

THE ABSOLUTE RETURN TRUST FOR CHARITIES



Annual Report
31st December 2010

The Absolute Return Trust for Charities

(Charity number 1094498)

Annual report

(audited)

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* These collectively comprise the Manager's report

Introduction

The Absolute Return Trust for Charities ("the Trust") was launched on 22 November 2002 and first price on 27 November 2002. These accounts cover the year ended 31 December 2010.

Investment objective

The investment objective of the Trust is to generate absolute total returns of one-month LIBOR plus 4% per annum, net of fees, over rolling five-year periods.

Investment policy

The Trust aims to achieve its investment objective principally through investment in a portfolio of hedge funds. In selecting hedge funds, the Manager will adopt a multi-manager approach.

In seeking to achieve the investment objective of the Trust, the current policy of the Manager is to invest in hedge funds which are considered to have demonstrated or offer the opportunity for consistent positive returns, low volatility and a low correlation to bond and equity markets. These underlying funds may pursue various investment strategies including but not limited to equity-based strategies, macro strategies, restructuring strategies, merger arbitrage strategies, capital structure strategies, credit arbitrage strategies and multiple strategies and other strategies pursued from time to time by the managers of such funds.

The hedge funds in which investment is permitted include open, semi-open and closed ended funds, many if not all of which may be unregulated. Whilst there is no restriction placed on the jurisdictions in which such hedge funds are established or resident, they are typically located in offshore locations including, without limitation, Bermuda, the Cayman Islands, the British Virgin Islands, Luxembourg and the Republic of Ireland. These vehicles may take a variety of legal forms including without limitation companies, unit trusts, limited partnerships and partnerships. The investments made by the Trust in such entities may be represented by shares, units, partnerships and other interests or participations in the underlying fund and/or related feeder structures many if not all of which will be unlisted.

The Trust will under normal circumstances seek to hold no fewer than 10 hedge funds. The Trust will seek to avoid individual portfolio holdings which represent less than 0.5% of the property of the Trust. The Trust will also under normal circumstances seek to invest no more than 35% of the property of the Trust in hedge funds following the same investment strategy and no more than 12% of the property of the Trust in hedge funds managed by a single investment management group. However, the ability of the Trust to achieve these policy parameters and the investment restrictions to which it is subject will be dependent on various factors. These factors include the amount of monies available for investment to the Manager, the cash balances of the Trust pending investment, the liquidity requirements of the Trust in order to meet redemptions, distributions and expenses, the frequency of dealing in the underlying funds in which investment is made from time to time and the number of funds with the required investment strategies open to investment from time to time.

The asset allocation as at 31 December 2010 was as follows:

	%
Hedge funds	97.69
Forward currency defensive hedges	(0.01)
Net other assets	2.32

The assets allocation as at 31 December 2009 was as follows:

	%
Hedge funds	89.92
Forward currency defensive hedges	(2.55)
Net other assets	12.63

Distribution policy

There are distribution units within the Trust and there is a method of calculating the amount of that distribution which is disclosed in accounting policy (e) within note 1 of the financial statements

Investment Adviser's report

Performance

The Absolute Return Trust for Charities returned 1.2% for the year ending 31 December 2010.

Market review

The global recovery story appeared very much intact at the beginning of 2010. However, as the year progressed, sovereign debt concerns in Europe came to the fore as the magnitude of Greece's fiscal problems became apparent and investors analysed the potential ramifications for other sovereign borrowers. Apprehensions were not eased by BP's oil spill in the Gulf of Mexico, political tensions in Korea, nor monetary tightening in China. These concerns culminated in a swing in sentiment during the month of May that prompted a material decline in the price of risk assets. Equity markets, which had advanced throughout much of the year, suffered significant setbacks. So began a period of "risk-on, risk-off" that continued throughout much of the year and saw rapid increases in correlation across securities and asset classes. Towards the end of the year, buoyed by encouraging economic data and the confidence derived from the implicit "put option" of further quantitative easing in the US, stock markets shrugged off concerns about Eurozone sovereign debt and rose sharply. After a rollercoaster ride, the MSCI World (Total Return) Index ended the year up around 11%.

Equity market volatility as measured by the VIX Index (a gauge of implied volatility on the S&P500 Index) declined in the early months of 2010, only to come back with a vengeance in May as the VIX Index touched 45, more than three times the lows reached the month before. The VIX Index again declined in July, a trend which was to continue for the majority of the year with short sharp rises in a pattern that reflected the changeable mood of equity markets.

For much of 2010, no Government bonds rallied and yield curves flattened as growth forecasts were adjusted downwards. In the third quarter the yield on two-year US Treasury notes touched a record low of around 0.4%, suggesting investors remained anxious about the medium-term economic outlook. The price of government bonds fell sharply in December, pushing the yield on the benchmark US 10-year note up from October's low of 2.38% to end the year at 3.29%. This reflected a level of scepticism about the ability of sovereigns to fund their deficits, and growing concerns about inflation.

Most major currencies were volatile during 2010 as sentiment swung around the Eurozone debt crisis and the Federal Reserve's quantitative easing programme (QE2). Meanwhile, the price of gold, crude oil and commodities, especially agricultural commodities, all appreciated. Gold finished the year near record highs of \$1,420 per ounce while crude oil, as measured by Nymex, finished the year 15% higher at \$91.40 per barrel.

Portfolio review

The performance of Macro managers was mixed but the strategy ended the year up slightly. Macro managers had a number of major themes to contend with during 2010 and did so with varying degrees of success. They were generally well positioned to profit from renewed concerns over Eurozone debt but were less consistent in anticipating the effect of "QE2". Those that elected to express their view through currencies, equities and commodities did well, while those who had positions in the fixed income securities had a tougher time as the response of these markets proved less predictable.

