Shares Number
<b>Global Technology Fund</b>	<b>USD Class A</b>	<b>GBP Class A</b>	<b>EUR Class A</b>
Shares in issue at 1 January 2008	5,725,264	2,224,672	10
Shares issued during the year	132,461	141,359	–
Shares redeemed during the year	(3,949,594)	(1,436,742)	–
<b>Shares in issue at 31 December 2008</b>	<b>1,908,131</b>	<b>929,289</b>	<b>10</b>

	31 December 2008 Shares Number	31 December 2008 Shares Number	31 December 2008 Shares Number
<b>Healthcare Opportunities Fund</b>	<b>USD Class A</b>	<b>GBP Class A</b>	<b>EUR Class A</b>
Shares in issue at 1 January 2008	1	1,810,831	1
Shares issued during the year	2,716,048	4,825,553	120,694
Shares redeemed during the year	(288,871)	(186,772)	–
<b>Shares in issue at 31 December 2008</b>	<b>2,427,178</b>	<b>6,449,612</b>	<b>120,695</b>

	31 December 2008 Shares Number	31 December 2008 Shares Number	31 December 2008 Shares Number
<b>Japan Fund</b>	<b>USD Class A</b>	<b>GBP Class A</b>	<b>JPY Class A</b>
Shares in issue at 1 January 2008	7,576,677	5,628,997	6,621,872
Shares issued during the year	2,008,464	1,928,043	1,738,423
Shares redeemed during the year	(2,995,290)	(1,975,298)	(5,079,272)
<b>Shares in issue at 31 December 2008</b>	<b>6,589,851</b>	<b>5,581,742</b>	<b>3,281,023</b>

	31 December 2008 Shares Number	31 December 2008 Shares Number	31 December 2008 Shares Number	31 December 2008 Shares Number
<b>UK Absolute Return Fund</b>	<b>USD Class A</b>	<b>GBP Class A</b>	<b>EUR Class A</b>	<b>USD Class I</b>
Shares in issue at 1 January 2008	–	–	–	–
Shares issued during the year	1,000	211,791	1,000	309,585
Shares redeemed during the year	–	(14,475)	–	(213,775)
<b>Shares in issue at 31 December 2008</b>	<b>1,000</b>	<b>197,316</b>	<b>1,000</b>	<b>95,810</b>

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 11. Shareholders' Funds continued

	31 December 2008 Shares Number GBP Class I	31 December 2008 Shares Number EUR Class I	31 December 2008 Shares Number USD Class I Hedged	31 December 2008 Shares Number EUR Class I Hedged
<b>UK Absolute Return Fund</b>				
Shares in issue at 1 January 2008	–	–	–	–
Shares issued during the year	3,487,100	46,237	386,364	79,348
Shares redeemed during the year	(307,848)	(45,237)	–	(2,400)
<b>Shares in issue at 31 December 2008</b>	<b>3,179,252</b>	<b>1,000</b>	<b>386,364</b>	<b>76,948</b>

	31 December 2008 Shares Number USD Class A	31 December 2008 Shares Number GBP Class A	31 December 2008 Shares Number EUR Class A
<b>Asia ex Japan Fund*</b>			
Shares in issue at 1 January 2008	2,832,792	677,509	1,016,034
Shares issued during the year	–	26,741	–
Shares redeemed during the year	(2,832,792)	(704,250)	(1,016,034)
<b>Shares in issue at 31 December 2008</b>	<b>–</b>	<b>–</b>	<b>–</b>

\* Fully redeemed during the period.

### 12. Financial Risk Management

In accordance with its investment objectives and policies, the Company holds financial instruments, which at any one time may comprise the following:

- (i) securities held in accordance with the investment objectives and policies
- (ii) cash and short-term debtors and creditors arising directly from operations
- (iii) derivative instruments including financial futures contracts

A more detailed review of the portfolio activity for the year is available in the Investment Manager's Reports. A more detailed analysis of the investments is shown in the Portfolio Statements. Investments listed on the Portfolio Statements are stated at market value as described in Note 2. Disclosures exclude short-term debtors and creditors.

#### Risks

The following summary is not intended to be a comprehensive summary of all the risks inherent in investing in the Company and investors should refer to the prospectus for a more detailed discussion of these risks.

#### Investment objective and policies

The investment objective of the Global Technology Fund is long term capital appreciation by way of investing in a globally diversified portfolio of technology companies. Although the Fund may receive income in the form of dividends, interest and from other sources, income is not a primary consideration. The Fund will seek to invest at least two thirds of its net asset value in technology-related companies. The Fund will take a geographically diversified approach and operate within broad asset allocation ranges, but there are no specified limits on investing in any geographical region or single country.

The investment objective of the Healthcare Opportunities Fund is to achieve long term capital growth by investing in a globally diversified portfolio of healthcare companies. The Fund will at all times invest at least two thirds of its total assets (excluding cash) in healthcare-related companies worldwide. Investments will be made in transferable securities including, but not limited to, shares, equity warrants and other types of securities such as preferred shares, which may be listed on a Regulated Market or unlisted, and issued by companies, and Global, American and European depository receipts. The Fund may not invest more than 10% of its Net Asset Value in unlisted securities. The Fund will seek to outperform the MSCI Global Healthcare Index whilst striving to limit the volatility of the Fund's returns. The Fund will take a geographically diversified approach and operate within broad asset allocation ranges, but there are no specified limits on investing in any geographical region or in any sub-sector of healthcare. Non-healthcare related securities will not exceed one third of the Fund's total assets.

The investment objective of the Japan Fund is to achieve long term capital growth by investing primarily (meaning not less than two thirds of the net asset value) in securities of issuers that have their principal activities in Japan or are organised under the laws of Japan or derive a significant portion of their earnings from Japan. The Fund will seek to outperform the Topix Index while striving to limit the volatility of the Fund's returns.

The investment objective of the UK Absolute Return Fund is to achieve absolute returns, regardless of the direction of the UK stock market. The Fund will invest in, or take exposure through the use of financial derivative instruments, as described below, predominantly in the equities of United Kingdom companies and, to a significantly lesser degree, European and global equities. The Fund may therefore, at any one time, be significantly invested in financial derivative instruments. No more than 5% of the Net Asset Value of the Fund will be invested in companies with a market capitalisation of less than GBP£250 million at the time of initial purchase.

### **Strategy in using Financial Instruments**

The Funds are exposed to a variety of financial risks in pursuing their stated investment objectives and policies. These risks are defined in FRS 29 as including credit risk, liquidity risk and market risk (which in turn includes currency risk, interest rate risk and price risk). The Funds take exposure to certain of these risks to generate investment returns on their portfolios, although these risks can also potentially result in a reduction in the Funds' assets. The Investment Manager will use its best endeavors to minimize the potentially adverse effects of these risks on the Funds' performance where it can do so while still managing the investments of the Funds in ways that are consistent with each Fund's investment objectives and policies.

