Dear investors,

The first quarter of 2010 was seemingly more quiet. Although equity markets fell in January, they gained 4.2% for the quarter as a whole. Vltava Fund recorded growth of 5.6%.

Beneath the apparently quiet surface of the overall market, however, there was much movement and activity. One of the main topics was Greece and its fight for survival as a borrower. This was followed by sharp exchange rate movements and especially weakening of the euro. The EU's ambition for the euro to become one of the world's main currencies suffered a severe blow. Who today would invest in a currency that might be at the beginning of its end, at least in its present form? It would be best for the euro, and for the country itself, if Greece would withdraw from the common currency and introduce its own. But this would be a mortal blow for the economic engineers in Brussels, which is why we can be certain that they will try everything possible and even impossible (in other words, squander enormous sums of money) just to keep the country afloat. Unfortunately, Greece is only a harbinger of what is to come. Several other countries – at greater or lesser speed – are being drawn toward the same abyss.

The whole Greek situation illustrates two broader contexts, one rather philosophical and the other of an investing nature. While the governments of communist countries, with China at the helm, are aiming gradually to introduce capitalism in order to keep themselves in power, capitalist countries, with the EU and the US leading the way, are aiming to introduce socialism for the very same reason. Ultimately, we can see it here in the Czech Republic. Among other things, this creates a peculiar investment environment in which it is necessary to work with an unknown quantity, the importance of which is continually growing: the intrusions and interventions of governments and central banks.

The second, investment, context consists in the fact that it is becoming ever more evident that the definition of so-called risk-free investments is changing. Government bonds have always been characterised as riskless, but, for a growing group of countries, this is no longer the case. Even in the US, the bonds of some companies – such as Berkshire Hathaway (Warren Buffett's firm) or Johnson & Johnson – have lower yields than do US government bonds. The market simply regards the US government as a riskier debtor than it does some private companies.

As you see, we are decidedly not bored in our work and we always have issues to consider and react to. To be more specific, our largest transactions in the past quarter were the sale of Quadra Mining and Pegas shares and the purchase of Johnson & Johnson. Quadra Mining, a Canadian company that operates copper mines in the United States and Chile, had been one of our oldest, largest and most profitable investments. We had started buying its shares sometime in 2006 at $5 a share. In the winter of last year, we held onto them with clenched teeth when, in the middle of the crisis, its price fell to $2. This was one of the most absurd prices on the stock market at the time, as the entire company was available for less than its cash assets after subtracting all its liabilities. We had discussed the value of Quadra Mining in several past reports, and also in detail at last year's shareholders' meeting in Brno. In March of this year, the price of Quadra shares reached $17 and we decided to sell them, the main trigger being announcement of the company's merger with FNX Mining. Whichever way we calculated, we arrived at the conclusion that the merger would have a negative impact on the value of the share and that it would benefit the company's management more than its shareholders. Holding onto Quadra shares would have been overly speculative, so we decided to sell them. There are other and better opportunities to invest the money which that made available.

Pegas shares represent our only Czech title. We did not have the luckiest of hands when we first bought them. In retrospect, we started buying Pegas too high. While we significantly lowered the average purchase price when Pegas was priced low during last year's crisis, we nevertheless had only our original investment returned to us at the current price of CZK 450. Although Pegas is a high-quality company, it operates in a sector which is in itself a cause for falling margins over the long term. Hence, we significantly cut our stake in Pegas, preferring to invest the money elsewhere.

When we sell shares such as Quadra or Pegas, we do not necessarily think their share prices will fall. We sell them because the disparity between their price and value is reduced to such an extent that, in our eyes, it no longer justifies holding them. The money we receive from the sale is gradually invested elsewhere, into shares with a greater disparity between their price and value.

One of the companies we invested into was Johnson & Johnson. In the Czech Republic, their products are to be found in most homes, and especially their consumer health care products, such as over-the-counter drugs, child-care, skin-care and sanitary protection products. J&J also produces pharmaceuticals, as well as medical and diagnostic instruments and devices. It stands among the most respected and highest quality companies in the world. As mentioned above, it currently is considered a better debtor than is the US government. We had been hoping to invest in the company since the creation of our fund. J&J shares had always been too expensive, but in the end we lived to see attractive prices. It is interesting that today the shares cost about as much as they did in 2001, while the earnings per share are 2.5 times higher.

To a certain extent, the purchase of Johnson & Johnson shares symbolizes the development of our portfolio as a whole. Considering the uncertainties over economic and political development in the coming years, and also on the basis of our own analyses, we are of the opinion that the relative winners from this whole situation will be companies which dominate their fields, are strongly positioned in international markets, and have financial strength thanks to little debt and robust cash flow. Paradoxically, the shares of many such companies were sidelined during the market's strong growth in the last year and they offer a combination of very attractive returns and low risk. It is here that we are directing a large part of our buying.

This does not mean that we are investing in shares offering low returns. When we bought the J&J shares, we estimated its returns to be more than 17% annually over the next several years. This is about as much as we expect from our portfolio overall.

7 April 2010, Vltava Fund SICAV, Plc

VLTAVA FUND

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This letter to shareholders does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer to buy or subscribe for, the securities of the fund.

Before subscribing, prospective investors are urged to seek independent professional advice as regards both Maltese and any foreign legislation applicable to the acquisition, holding and repurchase of shares in the fund as well as payments to the shareholders.

The shares of the fund have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or under any state securities law. The fund is not a registered investment company under the United States Investment Company Act of 1940 (the "1940 Act").

The shares in the fund shall not be offered to investors in the Czech Republic on the basis of a public offer (veřejná nabídka) as defined in Section 34 (1) of Act No. 256/2004 Coll., on Capital Market Undertakings.

Historical performance over any particular period will not necessarily be indicative of the results that may be expected in future periods.