The Fixed Income manager had a difficult year but managed to end up slightly positive overall. Short-term US interest rate and yield curve steepening positions generated profits in the first quarter. As volatility increased in the second quarter, long volatility positions produced small positive gains. In the second half of the year, performance was muted with some positive performance coming from trading the volatility in fixed income markets and currencies without any overriding thematic exposures.

The majority of our Equity Hedged managers made money during the year. In aggregate the strategy produced the greatest contribution to performance overall. The rapid switch between risk-on and risk-off sentiment frustrated many of our managers who profited from the broad upward movement in equity markets, and generated some gains from stock specific situations. With equity markets showing encouraging signs of greater discrimination in price movements towards year end, managers appeared once more to be compensated for the idiosyncratic risk in their portfolios.

Short Bias managers struggled in the face of generally rising equity markets. Managers have been pursuing longer term themes, for example, around mid-cap Consumer Discretionary and Chinese economic overheating, which failed to materialise over the year.

Initially the Event Driven managers' performance tended to be in line with their level of equity exposure. However as the year progressed, managers benefited from catalyst-driven investments, such as corporate re-structurings, which reacted positively to specific events that they had correctly identified.

Investment Adviser's report (continued)

Portfolio review (continued)

The Specialist Credit managers made modest gains over the year. Managers did well in the first half of the year as the rally in credit extended in both price movements and activity in the primary markets. As the year progressed, long positions in High Yield securities made some money while short positions in Investment Grade caused a slight drag. Gains were also derived from certain distress-related situations. As the year wore on most managers positioned their books more conservatively and their low net exposure helped them to navigate difficult credit markets that occurred late in the year. There was an extensive effort to rebuild the Specialist Credit allocation throughout the year, which began the year underweight due to previous manager-specific redemptions.

Multiple Strategy funds were up in aggregate. Gains came from a wide range of asset classes and geographies, including equity, credit and commodity-related investments. Positions intended to profit from a more inflationary environment, specifically long oil, long gold and long agricultural equities, were the biggest contributors

Outlook

The high correlation between assets that persisted for much of the year belied the different experiences of in companies at the fundamental level. Low dispersion in stock prices despite a high degree of variation in companies' earnings growth suggests that markets have been inefficient. Correlation has started to fall over the period and fundamental stock-picking managers are ideally placed to exploit this situation as the environment becomes more discriminating.

Credit spreads have tightened dramatically from their post-crisis levels and yields are close to all-time lows. Corporate bonds no longer seem "cheap" and a classic environment for low net exposure, long/short credit investing is developing. Our Specialist Credit managers make money through stock selection rather than trending spread tightening and we expect them to perform well in this type of market.

As companies hardest hit by the credit crisis and economic downturn start to re-structure their Balance sheets and emerge from the bankruptcy process, opportunities should arise for specialist managers to capitalise on the rehabilitation of their securities. Post-reorganisation equity is an area where some of our Specialist Credit and Event-Driven managers have already been active and this trend is expected to continue throughout 2011.

Conditions are also favourable for activist investing, as more pragmatic institutional shareholders turn to the handful of hedge fund managers, such as our funds, who have the tools and experience to bring about a realisation of value when the market (or company management) is reluctant to do so of its own accord.

The pick-up in mergers and acquisition activity throughout the year is likely to continue in 2011 as companies look to consolidate in what is expected to be a low growth environment. As transactions have become increasingly complex, spreads have started to widen and our Event Driven and Multiple Strategy managers are best placed to exploit these arbitrage situations.

We believe that 2011 will see correlation across asset classes and stocks return to less elevated levels, and that a more discriminating market will favour our managers' fundamental style of long/short investing. However through the inclusion of more Event Driven Equity and Credit managers, we believe that the portfolio is well positioned to prosper even if macro issues should once again reassert themselves and drive correlations back to crisis levels.

Fauchier Partners LLP

19 April 2011

Trust status

The Absolute Return Trust for Charities ("the Trust") is a Common Investment Fund established by a Scheme dated 1 November 2002, made by order of the Charity Commission for England and Wales pursuant to section 24 of the Charities Act 1993, as amended by the Charities Act 2006. It is not an authorised unit trust within the meaning of the Financial Services Markets Act 2000.

Statement of Manager's responsibilities

The Manager is required by the Charities Act 1993, as amended by the Charities Act 2006, to prepare financial statements for each financial period. These financial statements must be prepared in accordance with the Charities Act 1993, as amended by the Charities Act 2006, the Charities (Accounts & Reports) Regulations 2008, the Statement of Recommended Practice for Authorised Funds issued by the IMA in October 2010 ("the SORP") and the Scheme Particulars.

In preparing the financial statements, the Manager is required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- follow generally accepted accounting principles and applicable accounting standards, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Trust will continue in operation.

The Manager is also responsible for keeping such accounting records as are necessary to enable it to ensure that the financial statements comply with Section 41 of the Charities Act 1993, as amended by the Charities Act 2006, the SORP and the Scheme Particulars.

The Manager is responsible for the management of the Trust in accordance with its Scheme Particulars and for taking all reasonable steps for the prevention and detection of fraud and other irregularities arising in the course of its investment activities.

The Manager is exempt from complying with the Charities Statement of Recommended Practice under paragraph 449 of that document.

Directors' statement

The report was approved for publication on 19 April 2011.