The risks, and the measures adopted by the Company for managing these risks, are detailed below.

### **Market price risk**

Market price risk is defined in FRS 29 as the risk that the fair value of a financial instrument or its future cash flows will fluctuate because of changes in market prices.

The assets of the Global Technology, Japan, Healthcare Opportunities and UK Absolute Return Funds consist principally of equities, equity related securities and equity and currency derivatives used for hedging purposes.

The values of these instruments are determined by market forces and there is accordingly a risk that market prices can change in a way that is adverse to a Fund's performance.

The Directors have adopted a number of investment restrictions which are set out in the individual Fund supplements to the Company's prospectus and which limit the exposure of the Funds to adverse changes in the price of any individual financial asset. In accordance with Company policy, the Investment Manager monitors the Funds' positions on a daily basis and reports regularly to the Board of Directors. The Board reviews the information on each Funds' overall market exposure provided by the Investment Manager at its periodic meetings.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 12. Financial Risk Management continued

In addition, the Investment Manager manages the exposure of the portfolios to the risk of adverse changes in the general level of market prices to the extent consistent, the judgement of the Investment Manager, with each Funds respective investment objective.

During the year the counterparties used for all over the counter instruments were Morgan Stanley and Northern Trust (Guernsey) Limited. Exchange traded derivatives were also dealt through Morgan Stanley.

#### Financial derivative instruments

Depending on the Funds involved, the Company may invest in financial derivative instruments for both speculative and efficient portfolio management purposes, subject to the conditions and within the limits from time to time stipulated by the Financial Regulator under the Regulations. At 31 December 2009 and 31 December 2008, the Company's holdings in derivatives translated into UK sterling for UK Absolute Return Fund, Japanese Yen for Japan Fund and US dollars for the remaining funds were as specified in the portfolio statements.

The maximum risk arising from an investment in a financial instrument is determined by the fair value of the financial instruments, or in the case of certain derivative(s) the nominal value of the underlying assets, except for short positions in derivatives and securities where the loss may potentially be unlimited.

At 31 December 2009 and 31 December 2008, the overall market exposure for each Fund can be seen on the Portfolio Statements.

At 31 December 2009, market price risks defined by FRS 29 applying to each Fund are affected by two main components: changes in market prices and currency exchange rates. FRS 29 requires a sensitivity analysis showing how the net asset values of the Funds would be affected by changes in each of these factors.

Market price and currency exchange rate movements primarily affect the fair values of equity securities and related instruments held on account for each Fund.

The Funds invest directly in equities and equity related instruments. Below are listed the Indices that are considered the best representation of the markets the Funds invest in and can be taken as a starting point for sensitivity analysis. For the Global Technology Fund the DJ World Technology Index has experienced volatility of 23.2% (2008: 44.40%), for the Healthcare Opportunities Fund the MSCI AWCI Healthcare Index has experienced volatility of 17.7% (2008: 25.6%), for the Japan Fund the Topix Index has experienced volatility of 23.5% (2008: 43.1%) and for the UK Absolute Return Fund the GBP 3m LIBOR Index has experienced volatility of 23% (2008: 6.1%) based on data since Fund launched.

If we assume that historic experience will persist, then we can use the historically experienced volatilities as a basis for sensitivity analysis.

The following table is included in accordance with the requirements of FRS 29 to show the sensitivity of each Fund to changes in market prices.

<b>As at 31 December 2009</b>		<b>NAV 31.12.2009</b>	<b>% Increase/ (decrease) Volatility</b>	<b>Effect of increase/decrease US\$</b>
Global Technology Fund	US\$	163,037,700	23.2	+/- 37,824,746
Healthcare Opportunities Fund	US\$	70,811,038	17.7	+/- 12,533,554
				+/- 50,358,300
Japan Fund	JPY ¥	30,817,554,745	23.5	+/- 7,242,1125,365
UK Absolute Return Fund	GBP£	94,689,993	23.0	+/- 21,778,698

<b>As at 31 December 2008</b>		<b>NAV 31.12.2008</b>	<b>% Increase/ (decrease) Volatility</b>	<b>Effect of increase/decrease US\$</b>
Asia Ex-Japan Fund	US\$	–	41.7	–
Global Technology Fund	US\$	22,246,467	44.4	+/- 9,877,431
Healthcare Opportunities Fund	US\$	71,551,734	25.6	+/- 18,317,244
Japan Fund	US\$	226,976,870	43.1	+/- 97,827,031
				+/- 126,021,706
UK Absolute Return Fund	GBP£	37,631,801	6.1	+/- 2,295,540

Some limitations of sensitivity analysis are:

- (i) the models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- (ii) the market price risk information is a relative estimate of risk rather than a precise and accurate number;
- (iii) the market price information represents a hypothetical outcome and is not intended to be predictive; and
- (iv) future market conditions could vary significantly from those experienced in the past.

#### **Currency risk**

Currency risk is defined in FRS 29 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Each Fund is exposed to currency risk as the assets and liabilities of each Fund may be denominated in a currency other than the base currency of that Fund, which is the US dollar except for the Japan Fund and UK Absolute Fund in which the base currencies are Japanese Yen and Sterling respectively.

The fluctuations in the rate of exchange between the currency in which the asset or liability is denominated and the functional currency could result in an appreciation or depreciation in the fair value of that asset. The Investment Manager may attempt to mitigate these risks through the use of financial derivative instruments.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 12. Financial Risk Management continued

#### Currency risk continued

In accordance with Company policy, the Investment Manager monitors each Fund's currency exposure on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on any significant exposures at its periodic meetings

At 31 December 2009 each Fund's currency exposure was as follows:

<b>Global Technology</b>	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
Canadian dollar	1,049	–	1,049
Euro	5,612	–	5,612
Hong Kong dollar	3,136	–	3,136
Japanese yen	3,033	–	3,033
Korean won	1,763	–	1,763
Sterling	12,209	(3,104)	9,105
Swedish kronor	1,278	–	1,278
Taiwan dollar	4,927	–	4,927
	<b>33,007</b>	<b>(3,104)</b>	<b>29,903</b>

<b>Healthcare Opportunities</b>	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
Euro	5,026	(378)	4,648
Japanese yen	1,286	–	1,286
Sterling	2,301	(393)	1,908
Swiss franc	6,396	(413)	5,983
	<b>15,009</b>	<b>(1,184)</b>	<b>13,825</b>

<b>Japan</b>	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
Euro	–	(4)	(4)
Sterling	4,713,562	(158,159)	4,555,403
United States dollar	766,195	(180,347)	585,848
	<b>5,479,757</b>	<b>(338,510)</b>	<b>5,141,247</b>



