

**Performance (EUR) Gross of Fees**

	1M	3M	YTD	1YR	2YR'	3YR'	5Y <sup>(ann.)</sup>
<b>BlueBay Structured High Yield Bond Sub-Trust of the Panacea Trust</b>	-5.73%	-5.46%	-7.01%	-7.16%	-0.24%	2.11%	2.47%
<b>Merrill Lynch European Currency High Yield Constrained Index</b>	-8.89%	-9.95%	-13.75%	-15.67%	-6.68%	-2.50%	-1.92%
<b>Alpha</b>	3.16%	4.49%	6.74%	8.51%	6.44%	4.61%	4.39%

**Risk Statistics\***

<b>Standard Deviation</b>	4.05%
<b>Tracking Error</b>	2.76%
<b>Information Ratio</b>	1.61

**Top Sector Overweights**

<b>Telecommunications</b>	15.98%
<b>Loan</b>	9.06%
<b>Basic Industry</b>	2.26%
<b>Utility</b>	1.23%
<b>Services Non-Cyclical</b>	1.10%

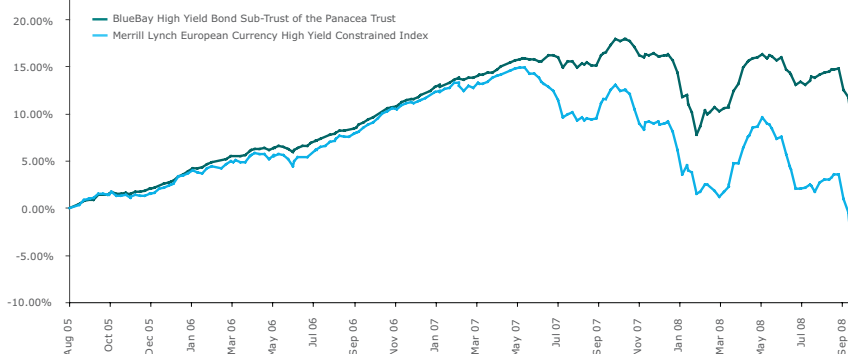
**Top Sector Underweights**

<b>Banking</b>	-10.33%
<b>Consumer Cyclical</b>	-8.48%
<b>Consumer Non-Cyclical</b>	-7.37%
<b>Services Cyclical</b>	-3.43%
<b>Capital Goods</b>	-3.29%

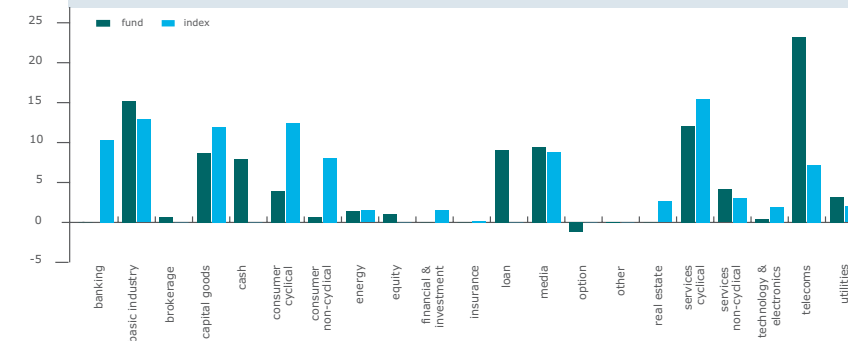
**Investment Objective**

To generate, via sector and security selection, a total return in excess of that generated by the Merrill Lynch European Currency High Yield Constrained Index.

**Cumulative Relative Performance\***



**Sector Breakdown**



**Fund Commentary**

The high yield market has come under very severe renewed pressure, with the Merrill Lynch Euro High Yield Index down 8.9% during September, with spreads now at 1203 bps (364bps wider on the month), their widest level since October 2002 – the month that signalled the start of the last bull market! As was the case in the very early part of this year, the spread widening has largely been attributable to technical risks rather than fundamental credit deterioration. At the epicentre of the resurfaced technical pressure, is massively heightened systemic risk as the sustainability of the entire financial system has been called into question. During this month alone, we have witnessed the demise of two of the largest US consumer banks, Washington Mutual and Wachovia, while the fourth largest broker-dealer, Lehman Brothers, filed for bankruptcy protection. Add to this the rescue of Freddie Mac and Fannie Mae, and also AIG by the US government and the scale of the problem becomes more apparent. If that was not enough Merrill Lynch had to be rescued by Bank of America and both Goldman Sachs and Morgan Stanley have had to shore up their capital bases at substantially discounted prices to stave off bankruptcy. Across the Atlantic, Fortis Bank's Dutch business was nationalised and its Belgian and Luxembourg ones sold to BNP Paribas, while Bradford and Bingley had to be nationalised in the UK just a week after the government brokered a takeover of HBOS by Lloyds TSB to ensure the former's survival. The two biggest investment grade bankruptcies of all time in the same month compounded by the very urgent need to bail-out the US financial system through the new Troubled Asset Relief Program (TARP) initiative have sent shockwaves through both credit and equity markets. Unsecured creditors and shareholders in these failed financial institutions have suffered unprecedented losses, while counterparty related losses in respect of Lehman Brothers exposure has simply compounded an already untenable situation. The scale of the volatility has been staggering with global equity markets having suffered some of their worst one-day falls and biggest one-day rises in the space of just a few weeks.