Robin Minter-Kemp



Carolyn Sims

Directors of Cazenove Investment Fund Management Limited

Statement of Trustee's responsibilities

Under the Scheme Particulars, the Trustee is responsible for the custody and control of the property of the Trust, the collection of all revenue due to the Trust, and the claiming of any repayment tax which may be due. The Trustee may create and cancel units in accordance with the instructions of the Manager (except where not permitted to by the Scheme Particulars). The Trustee will make distributions and allocations of revenue to unitholders as applicable.

The Trustee also has the duty of supervision and oversight of the Manager's compliance with the Scheme and the Scheme Particulars. In particular, the Trustee must be satisfied that the Manager is not exceeding his powers and that the Manager is maintaining adequate and proper records.

The Trustee is required to take all steps and execute all documents which are necessary to ensure that purchases and sales of investments of the Trust are properly completed, and is required to exercise voting rights attaching to such investments as properly instructed by the Manager.

The Trustee is responsible for the appointment of the Registrar and for the supervision and oversight of the Registrar. The Trustee is responsible for supervision and oversight of any other delegate which it appoints. In addition, the Trustee is responsible for the appointment and dismissal of persons engaged in connection with the Trust, for the making of an annual report on the discharge of its responsibilities for the management of the Trust.

Finally, the Trustee is responsible for the winding up of the Trust.

Trustee's report – HSBC Bank plc

Report of the Trustee to unitholders of The Absolute Return Trust for Charities for the period from 1 January 2010 to 31 December 2010.

We confirm that based upon the information available to us, we are of the opinion that the Manager of the scheme has in all material respects managed the scheme during the period covered by these accounts in accordance with the limitations imposed upon the investment and the borrowing powers of the Manager and Trustee, and in accordance with the provisions of the scheme.

HSBC Bank plc
Level 27, 8 Canada Square, London E14 5HQ

Date: 19 April 2011

Independent Auditors' report to the unitholders of The Absolute Return Trust for Charities ("the Trust")

We have audited the financial statements of the Trust for the year ended 31 December 2010 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Manager and the Auditors

As explained more fully in the Statement of Manager's Responsibilities, the Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the unitholders as a body, in accordance with the Scheme Particulars and Regulation 24 of the Charities (Accounts and Reports) Regulations 2008, 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 or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Manager; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Trust at 31 December 2010 and of the net expenses and the net gains of the scheme property of the Trust for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Regulation 6 of the Charities (Accounts & Reports) Regulations 2008, the Charities Act 1993, and the Scheme Particulars.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 1993 requires us to report to you if, in our opinion:

- the information given in the Manager's Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 19 April 2011

PricewaterhouseCoopers LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006. The maintenance and integrity of the Cazenove Capital Management website is the responsibility of the Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Trust facts

	Accounting date	Distribution payment date
Interim	30 June	N/A
Final	31 December	31 March

Performance record

	31.12.10 £	31.12.09 £	Capital return % change	Total return % change
The Absolute Return Trust for Charities (Distribution units)*	130.99	133.91	(2.18)	1.22
The Absolute Return Trust for Charities (Accumulation units)	157.84	155.93	1.22	1.22

*Total return includes reinvested income; capital return excludes income

Price history

Calendar year	Lowest price £	Highest price £
2010		
Distribution units	126.55	133.90
Accumulation units	152.50	158.68
2009		
Distribution units	120.91	133.91
Accumulation units	140.79	155.93
2008		
Distribution units	120.94	149.09
Accumulation units	140.83	167.22
2007		
Distribution units	131.71	147.07
Accumulation units	142.44	163.03
2006		
Distribution units	123.98	130.06
Accumulation units	132.89	140.65

Distribution and accumulation units were issued on 22 November 2002 at the offer price of £100.00.

Total expense ratio*

	31.12.10 %	31.12.09 %
Distribution units	1.99	1.81
Accumulation units	1.99	1.81

* Due to the limited availability of total expense ratio (TER) information on the investments held, the above calculation does not include any synthetic adjustments in relation to the underlying investments.

Significant purchases and sales

Some of the largest new purchases during the year were OMG Opportunities Trading Fund, Emphyrean Capital Overseas Fund, COMAC Global Macro Fund, RoundKeep Icho Global Fund, Knighthead Offshore Fund and CFIP Overseas Fund. The Sark Fund and Indus Europe Fund were sold, and holdings in Fortress Macro Offshore Fund were substantially reduced.

Net asset value record

Date	Net asset value £'000	Number of units in issue	Net asset value per unit £
31 December 2010			
Distribution units	308,550	2,355,577	130.99
Accumulation units	119,401	756,443	157.84
	427,951	3,112,020	
31 December 2009			
Distribution units	278,224	2,077,738	133.91
Accumulation units	135,005	865,805	155.93
	413,229	2,943,543	
31 December 2008			
Distribution units	232,540	1,913,077	121.55
Accumulation units	135,671	958,571	141.53
	368,211	2,871,648	

Distributions

Year ended	Amount per unit £	Announcement date	Payment Date
31 December 2010			
Distribution units	0.64	31 Mar 11	31 Mar 11
Accumulation units	0.64	31 Mar 11	31 Mar 11
31 December 2009			
Distribution units	4.50	31 Mar 10	31 Mar 10
Accumulation units	4.50	31 Mar 10	31 Mar 10
31 December 2008			
Distribution units	0.00	31 Mar 09	31 Mar 09
Accumulation units	0.00	31 Mar 09	31 Mar 09
31 December 2007			
Distribution units	7.00	31 Mar 08	31 Mar 08
Accumulation units	7.00	31 Mar 08	31 Mar 08
31 December 2006			
Distribution units	3.30	31 Mar 07	31 Mar 07
Accumulation units	3.30	31 Mar 07	31 Mar 07