	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
<b>UK Absolute Return</b>			
Euro	7,711	(4,727)	2,984
Swiss franc	689	(867)	(178)
United States dollar	12,843	(67)	12,776
	<b>21,243</b>	<b>(5,661)</b>	<b>15,582</b>

At 31 December 2008 each Fund's currency exposure was as follows:

	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
<b>Global Technology</b>			
Canadian dollar	320	–	320
Euro	1,619	–	1,619
Indian rupee	469	–	469
Japanese yen	1,498	–	1,498
Korean won	422	–	422
Sterling	969	(427)	542
Swedish kronor	241	(1)	240
Taiwan dollar	767	–	767
	<b>6,305</b>	<b>(428)</b>	<b>5,877</b>

	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
<b>Healthcare Opportunities</b>			
Australian dollar	3,185	–	3,185
Brazilian	1,015	–	1,015
Euro	11,063	–	11,063
Japanese yen	7,608	–	7,608
Sterling	4,628	(132)	4,496
Swedish kronor	1,572	–	1,572
Swiss franc	6,847	–	6,847
	<b>35,918</b>	<b>(132)</b>	<b>35,786</b>

**Notes to the financial statements**

for the year ended 31 December 2009 continued

**12. Financial Risk Management** continued

	<b>Non-USD Currency Monetary Assets US\$'000</b>	<b>Non-USD Currency Monetary Liabilities US\$'000</b>	<b>Net Non-USD Currency Monetary Assets US\$'000</b>
<b>Japan*</b>			
Euro	2	–	2
Japanese yen	236,322	(2,582)	233,740
Singapore dollar	–	(1)	(1)
Sterling	109	(2)	107
Swiss franc	–	(10)	(10)
	<b>236,433</b>	<b>(2,595)</b>	<b>233,838</b>

\* Base currency of Japan Fund is US dollar

	<b>Non-USD Currency Monetary Assets GBP£'000</b>	<b>Non-USD Currency Monetary Liabilities GBP£'000</b>	<b>Net Non-USD Currency Monetary Assets GBP£'000</b>
<b>UK Absolute Return</b>			
Euro	1,754	(949)	805
Norwegian krone	11	–	11
United States dollar	2,670	(108)	2,562
	<b>4,435</b>	<b>(1,057)</b>	<b>3,378</b>

If the exchange rate at 31st December, 2009 between the individual funds base currencies and all other relevant currencies had increased or decreased by 5% with all other variables held constant, this would have increased or reduced net assets attributable to holders of redeemable participating shares of the Funds by approximately the below amounts.

<b>As at 31 December 2009</b>	<b>NAV 31.12.2009 US\$'000</b>	<b>% Increase/ (decrease)</b>	<b>Effect of increase/decrease US\$'000</b>
Global Technology	29,903	5	+/- 1,495
Healthcare Opportunities	13,825	5	+/- 691
<b>Total</b>			<b>+/- 2,186</b>

<b>As at 31 December 2009</b>	<b>NAV 31.12.2009 JPY ¥'000</b>	<b>% Increase/ (decrease)</b>	<b>Effect of increase/decrease JPY ¥'000</b>
Japan	5,141,247	5	+/- 257,062

<b>As at 31 December 2009</b>	<b>NAV 31.12.2009 GBP£'000</b>	<b>% Increase/ (decrease)</b>	<b>Effect of increase/decrease GBP£'000</b>
UK Absolute Return	£15,582	5	+/- 779

<b>As at 31 December 2008</b>	<b>NAV 31.12.2008 US\$'000</b>	<b>% Increase/ (decrease)</b>	<b>Effect of increase/decrease US\$'000</b>
Asia Ex Japan	–	5	–
Global Technology	5,877	5	+/- 294
Healthcare Opportunities	35,786	5	+/- 1,745
Japan	233,838	5	+/- 11,818
<b>Total</b>			<b>+/- 13,857</b>

<b>As at 31 December 2008</b>	<b>NAV 31.12.2008 GBP£'000</b>	<b>% Increase/ (decrease)</b>	<b>Effect of increase/decrease GBP£'000</b>
UK Absolute Return	£3,378	5	+/- 169

#### Interest rate risk

The majority of the Global Technology, Japan, Healthcare Opportunities and UK Absolute Return Funds financial assets and liabilities are non-interest bearing and any excess cash and cash equivalents are invested at short term market interest rates. As a result, the Funds are not subject to significant amounts of risk due to fluctuations in the prevailing level of market interest rates.

#### Credit risk

Credit risk is defined in FRS 29 as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The majority of each funds' financial assets are equity securities. As a result, they are not subject to significant amounts of credit risk.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 12. Financial Risk Management continued

#### Credit risk continued

The following are the assets for which the Company has a credit exposure to either counterparty risk or to the custodian:

Asset Type	Global Technology Fund	Healthcare Opportunities Fund	Japan Fund	UK Absolute Return Fund	Total
	31 December 2009 US\$	31 December 2009 US\$	31 December 2009 JPY ¥	31 December 2009 GBPE	31 December 2009 US\$
Investments	151,085,817	71,008,868	32,252,850,925	21,865,558	605,406,589
Dividends and interest receivable	–	35,161	34,501,698	66,395	514,646
Cash & Cash Equivalents	11,743,953	73,208	–	80,209,911	141,344,253
Receivables	6,925,650	323,129	201,499,603	2,171,801	12,930,058
	<b>169,755,420</b>	<b>71,440,366</b>	<b>32,488,852,226</b>	<b>104,313,665</b>	<b>760,195,546</b>

Asset Type	Asia ex Japan Fund	Global Technology Fund	Healthcare Opportunities Fund	Japan Fund	UK Absolute Return Fund	Total
	31 December 2008 US\$	31 December 2008 US\$	31 December 2008 US\$	31 December 2008 JPY ¥	31 December 2008 GBPE	31 December 2008 US\$
Investments	–	21,850,838	71,895,294	20,623,213,487	9,252,414	334,552,528
Dividends and interest receivable	–	2,118	42,007	22,625,605	73,074	393,799
Cash & Cash Equivalents	15,602	422,300	135,865	–	30,997,108	45,124,271
Receivables	4,981	95,125	262,935	741,178,241	226,798	8,865,383
	<b>20,583</b>	<b>22,370,381</b>	<b>72,336,101</b>	<b>21,387,017,333</b>	<b>40,549,394</b>	<b>388,935,981</b>

Transactions in securities are generally settled or paid for on delivery, or cleared through the appropriate clearing system for the market on which the securities are traded. The risk of default is not considered to be material, as delivery of securities sold is only made once the Custodian has received confirmation of payment. Payment is also only made on a purchase once confirmation of delivery of the securities has been received by the Custodian. The trade will fail if either party fails to deliver the required confirmations.