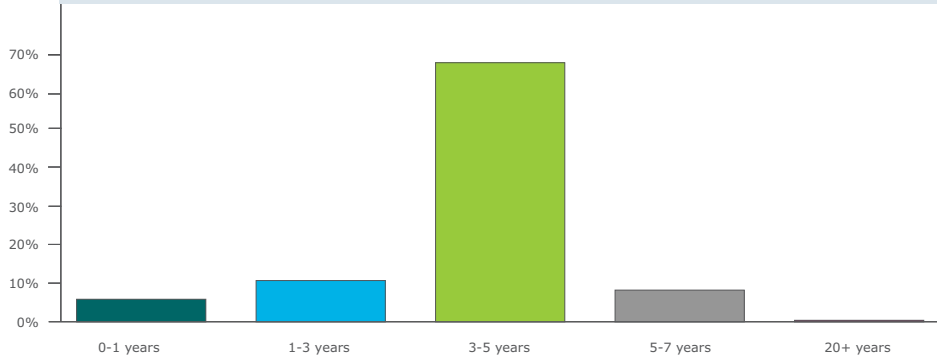
The Fund generated a negative return of -5.73% during the month which represented a substantial 316 bps outperformance against the benchmark. Reasons for the poor absolute return are highlighted above; suffice to say that the market is witnessing the most ferocious forced de-leveraging in its history. We have remained cautious throughout the year and have maintained elevated cash balances for such an event, but even that was not sufficient to buffer us against a substantial downdraft.

Our short positioning too was unhelpful as the basis between liquid indices and the underlying market is now at its widest ever. To illustrate this, the XOVER index was a mere 40 bps wider over the month while the high yield market was a full 340 bps wider over the corresponding period. We are now actively deploying some of our cash as we believe there are compelling valuations across much of the asset class on account of the recent dislocation. However, we will remain prudent in our credit selection as we are still in the early stages of this fundamental deterioration. Therefore, investing will be restricted to good quality, defensive securities with strong free cashflow characteristics.

The systemic issues have been compounded by further poor economic data out of both the US and Europe, which now almost ensures the onset of a developed world recession. Corporate fundamentals will therefore deteriorate, and default risk will rise. Associated therewith, recovery rates will fall from current levels as asset valuations are further compressed. The next couple of quarters earnings seasons will prove telling in this regard as we are likely to witness ongoing rounds of downward earnings revisions. Sectors most vulnerable remain those most exposed to consumer discretionary spending, those susceptible to volatile commodity prices, and those most reliant on credit provision. We are therefore very negative in respect of cyclical corporate earnings, albeit many are already trading at depressed valuation levels.

We think that much of our pessimism has already been priced into high yield spreads. Spreads are a leading indicator of future default risk and at current levels the market is pricing in a 12% future default rate, which we consider to be unreasonably high. We do expect high yield spreads to widen from already almost historic wide levels as a deteriorating macro backdrop weighs negatively on credit risk, and de-leveraging drives yet higher liquidity risk premiums. However, with a 16% yield, investors are being more than adequately compensated for this if they are willing to adopt a medium term view and have the stomach for near term mark-to-market volatility. The strategic risk-adjusted return characteristics appear attractive. To illustrate, the breakeven return in high yield over a 12-month time horizon requires a further index spread widening of 479 bps from current exceptionally wide levels. We have entered uncharted territory in terms of market disruption and dislocation, but fundamentals always ultimately prevail. Therefore, for the value investor, now is the time to exploit the chaos.

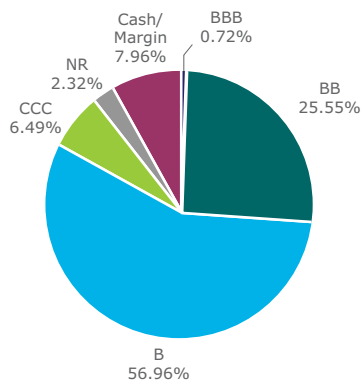
### Duration Distribution



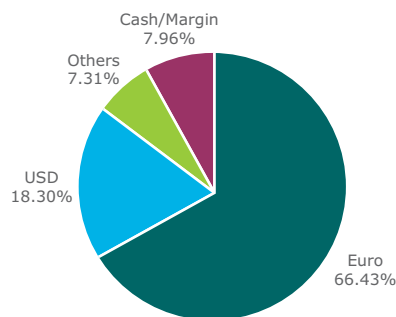
### Fund Characteristics \*

	Fund	Index
Weighted Interest Rate Duration (yrs)	3.45	3.69
Weighted Yield to Worst	12.08	17.09
Weighted Yield to Worst Non-cash diluted	13.11	17.09
Total No. of Issues	89	213
Total No. of Issuers	63	156
Weighted Coupon	8.18	7.26
Weighted Coupon Non-cash diluted	8.88	7.26
Weighted Rating	BB-	BB-
Average Position (%)	0.89	0.47

### Credit Quality



### Currency Breakdown



### Top 5 Holdings

Wind Telecom	4.44%
TDC	4.05%
Unity Media	3.53%
Rhodia	3.51%
Tim Hellas	3.40%

### Fund Facts

Inception Date	3 August 2005
Currency	Euros
Benchmark	Merrill Lynch European Currency High Yield Constrained Index
Fund Type	Multi-Class Unit Trust
Domicile	Cayman Islands

### Investment Strategy

- The Fund invests predominantly in fixed income securities issued by sub-investment grade companies domiciled in the Eurozone.
- The Fund seeks to generate excess returns via superior sector and security selection; based upon high quality, proprietary research.
- Portfolio duration is controlled within a narrow band relative to the benchmark.

### Team Info

<b>Fund Managers</b>	<b>Anthony Robertson</b>	<b>Peter Higgins</b>
<b>Joined BlueBay</b>	August 2004	January 2008
<b>Investment Experience</b>	12 years	12 years

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<b>Size of team</b>	29 investment professionals
<b>Average investment experience</b>	11 years

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