Portfolio statement

(unaudited)

as at 31 December 2010

Holding/ Nominal value	Manager/Fund allocations	Market value £'000	Percentage of net assets %
Hedge funds 97.69% (31 December 2009 89.92%)			
192,197	Alydar Fund Class H Series 1	15,508	3.62
138,786	Ascend Partners Fund II Class B Series 26 01/10	14,678	3.43
3,161	Bay Resource Partners Offshore Fund	15,408	3.60
2,169	Bay Resource Partners Offshore Fund Limited Class E Series 38	10,617	2.48
992	Bay Resource Partners Offshore Fund Limited Class E Series 38-1	4,791	1.12
73,642	Brevan Howard Fund Class B (GBP)	14,750	3.45
19,013	CFIP Overseas Fund	12,640	2.95
13,750	CFIP Overseas Fund Class B Sub Class B2 Series 07/10	9,158	2.14
5,250	CFIP Overseas Fund Class B Sub Class B2 Series 08/10	3,473	0.81
4	CFIP Overseas Fund Class B Sub Class B2 Series 10/10	3	-
9	CFIP Overseas Fund Class B Sub Class B2 Series 12/10 Redemption Fee	6	-
5,305,506	Claren Road Credit Fund	2,454	0.58
4,019,725	Claren Road Credit Fund Class L Series 1 Payable B	1,841	0.43
610,270	Claren Road Credit Fund Class L Series 26 Payable B	291	0.07
675,511	Claren Road Credit Fund Class L Series 31 Payable B	322	0.08
74,830	Clarium Capital Fund	2,939	0.69
14,730	Clarium Capital Fund Limited Class B Series 1 Initial	1,214	0.28
41,000	Clarium Capital Fund Limited Class B Series 08/08	885	0.21
19,100	Clarium Capital Fund Limited Class B Series 12/09	840	0.20
140,377	COMAC Global Macro Fund USD	14,260	3.33
219,711	Criterion Capital Partners	14,587	3.40
51,381	Criterion Capital Partners Class B Series Senior	3,681	0.86
51,622	Criterion Capital Partners Class B Series 11/07	3,223	0.75
37,500	Criterion Capital Partners Class B Series 12/07	2,434	0.57
35,708	Criterion Capital Partners Class B Series 04/08	2,492	0.58
43,500	Criterion Capital Partners Class B Series 12/10	2,757	0.64
39	DBGM Alpha V Class DGV SPV Assets Series 02/09	43	0.01
199	DBGM Offshore SPV Assets 02/09	206	0.05
125	Drawbridge Global Alpha Fund V Class R	130	0.03
110	Drawbridge Global Macro Fund	105	0.02
23	Drawbridge Global Macro Fund Limited Class H21G SP7 Series 02/08	19	-
7	Drawbridge Global Macro Fund Limited Class RA	7	-
80	Drawbridge Global Macro Fund Limited Class RA1	79	0.02

Portfolio statement (continued)

(unaudited)

as at 31 December 2010

Holding/ Nominal value	Manager/Fund allocations	Market value £'000	Percentage of net assets %
Hedge funds (continued)			
105,385	Elm Ridge Value Partners Offshore Fund Class B Series 1	15,322	3.58
22,750	Empyrean Capital Overseas Fund Class K Series 5	14,787	3.46
120,183	Farallon Capital Offshore Investors Class A Series R	92	0.02
27,163	Fauchier Partners Counterpoint Fund Limited*	13,813	3.23
115,560	Fauchier Partners Incubator Fund Limited*	11,796	2.76
20,838	Fortress Macro Fund	14,257	3.34
567	Fortress Macro Fund Class A Series 916 01	389	0.09
6,231	Fortress Macro Fund Class A1 Series 916 01	4,263	1.00
2,052	Fortress Macro Fund Class A1 Series 916 02	1,404	0.33
11,988	Fortress Macro Fund Class A1 Series V59 01	8,201	1.92
34,128	Harbinger Capital Partners Offshore Fund I Class B Series 1	8,421	1.97
95	Harbinger Class L Holdings	84	0.02
73	Harbinger Class L Holdings (Cayman) Class L Series 10/10	49	0.01
22	Harbinger Class L Holdings (Cayman) Class L Series 6	35	0.01
1,315	Harbinger Class PE Holdings	747	0.17
695	Harbinger Class PE Holdings (Cayman) Class PE Series 10/10	444	0.10
620	Harbinger Class PE Holdings (Cayman) Class PE Series 6	303	0.07
30	HB Asia Holdings	221	0.05
9	HB Asia Holdings Class B Series 1	67	0.02
21	HB Asia Holdings Class B Series 4	154	0.03
15,687	Highbridge Asia Opportunities Fund	13,660	3.19
4,446	Highbridge Asia Opportunities Fund Class A (USD) (Voting)	4,794	1.12
9,306	Highbridge Asia Opportunities Fund Class C (Voting)	7,404	1.73
1,935	Highbridge Asia Opportunities Fund Class E (Voting)	1,462	0.34
165,562	Jubilee Special Situations Fund*	9,737	2.28
140,049	Jubilee Special Situations Fund Class B USD	8,126	1.90
25,513	Jubilee Special Situations Fund Class 05/10 Side Pocket	1,611	0.38
16,275	Knighthead Offshore Fund	10,637	2.49
6,000	Knighthead Offshore Fund Class B Series 12 Voting	3,926	0.92
10,275	Knighthead Offshore Fund Class B Series 13 Voting	6,711	1.57
79,771	Lansdowne Global Financials Fund Class R USD Restricted	14,008	3.27
40,775	Lansdowne UK Equity Fund GBP	19,646	4.59
18,900	Miura Global Fund	12,330	2.88
6,550	Miura Global Fund Class BB Series 01/10	4,258	0.99
12,350	Miura Global Fund Class BB Series 08/10	8,072	1.89