At 31 December 2009 and 31 December 2008, none of the Funds financial assets were past due or impaired.

In accordance with the Company's policy, the Investment Manager monitors each Fund's credit exposure on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on significant exposures at its periodic meetings.

#### Liquidity risk

Liquidity risk is defined in FRS 29 specifically as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities as they fall due.

The Funds are exposed to daily cash redemptions of redeemable participating shares, however daily cashflows on redemptions may fluctuate due to the difficulty in being able to accurately predict the redemption patterns and behaviours of the shareholders. The Funds invest the majority of their assets in securities and other instruments that are traded on an active market and which are considered to be liquid as under normal market conditions, they can be readily disposed of in the event that cash needs to be raised to meet redemptions or to pay expenses.

In accordance with Company policy, the Investment Managers monitors the Funds' liquidity on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on significant exposures at its periodic meetings.

At the 31 December 2009 and 31 December 2008 the Fund's all held liquid assets and liabilities that could be disposed of in less than one month. The residual contractual maturities of financial liabilities held by the Funds are all within 3 months.

#### **Fair value hierarchy**

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Funds is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate. If a significant movement in fair value occurs subsequent to the close of trading on the year end date, valuation techniques will be applied to determine the fair value.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques.

For instruments for which there is no active market, the Company may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity, for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 12. Financial Risk Management continued

#### Fair value hierarchy continued

The table below sets out fair value measurements using the FRS 29 fair value hierarchies:

#### Financial assets and liabilities at fair value through profit or loss

As at 31 December 2009	Total US\$	Level 1 US\$	Level 2 US\$	Level 3 US\$
<b>Global Technology Fund</b>				
Equity investments	151,085,091	151,085,091	–	–
Forwards	726	–	726	–
<b>Total</b>	<b>151,085,817</b>	<b>151,085,091</b>	<b>726</b>	<b>–</b>
<b>Healthcare Opportunities Fund</b>				
Equity investments	70,470,837	70,470,837	–	–
Options	538,031	–	538,031	–
<b>Total</b>	<b>71,008,868</b>	<b>70,470,837</b>	<b>538,031</b>	<b>–</b>
<b>Japan Fund</b>				
Equity investments	346,591,036	346,591,036	–	–
Forwards	1,374,266	–	1,374,266	–
<b>Total</b>	<b>347,965,302</b>	<b>346,591,036</b>	<b>1,374,266</b>	<b>–</b>
<b>UK Absolute Return Fund</b>				
Equity investments	28,972,569	28,972,569	–	–
Contracts for difference	(2,619,215)	–	(2,619,215)	–
Futures	(488,331)	–	(488,331)	–
Forwards	254,601	–	254,601	–
Options	1,658,890	–	1,658,890	–
Swaps	(6,863,627)	–	(6,863,627)	–
<b>Total</b>	<b>20,914,887</b>	<b>28,972,569</b>	<b>(8,057,682)</b>	<b>–</b>

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

There are no level 3 assets held by the Company as at 31 December 2009.

There was no movement of level 3 assets of the Company during the period from 1 January 2009 to 31 December 2009. In addition, there were no significant transfers between level 1 and level 2 of the fair value hierarchy during the period from 1 January 2009 to 31 December 2009.

The valuation techniques used by the Company are explained in the accounting policies note on pages 53 to 56. There has been no change to the valuation techniques used during the year.

### 13. Cross/Segregated Liability

The Company is an umbrella fund investment company with segregated liability between the Funds of the Company. Under Irish law, being the law applicable to the Company, this should result in any liabilities attributable to any Fund being borne solely by that Fund in the event of any insolvency.

### 14. Comparative Figures

	<b>Net Asset Value Audited 31 December 2009</b>	<b>Net Asset Value Audited 31 December 2008</b>	<b>Net Asset Value Audited 31 December 2007</b>
<b>Global Technology Fund</b>			
Class A US dollar	\$26,040,733	\$14,711,691	\$5,725,264
Class A Sterling	£10,975,078	£4,962,404	£2,224,672
Class A Euro	€94	€55	€10
Class I US dollar	\$10,944,356	N/A	N/A
Class I Sterling	£6,080,013	N/A	N/A
Class I Euro	€102,795	N/A	N/A
Class R US dollar	\$98,325,466	N/A	N/A
Class R Sterling	£11,863	N/A	N/A
Class R Euro	€13,149	N/A	N/A
	<b>Nav per share</b>	<b>Nav per share</b>	<b>Nav per share</b>
Class A US Dollar	\$13.45	\$7.71	\$14.47
Class A Sterling	£8.33	£5.34	£7.27
Class A Euro	€9.40	€5.45	€9.90
Class I US dollar	\$11.75	N/A	N/A
Class I Sterling	£7.27	N/A	N/A
Class I Euro	€8.19	N/A	N/A
Class R US dollar	\$11.73	N/A	N/A
Class R Sterling	£7.26	N/A	N/A
Class R Euro	€8.18	N/A	N/A

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 14. Comparative Figures continued

	Net Asset Value Audited 31 December 2009	Net Asset Value Audited 31 December 2008	Net Asset Value Audited 31 December 2007
<b>Healthcare Opportunities Fund</b>			
Class A US dollar	\$5,445,668	\$19,198,978	\$1
Class A Sterling	£28,185,841	£35,343,876	£1,810,831
Class A Euro	€237,263	€674,687	€1
Class I US dollar	\$9,770,452	N/A	N/A
Class I Sterling	£5,331,826	N/A	N/A
Class I Euro	€273,455	N/A	N/A
Class R US dollar	\$520,006	N/A	N/A
Class R Sterling	£133,649	N/A	N/A
Class R Euro	€21,373	N/A	N/A
	<b>Nav per share</b>	<b>Nav per share</b>	<b>Nav per share</b>
Class A US Dollar	\$9.04	\$7.91	\$10.09
Class A Sterling	£5.61	£5.48	£5.06
Class A Euro	€6.30	€5.59	€6.86
Class I US dollar	\$12.93	N/A	N/A
Class I Sterling	£8.01	N/A	N/A
Class I Euro	€9.01	N/A	N/A
Class R US dollar	\$12.91	N/A	N/A
Class R Sterling	£7.99	N/A	N/A
Class R Euro	€9.00	N/A	N/A
	<b>Net Asset Value Audited 31 December 2009</b>	<b>Net Asset Value Audited 31 December 2008</b>	<b>Net Asset Value Audited 31 December 2007</b>
<b>Japan Fund</b>			
Class A US dollar	\$101,343,144	\$96,804,913	\$7,576,677
Class A Sterling	£53,674,715	£56,263,958	£5,628,997
Class A Japanese yen	¥3,461,135,092	¥4,359,593,929	¥6,621,872
Class I US dollar	\$9,243,697	N/A	N/A
Class I Sterling	£517,445	N/A	N/A
Class I JPY	¥2,294,370,282	N/A	N/A
Class R US dollar	\$1,100,586	N/A	N/A
Class R Sterling	£64,532	N/A	N/A
Class R JPY	¥1,685,644,713	N/A	N/A
Class I Hedged US dollar	\$4,021,152	N/A	N/A
Class R Hedged US dollar	\$2,860,139	N/A	N/A
Class I Hedged GBP	£9,634,129	N/A	N/A
Class R Hedged GBP	£21,987,688	N/A	N/A



