



Royal Bank of Canada ARC Fund Limited

2010 Annual Report
For The Year Ended 31 October 2010

RBC Wealth Management™



CONTENTS

	Page
Directors' Report	2
Investment Adviser's Report	6
Independent Auditor's Report	8
Consolidated Portfolio Statement	10
Consolidated Statement of Significant Changes to the Portfolio	11
Consolidated Statement of Total Return	12
Consolidated Statement of Movement in Net Assets Attributable to Participating Redeemable Preference Shareholders	12
Consolidated Balance Sheet	13
Notes to the Financial Statements	14
Historical Financial Information	24
Custodian's Report	25
Directory	26

DIRECTORS' REPORT

The Directors submit their Annual Report for the year ended 31 October 2010.

The Royal Bank of Canada ARC Fund Limited (the "Company") was incorporated in Guernsey on 25 February 2000 and commenced activities on 24 March 2000. The Company is authorised by the Guernsey Financial Services Commission as a Class B Scheme under The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. The Fund is authorised to issue a number of different classes of Shares. These shares may either carry differing rights to the same pool of assets or be in respect of segregated pools of assets. On 9 August 2007 each \$0.01 share in the Company in issue was divided into 10 shares of US\$ 0.001 each and were redesignated as B Shares Investor Class and a new class termed C Shares Institutional Class was created.

Currently the two classes of shares invest through shares in a wholly owned subsidiary company, "ARC Multi Strategies Limited", in a pool of underlying assets with a single investment objective and policy, as detailed below. The two classes differ in respect of the type of investor eligible to invest and the rate of the management charge paid in respect of the share class. Following the incorporation of ARC Multi Strategies Limited, in Guernsey, on 30 July 2007, the Group consists of Royal Bank of Canada ARC Fund Limited and ARC Multi Strategies Limited.

Business Review

The principal activity of Royal Bank of Canada Arc Fund Limited and Arc Multi Strategies Limited, together ("the Group"), is the holding of investments. A review of the business and prospects is contained in detail in the Investment Adviser's Report.

Investment Objectives

The investment objective of the Group is to generate absolute returns, generally independent of market direction, through investment in hedge funds employing a variety of alternative investment styles. Although the Group must be invested in at least 10 hedge funds, it is anticipated that the Group should be invested in approximately 20 to 60 hedge funds. The Group will attempt to minimise risk, including by virtue both the number of, and the diversity of style, of hedge funds in which it invests.

Investment Policy

The policy of the Group is to invest globally in a diversified portfolio of hedge funds. This diversification is by investment styles.

Authorisation

The Company was constituted on 25 February 2000 and was authorised by the Guernsey Financial Services Commission (the "Commission") as a Class B Umbrella Scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

In December 2008, the Guernsey Protection of Investors Law (POI) was amended and a new regime introduced whereby open-ended funds could either be classified as Authorised Funds or Registered funds. The new laws came into effect on 1st January 2009, and under the transitional provisions, all existing Guernsey open-ended funds were automatically deemed to be Authorised Funds. According to the new legislation, the Guernsey Financial Services Commission ("GFSC") will continue to take responsibility for regulating Authorised Funds.

DIRECTORS' REPORT - CONTINUED

Results

As at 31 October 2010, the consolidated net asset value amounted to US\$100,699,922 (2009: US\$94,156,610) being US\$166.96 per share for B Class Shares (2009: US\$156.99) and US\$172.16 per share for C Class Shares (2009: US\$160.43). The consolidated net increase in amounts due to shareholders from investment activities for the year as described on page 12 was US\$6,322,904 (2009: US\$14,147,934).

The Directors do not recommend the payment of a dividend (2009: US\$NIL).

Directors

The Directors, as disclosed on page 26, served throughout the year. K Flanagan resigned as Director on 16 January 2011.

All the Directors are Non Executive Directors.

A Ward, R Amer and K Flanagan are Directors of the Manager.

None of the Directors has a service contract with the Company and no such contract is proposed.

Auditor

Deloitte LLP have indicated their willingness to continue in office. A resolution for the re-appointment of Deloitte LLP will be provided at the next annual general meeting.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of The Companies (Guernsey) Law, 2008.

Financial Instruments

The Directors have identified the following risks from the Company holding financial instruments:

Liquidity Risk

Some of the Company's investments may not be readily realisable, particularly where markets in these investments are made only by the relevant Fund Manager. Redemption may only be allowed at specific times and dates and also restricted to a percentage of the Redemption request. The Directors do not foresee any difficulty in the Company maintaining its redemption program as detailed in the Company's scheme particulars.

Market Price Risk

Market Price Risk arises mainly from the uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and movements in exchange rates.