* Related party (see note 11)

Portfolio statement (continued)

(unaudited)

as at 31 December 2010

Holding/ Nominal value	Manager/Fund allocations	Market value £'000	Percentage of net assets %
Hedge funds (continued)			
187,423	OMG Opportunities Trading Fund Class B (USD)	11,568	2.70
14,954	OZ Europe Overseas Fund II Class L Prime Series 1	16,819	3.93
6,325	Riva Ridge Overseas Fund Class E Series 10/10 Restricted	4,061	0.95
19,620	Rockhampton Fund Class D USD Initial Series 11/08	13,742	3.21
21,000	RoundKeep Icho Global Fund Class A Series C Rest 12/10	13,369	3.12
10,307	SCP Ocean Fund Series AR Sub Series 2 02/08 Voting	18,970	4.43
3,580	Shepherd Select Asset	2,650	0.62
17,479	Sunbeam Opportunities Offshore S.A. Class A Series 01/10 A1	15,863	3.71
14,856	Vicis Capital Fund (International) Class AR Series 456	3,628	0.85
14,010	Visium Balanced Offshore Fund Class B Sub Class 3 Series 1 Nov 2005 FC	16,249	3.80
340	Visium Special Holdings Class A Series Initial	356	0.08
1,891	Walker Smith International Fund	16,339	3.82
175	Walker Smith International Fund Class C Series 05/99	3,754	0.88
500	Walker Smith International Fund Class C Series 10/07	3,536	0.83
575	Walker Smith International Fund Class C Series 01/08	4,176	0.97
26	Walker Smith International Fund Class C Series 09/09a	557	0.13
615	Walker Smith International Fund Class C Series 10/09	4,316	1.01
4,236	Wexford Offshore Spectrum Fund Class C Series 0000-R	17,167	4.01
Total value of investments in hedge funds		418,047	97.69
Forward currency defensive hedges (0.01)% (31 December 2009 (2.55)%)		(50)	(0.01)
£389,930,961	Buy Sterling 7/1/2011, Sell \$610,550,000	(50)	(0.01)
Net investment assets		417,997	97.68
Net other assets		9,954	2.32
Net assets attributable to unitholders		427,951	100.00

Statement of total return

for the year ended 31 December 2010

	Note	Year ended		Year ended	
		31.12.10		31.12.09	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		13,313		42,603
Revenue	3	176		199	
Expenses	4	(8,429)		(6,849)	
Finance costs: Interest	5	(7)		(176)	
Net expenses			(8,260)		(6,826)
Total return before distributions			5,053		35,777
Finance costs: Distributions	5		(13,677)		-
Change in net assets attributable to unitholders from investment activities			(8,624)		35,777

Statement of change in net assets attributable to unitholders

for the year ended 31 December 2010

	Year ended		Year ended	
	31.12.10		31.12.09	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		413,229		368,211
Amounts receivable on issue of units	69,027		50,212	
Less: Amounts payable on cancellation of units	(49,452)		(40,971)	
		19,575		9,241
Change in net assets attributable to unitholders from investment activities (see above)		(8,624)		35,777
Retained distribution on accumulation units		3,771		-
Closing net assets attributable to unitholders		427,951		413,229

The notes on pages 14 to 20 form an integral part of these financial statements.

Balance sheet

as at 31 December 2010

	Note	31.12.10 £'000	31.12.09 £'000
ASSETS			
Investment assets		418,047	371,673
Debtors	6	3,718	11,900
Cash and bank balances		14,606	44,772
Total other assets		18,324	56,672
Total assets		436,371	428,345
LIABILITIES			
Investment liabilities		50	10,632
Creditors	7	8,370	4,484
Total other liabilities		8,370	4,484
Total liabilities		8,420	15,116
Net assets attributable to unitholders		427,951	413,229

The notes on pages 14 to 20 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

a) Basis of accounting

The financial statements of the Trust have been prepared on the historical cost basis, as modified by the revaluation of investments, and in accordance with applicable UK accounting standards, the Charities Act 1993, as amended by the Charities Act 2006, the Charities (Accounts and Reports) Regulations 2008 and the disclosure requirements of the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the IMA in October 2010 ("the SORP") which supersedes the SORP issued by the IMA in November 2008. They are exempt from complying with the Charities Statement of Recommended Practice under paragraph 449 of that document.

As a result of the change in the SORP there is no longer a requirement to disclose the portfolio turnover rate ("PTR"). This has been removed accordingly.

b) Investments

The investments of the Trust, as at 31 December 2010, are valued at market prices at close of business on 31 December 2010 being the last business day of the accounting year, net of any accrued interest. Investments for which published market values are not available are included at the Manager's valuation.

Investments in hedge funds are valued on the basis of the most recent available unaudited net asset value provided by the relevant fund manager or administrator. The Manager and Trustee believe that the values provided for these investments represent the fair value of the Trust's holding in these funds. As at 31 December 2010, investments totalling £418,046,920 (97.69% of net assets) were valued in this manner (31 December 2009: £382,820,027 (92.64% of net assets)).

c) Revenue recognition

Interest on bank deposits is recognised on an accruals basis. Rebate income on management fees paid by the underlying funds and reimbursed by the investment manager of that underlying fund to the Trust is recognised on an accruals basis.

d) Expenses

The Manager's service charge and the Trustee's fees are recognised on an accruals basis and ultimately borne from the capital of the Trust. Transaction fees relating to the purchase and sale of investments are also borne by the capital of the Trust. In addition all other expenses are now borne by capital. This change has been implemented for logistical reasons due to the Trust's portfolio not generating any revenue. These expenses, and all other expenses other than transaction fees, are included in 'Expenses' in the Statement of total return.

e) Distributions

The revenue and capital of the Trust attributable to holders of accumulation units will be accumulated within the Trust for the benefit of holders of accumulation units.