<b>Japan Fund</b>	<b>Nav per share</b>	<b>Nav per share</b>	<b>Nav per share</b>
Class A US dollar	\$15.89	\$14.69	\$16.84
Class A Sterling	£10.02	£10.08	£8.41
Class A Japanese Yen	¥1,465.53	¥1,328.73	¥1,889.08
Class I US dollar	\$12.15	N/A	N/A
Class I Sterling	£7.66	N/A	N/A
Class I JPY	¥1,120.84	N/A	N/A
Class R US dollar	\$12.11	N/A	N/A
Class R Sterling	£7.64	N/A	N/A
Class R JPY	¥1,117.27	N/A	N/A
Class I Hedged US dollar	\$11.19	N/A	N/A
Class R Hedged US dollar	\$11.16	N/A	N/A
Class I Hedged GBP	£11.23	N/A	N/A
Class R Hedged GBP	£11.14	N/A	N/A

	<b>Net Asset Value Audited 31 December 2009</b>	<b>Net Asset Value Audited 31 December 2008</b>	<b>Net Asset Value Audited 31 December 2007</b>
<b>UK Absolute Return Fund</b>			
Class A US dollar	\$1,856,241	\$14,231	N/A
Class A Sterling	£15,306,991	£1,945,535	N/A
Class A Euro	€526,641	€10,057	N/A
Class I US dollar	\$1,096,762	\$1,361,465	N/A
Class I Sterling	£59,677,327	£31,315,635	N/A
Class I Euro	€1,608,724	€10,047	N/A
Class I Hedged US dollar	\$20,376,896	\$3,732,276	N/A
Class I Hedged Euro	€3,842,987	€744,087	N/A
	<b>Nav per share</b>	<b>Nav per share</b>	<b>Nav per share</b>
Class A US dollar	\$17.47	\$14.23	N/A
Class A Sterling	£10.79	£9.86	N/A
Class A Euro	€12.13	€10.06	N/A
Class I US dollar	\$17.53	\$14.21	N/A
Class I Sterling	£10.83	£9.85	N/A
Class I Euro	€12.18	€10.05	N/A
Class I Hedged US dollar	\$10.68	\$9.66	N/A
Class I Hedged Euro	€10.77	€9.67	N/A

## 15. Distributor Status

HM Revenue and Customs has certified Polar Capital Funds plc as a distributing fund in respect of the year ended 31 December 2008. The Company intends to apply for distributor status for all classes of its redeemable participating shares for the 2009 accounting period. Thereafter, the Company anticipates applying for the reporting status under the successor regime intended at the end of 2010.

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 16. Distributions

The following distributions were paid during the year 2009:

2009	Date declared	Date of payment	Rate per share	No. of shares	Amount
<b>UK Absolute Return Fund</b>					
Class A USD	02/01/2009	27/05/2009	\$0.106439	1,000	\$106
Class A GBP	02/01/2009	27/05/2009	£0.074032	197,316	£14,608
Class A EUR	02/01/2009	27/05/2009	€0.076572	1,000	€77
Class I USD	02/01/2009	27/05/2009	\$0.119606	95,810	\$11,459
Class I GBP	02/01/2009	27/05/2009	£0.083190	3,179,252	£264,480
Class I EUR	02/01/2009	27/05/2009	€0.086044	1,000	€86
Class I USD Hedged	02/01/2009	27/05/2009	\$0.009210	386,364	\$3,559
Class I EUR Hedged	02/01/2009	27/05/2009	€0.001708	76,948	€131

### 17. FSA Side Letter Policy

The Financial Securities Authority (FSA) in the United Kingdom, which regulates the Investment Manager, expects all investment managers authorised and regulated by the FSA write to investors in the funds managed by them with details of any Side Letter that may have been entered into by the investment manager. The FSA considers a Side Letter to be an arrangement which can reasonably be expected to provide an investor with materially more favourable rights than other investors, such as enhanced redemption rights or the provision of portfolio information which are not generally available. The Investment Manager has confirmed to the Company that it is not aware or party to an arrangement whereby an investor has any preferential redemption terms, however in exceptional circumstances, for example where an investor seeds a new fund, the Investment Manager has provided investors on the funds behalf with portfolio information and capacity commitments.

### 18. Stocklending

The Company has not entered into any stock lending arrangements during the year ended 31 December 2009.

For the year ended 31 December 2008, rebate income paid to the Company by Northern Trust Global Investments in relation to stock lending activities is detailed below:

Fund	Net Income from Stocklending received during the year ended 31 December 2008 US\$	Net Stocklending income receivable as at 31 December 2008 US\$
Asia ex Japan Fund	–	–
Global Technology Fund	90,316	–
Healthcare Opportunities Fund	–	–
Japan Fund	423,362	–
UK Absolute Return Fund	–	–
	<b>513,678</b>	<b>–</b>

## 19. Gains and Losses from Financial Assets and Liabilities at fair value through Profit or Loss

The following table details the gains and losses from financial assets and liabilities at fair value through profit or loss for the year ended 2009:

	Global Technology Fund US\$	Healthcare Opportunities Fund US\$	Japan Fund JPY ¥	UK Absolute Return Fund GBP£	Total US\$
Net realised (loss)/gain on disposal of investments and foreign exchange	(1,554,780)	(13,268,630)	(689,498,643)	5,627,473	(13,391,119)
Net unrealised gain on investments and foreign exchange	31,324,982	17,321,062	(1,892,908,443)	4,015,559	34,681,396
Net realised (loss)/gain on derivative financial instruments	(125,540)	62,110	(145,834,834)	(610,154)	(2,578,594)
Net unrealised gain/(loss) on derivative financial instruments	67,421	167,328	134,203,598	(1,733,148)	(1,042,383)
<b>Total net gain from financial assets and liabilities at fair value through profit or loss</b>	<b>29,712,083</b>	<b>4,281,870</b>	<b>(2,594,038,322)</b>	<b>7,299,730</b>	<b>17,669,300</b>