The revenue and capital of the Trust attributable to holders of distribution units will also be accumulated within the Trust for the benefit of the holders of distribution units. However, the Manager will consider, with reference to the distribution allocation date, in each year making a distribution to holders of distribution units on the distribution allocation date of an amount up to one third of any positive total return per distribution unit of the Trust for the accounting year ending on 31 December of the preceding year then attributable to distribution units (adjusted on account of any net subscriptions and/or net redemptions in the intervening period up to the distribution allocation date). The distribution allocation date in each year is 31 March or such other or further dates as determined by the Manager in its absolute discretion.

f) Foreign currency

Assets and liabilities in foreign currencies are translated at the exchange rates ruling at the end of the accounting year. Revenue items denominated in foreign currencies are translated into Sterling at the exchange rates ruling at the date of the transaction. Exchange differences arising from investments are included in 'Net capital gains/(losses)' in the Statement of total return. Exchange differences arising from capital items other than investments are also included in 'Net capital gains/(losses)' in the Statement of total return. Exchange differences arising from the receipt of overseas revenue are included in 'Revenue' in the Statement of total return.

g) Derivatives

Where appropriate, certain permitted financial instruments such as derivatives or forward currency contracts are used for efficient portfolio management. Where such financial instruments are used to protect or enhance revenue, the revenue and expenses derived therefrom are included in 'Revenue' or 'Expenses' in the Statement of total return. Where such financial instruments are used to protect or enhance capital, the gains and losses derived therefrom are included in 'Net capital (losses)/gains' in the Statement of total return. Any positions on such financial instruments open at the year end are reflected in the Balance sheet at their fair value.

1. Accounting policies (continued)

h) Forward currency contracts

A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked to market daily and the change value is recorded by the Trust as an unrealised gain or loss. Realised gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. These contracts may involve market risk in excess of the unrealised gain or loss reflected. In addition, the Trust could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavourably to Sterling.

2. Net capital gains/(losses)

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Non-derivative securities	23,820	17,374
Forward currency contracts	(11,190)	16,535
Currency gains on other capital items	683	8,695
Expenses relating to the purchase and sale of investments	-	(1)
Total capital gains	13,313	42,603

3. Revenue

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Bank interest	2	194
Dividend income	3	-
Rebate income	169	-
Miscellaneous revenue	2	5
Total	176	199

4. Expenses

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Payable to the Manager or associate of the Manager		
Manager's charge*	7,455	6,479
Payable to the Trustee or associate of the Trustee		
Safe custody fees	301	101
Trustee fees	99	60
Total payable to the Trustee or associate of the Trustee	400	161
Payable to other related parties or third parties		
Audit fee	22	20
Accounting & administration fees	538	173
Registration fees	3	10
FT listing fee	4	2
Printing fees	-	4
Other expenses	7	-
Total payable to other related parties or third parties	574	209
Total	8,429	6,849

* The Manager's charge shall accrue in respect of "accrual intervals" of one month and is determined by reference to the net asset value of the Trust at the start of the accrual interval. The Manager is entitled to an annual fee of 1.50% of the net asset value of the Trust and this fee shall be deducted in arrears at the end of each accrual interval.

5. Finance costs

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Net distributions	13,677	-
Interest	7	176
Total finance costs	13,684	176

6. Debtors

	31.12.10	31.12.09
	£'000	£'000
Sales awaiting settlement	3,718	747
Prepaid expenses	-	6
Prefunded trades	-	11,147
Total	3,718	11,900

7. Creditors

	31.12.10	31.12.09
	£'000	£'000
Amounts payable for units cancelled	7,304	1,519
Accrued expenses	1,066	902
Purchase awaiting settlement	-	2,063
Total	8,370	4,484

8. Contingent liabilities

As at 31 December 2010 the Trust had no contingent liabilities (31 December 2009: £nil).

9. Portfolio transaction costs

Given the nature of the investments held, no transaction costs were incurred on the Trust's gross purchases of £141,613,402 or gross sales of £112,643,067 during the year to 31 December 2010 (31 December 2009: £nil).

10. Derivatives and other financial instruments

The Trust's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations. For example, in respect of sales and purchases awaiting settlements, amounts receivable for creations and payable for cancellations of units, and debtors for accrued revenue.

The Trust may enter into derivatives transactions in the form of forward foreign currency contracts. Forward foreign currency contracts are used to manage currency risk arising from holding of overseas securities. The Trust may enter into derivative contracts in the form of futures or options for the purpose of efficient portfolio management which may involve hedging risk against movements in the value of the portfolio or certain specific assets. Alternatively, the Trust may use such instruments to manage cashflow, for instance to gain temporary market exposure at the reduced cost compared to that involved in acquiring physical assets. The Trust may also write (or sell) financial options in order to generate additional capital or revenue to the benefit of unitholders.

The main risks arising from the Trust's financial instruments are credit risk, foreign currency, interest rate, liquidity risk and market price risks. The Manager's policies for dealing with these risks are summarised below and have been applied throughout the year.