The following table details the gains and losses from financial assets and liabilities at fair value through profit or loss for the year ended 2008:

	Asia ex Japan Fund US\$	Global Technology Fund US\$	Healthcare Opportunities Fund US\$	Japan Fund JPY ¥	UK Absolute Return Fund GBP£	Total US\$
Net realised loss on disposal of investments and foreign exchange	(14,355,438)	(20,939,185)	(7,229,878)	(4,378,948,875)	(556,960)	(85,874,204)
Net unrealised loss on investments and foreign exchange	–	(12,767,500)	(10,211,454)	(833,435,564)	1,255,358	(28,818,660)
Net realised (loss)/gain on derivative financial instruments	(1,798,085)	(184,614)	676,119	(29,429,388)	981,775	139,310
Net unrealised loss on derivative financial instruments	–	–	–	–	(126,240)	(222,530)
<b>Total net (loss)/gain from financial assets and liabilities at fair value through profit or loss</b>	<b>(16,153,523)</b>	<b>(33,891,299)</b>	<b>(16,765,213)</b>	<b>(5,241,813,827)</b>	<b>1,553,933</b>	<b>(114,776,084)</b>

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 20. Financial Assets and Liabilities

The following table details the categories of financial assets and liabilities held by the Company at 31 December 2009:

	Global Technology Fund US\$	Healthcare Opportunities Fund US\$	Japan Fund JPY ¥	UK Absolute Return Fund GBP£	Total US\$
<b>Financial Assets at fair value through profit or loss</b>					
Held for Trading					
Investments in equity securities held long at fair value	151,085,091	70,470,837	32,122,057,250	17,941,321	597,119,533
Unrealised gain on derivative financial instruments	726	538,031	130,793,675	3,924,237	8,287,056
<b>Total financial assets at fair value through profit or loss</b>	<b>151,085,817</b>	<b>71,008,868</b>	<b>32,252,850,925</b>	<b>21,865,558</b>	<b>605,406,589</b>
Loans and Receivables	18,669,603	431,498	236,001,301	82,448,107	154,788,957
<b>Total Assets</b>	<b>169,755,420</b>	<b>71,440,366</b>	<b>32,488,852,226</b>	<b>104,313,665</b>	<b>760,195,546</b>
<b>Financial Liabilities at fair value through profit or loss</b>					
Held for Trading					
Unrealised loss on derivative financial instruments	–	–	(3,426,735)	(8,913,973)	(14,431,716)
<b>Total financial liabilities at fair value through profit or loss</b>	<b>–</b>	<b>–</b>	<b>(3,426,735)</b>	<b>(8,913,973)</b>	<b>(14,431,716)</b>
Financial liabilities	(6,717,720)	(629,328)	(1,667,870,746)	(709,699)	(26,489,121)
<b>Total financial liabilities (excluding net assets attributable holders of redeemable participating shares)</b>	<b>(6,717,720)</b>	<b>(629,328)</b>	<b>(1,671,297,481)</b>	<b>(9,623,672)</b>	<b>(40,920,837)</b>

## 20. Financial Assets and Liabilities continued

The following table details the categories of financial assets and liabilities held by the Company at 31 December 2008:

	Asia ex Japan Fund US\$	Global Technology Fund US\$	Healthcare Opportunities Fund US\$	Japan Fund JPY ¥	UK Absolute Return Fund GBP£	Total US\$
<b>Financial Assets at fair value through profit or loss</b>						
Held for Trading						
Investments in equity securities held long at fair value	–	21,850,838	71,895,294	20,623,213,487	7,294,728	331,737,864
Unrealised gain on derivative financial instruments	–	–	–	–	1,957,686	2,814,664
<b>Total financial assets at fair value through profit or loss</b>	<b>–</b>	<b>21,850,838</b>	<b>71,895,294</b>	<b>20,623,213,487</b>	<b>9,252,414</b>	<b>334,552,528</b>
Loans and Receivables	20,583	519,543	440,807	763,803,846	31,296,980	54,404,036
<b>Total Assets</b>	<b>20,583</b>	<b>22,370,381</b>	<b>72,336,101</b>	<b>21,387,017,333</b>	<b>40,549,394</b>	<b>388,956,564</b>
<b>Financial Liabilities at fair value through profit or loss</b>						
Held for Trading						
Unrealised loss on derivative financial instruments	–	–	–	–	(2,735,843)	(3,933,460)
<b>Total financial liabilities at fair value through profit or loss</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,735,843)</b>	<b>(3,933,460)</b>
Financial liabilities	(20,583)	(123,914)	(784,367)	(811,564,068)	(181,750)	(10,142,895)
<b>Total financial liabilities (excluding net assets attributable holders of redeemable participating shares)</b>	<b>(20,583)</b>	<b>(123,914)</b>	<b>(784,367)</b>	<b>(811,564,068)</b>	<b>(2,917,593)</b>	<b>(14,076,355)</b>

## Notes to the financial statements

for the year ended 31 December 2009 continued

### 21. Events during the Period

The Japan Fund changed its base currency from US dollar to JPY ¥ on 2 April 2009 and the prospectus for Polar Capital Funds Plc was updated on 6 November 2009.

The Japan Fund NAV was valued on 30 December 2009 due to a public holiday in Japan on 31 December 2009.

### 22. Subsequent Events

There have been no material events subsequent to the year end 31 December 2009 which affect the Financial Statements.

Japan Fund is due to launch the following additional share classes at the beginning of April 2010:

- (i) Class R Euro Share Class
- (ii) Class I Euro Share Class
- (iii) Class R Hedged Euro Share Class
- (iv) Class I Hedged Euro Share Class

### 23. Portfolio changes

A complete listing of the purchases and sales during the period is available free from the Company on request.

### 24. Approval of the Financial Statements

The Financial Statements were approved by the Board on 14 April 2010.