Credit risk

The Trust is exposed to credit risk, which is the risk of loss due to another party not being able to meet its financial obligations. The primary sources of this risk to the Trust are trade counterparties who may fail to meet their transaction commitments and the potential for debt issuers to fail to meet their interest or redemption commitments. This risk is managed by appraising the credit profile of trade counterparties and financial instruments.

Foreign currency risk

The Trust can be exposed to foreign currency risk as a result of investing in assets denominated in currencies other than Sterling. Where the Manager deems it necessary, this exposure to foreign currency fluctuations is mitigated by the use of forward foreign currency contracts. The Trust can be exposed to indirect foreign currency risk, where it is investing in assets which have underlying exposure to foreign currency, for example international companies or funds which in turn invest in foreign currency denominated assets.

Interest rate risk

The revenue of the Trust may be affected by changes to interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of debt securities that may be held by the underlying hedge funds may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

Liquidity risk

The Trust may invest in underlying hedge funds whose securities are not readily realisable, which means that there is no recognised market for them. It may therefore be difficult to deal in such investments or to obtain reliable information about their value or the extent of the risks to which they are exposed. Hedge funds may impose limitations and restrictions on redemptions and transferability of interests, charges for early redemptions and minimum holding periods for investments. In addition, once a redemption is made there may be delays in the Trust receiving redemption payments. All these factors will impact on the ability of the Trust to provide liquidity to meet its liabilities and make redemption payments, and may lead to the Trust imposing restrictions on redemptions. The permissible restrictions are detailed in full in the Scheme Particulars, and include delaying the settlement of redemption proceeds beyond the normal 30 days of the unit dealing price for the relevant dealing day and extending the redemption notification point beyond 90 days prior to the dealing day.

Market price risk

Market price risk arises from the Trust's financial instruments, being the risk that the value of an investment holding will fluctuate as a result of changes in market prices caused by factors other than interest rate movement. The Trust invests in other funds and is susceptible to market price risk arising from uncertainties about future values of those investee funds. The Investment Adviser makes investment decisions after an extensive assessment of the underlying fund, its strategy and the overall quality of the underlying fund's manager. The Trust's policy requires the Investment Adviser to complete a full reassessment of each of the investee funds on a monthly basis and track the performance of each investee fund on a weekly basis. Under normal circumstances the Trust's investment policy will prohibit it from investing more than 12% of the property of the Trust in hedge funds managed by a single investment management group.

The fair value of investments in investee funds that are not quoted in an active market is determined primarily by reference to the latest available redemption price of such units for each investee fund, as determined by the administrator of such investee fund. The Trust may make adjustments to the reported net asset value of various investee funds based on considerations such as (i) the liquidity of the investee fund or its underlying investments, (ii) the value date of the net asset value provided, (iii) any restrictions on redemptions, and (iv) the basis of accounting. The underlying funds may invest in a range of securities including equities, debt securities and various types of derivative products.

10. Derivatives and other financial instruments (continued)

Market price risk (continued)

These securities may be quoted in active markets, may be valued using inputs other than quoted prices that are observable, or may be valued using inputs that are not based on observable market data using bespoke models to carry out such valuations. As at the year end the majority of the investments of the investee funds were held in securities quoted in an active market with a smaller proportion invested in securities that use observable market inputs in their valuations, and a smaller proportion still that were invested in securities where unobservable inputs were used to value the securities in the investee funds. The performance of investments held by the Trust is monitored by the Trust's Investment Adviser on a weekly basis and reviewed by the board of directors on a quarterly basis. Some of the investee funds may be valued by fund administrators affiliated to fund managers or by fund managers themselves, resulting in valuations which are not independently verified. The valuation may not reflect the true value of the investee fund at a specific point, which could result in losses or the incorrect pricing of the Trust.

These risks are monitored by the Manager in pursuance of the investment objectives and policy as set out on in this Manager's report. Adherence to investment guidelines and to investment and borrowing powers set out in the Provisions of the Scheme Particulars mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the Investment Adviser's report and Portfolio statement.

(a) Currency exposures

A proportion of the net assets of the Trust are denominated in currencies other than Sterling, with the effect that the Balance sheet and total return may be affected by currency movements.

	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
The net currency assets at 31 December 2010 were:			
Sterling	(2,207)	424,377	422,170
US Dollar	12,111	(6,330)	5,781
Total	9,904	418,047	427,951
The net currency assets at 31 December 2009 were:			
Sterling	373,173	42,863	416,036
US Dollar	(331,618)	328,811	(2,807)
Total	41,555	371,674	413,229

(b) Interest rate risk profile of financial assets and liabilities

Currency	Floating rate financial assets* £'000	Fixed rate financial assets £'000	Financial assets not carrying interest £'000	Total market value £'000
The interest rate risk profile of the Trust's financial assets at 31 December 2010 was:				
Sterling	6,213	-	424,327	430,540
US Dollar	8,393	-	(2,612)	5,781
Total	14,606	-	421,715	436,321
The interest rate risk profile of the Trust's financial assets at 31 December 2009 was:				
Sterling	44,761	-	373,696	418,457
US Dollar	11	-	(755)	(744)
Total	44,772	-	372,941	417,713

*The floating rate financial assets were bank deposits that earned interest at variable rates.

10. Derivatives and other financial instruments (continued)

(b) Interest rate risk profile of financial assets and liabilities (continued)

Currency	Floating rate financial liabilities*	Financial liabilities not carrying interest	Total market value
	£'000	£'000	£'000

The interest rate risk profile of the Trust's financial liabilities at 31 December 2010 was:

Sterling	-	(8,370)	(8,370)
Total	-	(8,370)	(8,370)

The interest rate risk profile of the Trust's financial liabilities at 31 December 2009 was:

Sterling	-	(2,421)	(2,421)
US Dollar	-	(2,063)	(2,063)
Total	-	(4,484)	(4,484)

*The floating rate financial liabilities were Sterling bank overdrafts that bore interest at variable rates.