## Statement of Significant Portfolio Movements – Unaudited

### Global Technology Fund

<b>Sales</b>	<b>Proceeds US\$'000</b>	<b>Purchases</b>	<b>Cost US\$'000</b>
Starent Networks	2,140	Apple	7,766
Tandberg	2,004	Microsoft	6,919
McAfee	1,652	Google	5,811
Synopsis	1,519	Intel	4,242
SAP	1,450	Cisco Systems	3,869
Activision Blizzard	1,434	QUALCOMM	3,559
Taiwan Semiconductor Manufacturing	1,425	Juniper Networks	2,981
First Solar	1,413	Skyworks Solutions	2,276
Broadcom	1,403	NVIDIA	2,241
Omniture	1,345	Salesforce.com	2,187
Tessera Technologies	1,304	STEC	2,108
Fanuc	1,250	Amazon.com	2,073
Salesforce.com	1,249	Atmel	1,997
Vocus	1,236	EMC	1,967
ROVI	1,236	Cognizant Technology Solutions	1,937
Akamai Technologies	1,205	Autonomy	1,872
Skyworks Solutions	1,177	3PAR	1,855
Electronics Arts	1,164	LAM Research	1,854
Cavium Networks	1,090	Square Enix Holdings	1,828
Successfactors	1,084	Monolithic Power Systems	1,805

## Statement of Significant Portfolio Movements – Unaudited

continued

### Healthcare Opportunities Fund

<b>Sales</b>	<b>Proceeds US\$'000</b>	<b>Purchases</b>	<b>Cost US\$'000</b>
Medco Health Solutions	6,160	Celgene	4,600
Gilead Sciences	5,087	Novartis	3,978
Synthes	4,882	Pfizer	3,940
Fresenius Medical Care	4,584	Abbott Laboratories	3,902
Celgene	4,290	Teva Pharmaceutical Industries	3,547
Cephalon	3,826	United Healthcare	3,515
Teva Pharmaceutical Industries	3,782	Community Health Systems	3,397
Abbott Laboratories	3,637	Aetna	3,270
Novartis	3,375	Amgen	3,097
Amgen	3,333	Medco Health Solutions	3,060
CSL	3,263	Cardionet	3,033
Covidien	3,220	Davita	2,674
Aetna	3,168	Thermo Fisher Scientific	2,658
St. Jude Medical	3,092	Zimmer	2,617
Davita	2,963	Gilead Sciences	2,601
Merck	2,770	Express Scripts	2,560
Johnson & Johnson	2,536	Allergan	2,556
Prostrakan	2,523	Laboratory Corporation of America	2,480
Laboratory Corporation of America	2,450	Merck	2,473
Bristol	2,367	Actelion	2,380



## Japan Fund

<b>Sales</b>	<b>Proceeds ¥'000</b>	<b>Purchases</b>	<b>Cost ¥'000</b>
Sysmex	904,926	Sumitomo Mitsui Financial	1,364,376
Seven & I Holdings	880,824	NOK Corporation	1,302,534
Mitsui Sumitomo Insurance	863,171	Mitsubishi UFJ Financial	1,261,585
Osaka Securities Exchange	791,148	Shin-Etsu Chemical	1,235,465
Japan Associated Finance	736,004	T&D Holdings	1,094,898
Toyota Motor	681,459	Mazda Motor	894,714
Bank of Kyoto	666,056	Mitsui Sumitomo Insurance	885,573
Chiba Bank	660,879	Daiseki	793,486
Bank of Yokohama	656,548	Mitsui O.S.K.Lines	756,849
Daito Trust Construction	649,284	Sekisui Chemical	756,238
Miraca Holdings	598,320	Bank of Kyoto	728,620
JGC	583,999	Kubota	726,687
Goldcrest	578,800	JGC	662,857
Itochu	573,334	Itochu	661,161
Daiichi Sankyo	570,588	Bank of Yokohama	618,044
Daiseki	560,048	Mitsubishi	597,167
Mitsubishi Electric	532,450	Mimasu Semiconductor Industry	581,534
Sekisui House	482,113	West Japan Railway	561,692
JS Group	479,802	Aisin Seiki	560,640
Kubota	472,389	Daito Trust Construction	527,653

**Statement of Significant Portfolio Movements – Unaudited**

continued

**UK Absolute Return Fund**

<b>Sales</b>	<b>Proceeds GBP£'000</b>	<b>Purchases</b>	<b>Cost GBP£'000</b>
Greene King	1,563	Sainsbury J	2,567
Marston's	1,343	Astrazeneca	1,662
British Land	1,331	Shanks	1,274
FTSE 100 Equity Index Call Option 15.05.2009	1,085	British Land	1,125
Legal & General	859	International Power	1,104
GKN	828	Compass	999
Barclays 300 Call Option 21.08.2009	716	Lloyds TSB	951
FTSE 100 Equity Index Call Option 16.10.2009	679	Greene King	882
Astrazeneca	677	Greene King Rights	875
Sainsbury J	640	TNT	794
BMW 21 Call Option 20.03.2009	623	FTSE 100 Equity Index Call Option 15.05.2009	691
Nestle C46 Call Option 20.11.2009	541	Marston's	574
FTSE 100 Equity Index Call Option 15.05.2009	528	FTSE 100 Equity Index Put Option 16.10.2009	560
DJ Stoxx 50 Equity Index Call Option 20.03.2009	480	FTSE 100 Equity Index Put Option 18.12.2009	476
Philips	437	GKN	447
Greene King Rights	356	Philips	437
Prudential	328	Lloyds TSB Rights	433
FTSE 100 Equity Index Call Option 16.10.2009	309	ITV	433
FTSE 100 Equity Index Put Option 20.11.2009	278	FTSE 100 Equity Index Call Option 20.02.2009	416
Compass	236	FTSE 100 Equity Index Call Option 16.10.2009	401

## Information for Investors in Switzerland – Unaudited

The Company have appointed BNP Paribas Securities Services Paris, Succursale de Zurich, Switzerland as representative and paying agent for Switzerland. For redeemable participating shares distributed in Switzerland, the performance place is at BNP Paribas Securities Services' address. Investors, can obtain free of charge, the prospectus, the simplified prospectus (both also available for potential investors), and the last annual and interim reports, in German and a list of the purchases and sales made on behalf of The Fund, from the representative at the above address. Official publications for the Fund are made in L'AgeSi and the Swiss Official Trade Gazette.

Following a directive of the Swiss Funds Association dated 27 July 2004, the Company is required to supply performance data in conformity with the said directive. This data can be found under each of the Fund reports.

Please note that all references to a specific index are for comparative purposes only.

Past performance is no indication of current or future performance. The value of an investment can fall as well as rise as a result of market fluctuations and investors may not get back the amount originally invested. The performance data does not take account of the commissions and costs incurred on the issue and redemption of redeemable participating shares.

Investors should contact the Swiss representative at the above address should they require additional information, e.g. on performance including the composition of the relevant indices where applicable.

### Total Expense Ratio & Portfolio Turnover Rate – Unaudited

Pursuant to a guideline from the Swiss Funds Association dated January 2006, the Company is required to publish a Total Expense Ratio (TER) for the year ended 31 December 2009.