(c) Fair value of financial assets and financial liabilities

The property of the Trust is likely to be invested in hedge funds which are or are not regularly traded on an exchange and the accuracy of the valuation of the property of the Trust may be affected by the frequency of the valuations of securities or other interests provided by those funds. Fund managers who manage hedge funds in which the Trust invests may provide prices on a weekly, bi-weekly, monthly or quarterly basis.

Although the Manager will generally use the last available official price in respect of each investment in order to value the property of the Trust, it is authorised to use more recent valuations where this is considered appropriate. Such valuations may be based on an estimate of the more recent price of any unit, share or interest in an underlying investment fund or other collective investment undertaking in which the Trust invests obtained from or calculated on the basis of more recent information received from the underlying fund or undertaking or any of its service providers or agents or such price which is in the opinion of the Manager fair and reasonable.

The market value of investments is taken to equal 'fair value' for the purposes of FRS 13. Given the activities of the Trust, none of the investments held fall within the definition of 'investments held for trading' as set out in FRS 13.

The base currency of the Trust is Sterling. For the purpose of disclosures required by FRS 13, this is taken to be the 'functional currency' of the Trust.

The borrowing facilities available to the Trust as at 31 December 2010 comprise a bank overdraft facility of the lesser of US\$55,000,000 or up to 10% of the value of the Trust.

The Trust has an agreed overdraft facility with HSBC Bank Plc at the base interest rate +1.6%. There was no borrowing at the Balance sheet date (2009: nil).

11. Related parties

The Trust's Manager and Trustee are related to the Trust as defined by Financial Reporting Standard 8 'Related Party Disclosures' and are named on page 22. Fees received by the Manager and the Trustee are disclosed in note 4 of the accounts. Balances outstanding at the year end are as follows:

	31.12.10	31.12.09
	£'000	£'000
Payable to the Manager or associate of the Manager	655	601
Payable to the Trustee or associate of the Trustee	9	8

By virtue of the regulations governing Charitable Trusts, the Manager is party to every transaction in respect of units of the Trust, which are summarised in the Statement of change in unitholders' net assets.

The Trust holds investments in Fauchier Partners Counterpoint Fund Limited, Fauchier Partners Incubator Fund Limited and Jubilee Special Situations Fund which have the same investment manager as the Trust. The values of these holdings are shown in the portfolio statement on pages 9 to 11.

Regulatory information and risk warnings

The contents of the Investment Adviser's report are based upon sources of information believed to be reliable, however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to its accuracy or completeness and, Cazenove Investment Fund Management Limited, its directors, officers and employees do not accept any liability or responsibility in respect of the information or any recommendations expressed herein which, moreover, are subject to change without notice.

Nothing in this document should be deemed to constitute the provision of financial, investment or other professional advice in any way. Past performance is not a guide to future performance. The value of investments and the revenue from them can go down as well as up and an investor may not get back the amount invested and may be affected by fluctuations in exchange rates. The levels and bases of, and reliefs from, taxation may change. You should obtain professional advice on taxation where appropriate before proceeding with any investment. Revenue payments may constitute a return of capital in whole or in part. Revenue may be achieved by foregoing future capital growth.

The Trust is an unregulated collective investment scheme which may invest in schemes operated in offshore centres that are unlikely to offer a level of investor protection equivalent to the UK. Such schemes may deal infrequently and may limit redemptions, which in turn may limit liquidity in the Trust. Thus unit dealings may be restricted or suspended. An estimate of the Trust's assets are hedged back to the base currency on a monthly basis, nonetheless, changes in rates of exchange may have an adverse effect on the value, price or income of investments. The Trust charges apply in whole to capital, which may result in capital erosion. Investors should be aware that Cazenove Investment Fund Management Limited may close the Trust to new investors/additional investment at a later date.

Cazenove Investment Fund Management Limited can only promote its own products and services.

Other information

Scheme Particulars

The Scheme Particulars for The Absolute Return Trust for Charities are available from the Manager on request.

Manager

Cazenove Investment Fund Management Limited

12 Moorgate, London EC2R 6DA

Registered office: 12 Moorgate, London EC2R 6DA

The Manager is authorised and regulated by the Financial Services Authority.

Directors of Cazenove Investment Fund Management Limited

A J S Ross (*Chairman*)

R Jeffrey

R Minter-Kemp

C Sims

J W J Turnbull

Investment Adviser to the Manager

Fauchier Partners LLP

72 Welbeck Street, London W1G 0AY

The Investment Adviser is authorised and regulated by the Financial Services Authority.

Trustee

HSBC Bank plc

Level 27, 8 Canada Square, London E14 5HQ

The Trustee is authorised and regulated by the Financial Services Authority.

Administrator

HSBC Securities Services (Ireland) Limited

1 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland

The Administrator is authorised and regulated by the Financial Services Authority.

Independent Auditors

PricewaterhouseCoopers LLP

Hay's Galleria, 1 Hay's Lane, London SE1 2RD

Registrar

HSBC Securities Services (Ireland) Limited

1 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland

The Registrar is authorised and regulated in Ireland by the Central Bank of Ireland.

For more information

Please telephone Edward Harley or John Gordon at Cazenove Capital Management Limited, on 020 3479 0109, or access the website at www.cazenovecapital.com.