The TERs for each Fund for the last three years are as follows:

Name of Fund	TER (excluding performance) fee in %	TER (including performance) fee in %	TER (excluding performance) fee in %	TER (including performance) fee in %	TER (excluding performance) fee in %	TER (including performance) fee in %
	31 December 2009	31 December 2009	31 December 2008	31 December 2008	31 December 2007	31 December 2007
Global Technology Fund	2.15	2.76	2.06	2.06	1.94	1.94
Healthcare Opportunities Fund	2.19	2.19	2.13	2.13	0.38	2.15
Japan Fund	2.29	2.32	1.99	1.99	1.89	1.89
UK Absolute Return Fund	1.68	2.49	1.08	1.08	N/A	N/A

The Portfolio Turnover numbers for each Fund for last three years are as follows:

Name of Fund	PTR in % 31 December 2009	PTR in % 31 December 2008	PTR in % 31 December 2007
Global Technology Fund	0.57	2.03	2.21
Healthcare Opportunities Fund	3.39	3.08	0.29
Japan Fund	1.24	3.59	4.26
UK Absolute Return Fund	0.42	11.52	N/A

## Notice of Annual General Meeting

### To: The Shareholders of Polar Capital Funds plc (the "Company")

NOTICE is hereby given that the Annual General Meeting of the Shareholders of the Company will be held at George's Court, 54-62 Townsend Street, Dublin 2 on Friday, 18 June 2010 at 10.00 a.m.

### AGENDA

#### 1. Report and Accounts

To receive the Annual Report and Audited Financial Statements for the year ended 31 December 2009.

#### 2. Re-appointment of Auditors

To re-appoint KPMG as the Auditors of the Company.

#### 3. Auditors' Remuneration

To authorise the Directors to fix the Auditors' remuneration.

#### 4. Directors Remuneration

To authorise the Directors to fix the Directors' remuneration, specifically to amend the maximum annual fee per Director, as stated in the Prospectus of the Company, from €25,000 to €50,000.

By Order of the Board



For and on behalf of Northern Trust  
International Fund Administration  
Services (Ireland) Limited as Secretary

Dated this 5 of May 2010

#### Registered Office:

George's Court  
54-62 Townsend Street  
Dublin 2

### NOTE

Every member entitled to attend, speak and vote at the above meeting is entitled to appoint a proxy to attend, speak and vote in his stead. A body corporate may appoint an authorised person to attend, speak and vote on its behalf. A proxy or an authorised representative need not be a member of the Company.

# Form of Proxy

Polar Capital Funds plc (the "Company")

I/We, \_\_\_\_\_

of \_\_\_\_\_

being Members of the above Company hereby appoint \_\_\_\_\_

or failing him/her, the Chairman of the Meeting, or failing him/her, Ms. Aoife Ní Riain of Northern Trust International Fund Administration Services (Ireland) Limited, or failing her, Ms. Aine Kingston of Northern Trust International Fund Administration Services (Ireland) Limited, or failing her, Ms. Margaret Bergin of Northern Trust International Fund Administration Services (Ireland) Limited, or failing her, Ms. Deirdre O'Connor of Northern Trust International Fund Administration Services (Ireland) Limited, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 18 June 2010 and at any adjournment thereof.

Please indicate with an X in the spaces below how you wish your vote(s) to be cast. Unless otherwise instructed, the proxy will vote as he/she thinks fit.

**Resolution:**

	<b>For</b>	<b>Against</b>
1. To receive the Annual Report and Audited Annual Financial Statements for the year ended 31 December 2009.		
2. To re-appoint KPMG as the Auditors of the Company.		
3. To authorise the Directors to fix the Auditors' remuneration.		
4. To authorise the Directors to fix the Directors' remuneration, specifically to amend the maximum annual fee per Director, as stated in the Prospectus of the Company, from €25,000 to €50,000.		

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

**Please return to:**

Northern Trust International Fund Administration  
Services (Ireland) Limited  
George's Court  
54-62 Townsend Street  
Dublin 2  
Ireland

**Attention:**

Aoife Ní Riain

# Form of Proxy

Polar Capital Funds plc (the “Company”) continued

## NOTES:

1. This instrument of proxy, to be valid, must be sent by post so as to arrive, or be lodged, at the address printed below before the commencement of the meeting.
2. In the case of a corporate shareholder, this instrument may be either under its Common Seal or under the hand of an officer or attorney authorised in that behalf.
3. If you wish to appoint a proxy other than the Chairman of the meeting, please insert his/her name and address and delete “the Chairman of the meeting”.
4. If this instrument is signed and returned without any indication of how the person appointed proxy shall vote, he will exercise his discretion as to how he votes and whether or not he abstains from voting.
5. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority should be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. The address to which the proxy forms should be returned is:

Northern Trust International Fund Administration Services Ireland (Ireland) Limited  
George’s Court  
54-62 Townsend Street  
Dublin 2  
Ireland

Attention:  
Aoife Ní Riain

7. Proxy forms may be returned in the first instance by fax to +353 1 542 2920 but the original should be forwarded by mail to the address shown at 6 above.

## Management and Administration

### Directors

James Cayzer-Colvin (GB)

Charles Scott\* (GB)

David Hammond\* (IRL)

Jonathan Quigley\* (IRL)

Robert Bovet\* (US)

Ronan Daly\* (GB)

\* Directors independent of the Investment Manager,  
All directors are non-executive.

### Investment Manager

Polar Capital LLP

4 Matthew Parker Street

London SW1H 9NP

United Kingdom

### Administrator, Registrar, Transfer Agent and Secretary

Northern Trust Fund Administration Services  
(Ireland) Limited

Georges Court

54-62 Townsend Street

Dublin 2

Ireland

### Legal Advisers

as to Irish law

Dillon Eustace

33 Sir John Rogerson's Quay

Dublin 2

Ireland

### Sponsoring Broker

J & E Davy

Davy House

49 Dawson Street

Dublin 2

Ireland

### Swiss Paying Agent

BNP Paribas Securities Services

Paris

Zurich Branch, Selnaustrasse 16, 8022 Zurich

Switzerland

### French Paying Agent

BNP Paribas Securities Services

66 Rue de la Victoire

75009 Paris

France

### Registered Office

Georges Court

54-62 Townsend Street

Dublin 2

Ireland

### Company Registration Number

348391

### Custodian

Northern Trust Fiduciary Services (Ireland) Limited

Georges Court

54-62 Townsend Street

Dublin 2

Ireland

### Independent Auditor

KPMG

Chartered Accountants

1 Harbourmaster Place

International Financial Services Centre

Dublin 1

Ireland

### Swedish Paying Agent

SEB Merchant Banking

Sergels Tog 2, ST H1

10640 Stockholm

Sweden

### German Paying and Information Agents

Deutsche Bank AG

Taunusanlage 12

D-60325

Frankfurt am Main

Germany

### Austrian Paying Agent

Meinl Bank

Aktiengesellschaft

Bauernmarkt 2

1014 Wien

Austria

### Governance and Monitoring Services

Bridge Consulting Limited

33 Sir John Rogerson's Quay

Dublin 2

Ireland