DIRECTORS' REPORT - CONTINUED

Market Price Risk - Continued

To ensure a prudent diversification, no more than 10% of the Net Asset Value of the Group can be invested in any one fund, not more than 20% of the Net Asset Value of the Group can be managed by one management group. The investments are subject to the limitations and restrictions set out in the Offering Memorandum.

In addition the Investment Adviser reviews each potential fund manager in order to identify those managers in each appropriate sector, which are most likely to continue to deliver performance of the same quality as their track record.

Foreign Currency Risk

Foreign Currency Risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. There is currently no direct foreign exchange exposure because all of the Group's assets are denominated in US dollars.

The strategy adopted by the Directors in meeting the objectives of the Company and reducing Financial Risk is disclosed in the Offering Memorandum.

Credit Risk

Credit risk is the risk that an issuer or counterparty, including a bank, deposit institution or other financial intermediary, will be unable or unwilling to meet a commitment, that may include repayment of cash and or cash placed on deposit, that the issuer or counterparty, including a bank, deposit taking institution or other financial intermediary, has entered into with the Group.

The Manager considers that any risk of dealing through a broker is low because delivery of stock by the Classes is only made once payment has been received on a sale. On a purchase, payment would only be made once the stock had been received from the broker. If any party failed to meet their obligations then the trade would fail.

The Manager considers the risk of default by an issuer of debt instruments to be low because of the strict investment criteria it has adopted.

Going Concern

After making all reasonable enquires and having respect to the nature of the Company, its subsidiary and its investments, the Directors are satisfied based on information available to them at the present time, that it is appropriate to adopt the going concern basis in preparing the financial statements and, after due consideration, the Directors consider that the Company is able to continue in operational existence for the foreseeable future.

DIRECTORS' REPORT - CONTINUED

Directors' Responsibilities

The Companies (Guernsey) Law 2008 requires the Directors to prepare financial statements for each accounting year. The Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable Law. The financial statements are required by law to give a true and fair view of the state of affairs of the Group as at the end of the financial year and of its profit and loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements 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 Group will continue in business.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008, The Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, The Collective Investment Schemes (Class B), Rules 1990 and the principal documents. They are also responsible for the system of internal control to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on behalf of the Board

R Amer

G Riley

Director

Director

18 February 2011

INVESTMENT ADVISER'S REPORT FOR THE YEAR ENDED 31 OCTOBER 2010

Royal Bank of Canada ARC Fund Limited and ARC Multi Strategies Limited, together ("the Group"), generated net returns of 9.79% for the year ended 31 October 2010. This return compares favorably to the Company's primary benchmark, the HFRX Global Hedge Company Index, which rose for the same period. Equity markets rose meaningfully during the period, as evidenced by the S&P's rise of over 12% in the last two months to generate a return of 16.62% for the 12 month period. During the reported period there was a meaningful degree of volatility as evidenced by the S&P accumulating over 20% of monthly losses during the year. While the Group's returns lagged the global equity markets, on a risk adjusted basis, the Group performed consistently and competitively.

The Group remains well diversified with investments in 23 funds and with capital of approximately 47% allocated to equity long/short managers, 20% to fixed income, 15% to event driven, 12% to global macro, and 6% to convertible arbitrage. All sectors generated positive returns for the period with only two funds experiencing negative returns. Given the strong performance of both credit and equity markets, we possibly were overly cautious with allocations to managers who have historically run relatively lower net risk positions than the broader industry. This is typical of our investment approach and one that we believe helps avoid meaningful drawdowns, which over time, has generated our outperformance over more volatile competition.

2011 Outlook

- Many of the global imbalances that existed in 2008 and that contributed to the global financial crisis continue to exist. Policy responses by various countries have been different but too many countries have simply been "kicking the can down the road". The USA has seen significant improvement with consumer debt and corporate balance sheets but this has been replaced by ballooning government debt with seemingly little resolve to solve/address difficult problems. The Euro response to the PIGS's crisis has similarly largely been throwing more debt at a problem of too much debt. The main implication of this will likely be continued volatility and bouts of market crisis.
- The US economy appears to have avoided a double dip, but the money multiplier continues to be very weak, demonstrating that the economy is still not operating normally. Consumers and corporations are in much better shape than late 2008, but consumers remain focused on lowering personal debt and thus will not be a large contributor to growth. In addition, state and local governments are cutting back spending/hiring and hence will be a drag on growth.

It seems unlikely that the Federal Government will add any more fiscal stimulus and therefore growth in the economy will have to come from corporations and exports. This will happen but it is difficult to envision overall GDP growth much in excess of 3%.

- The question is how much of this growth is already discounted in the markets? The market will also have to deal with political fighting in Washington; if the bi-partisan approach that prevailed in Congress after the November election continues, this could have a positive impact on the markets (this assumes that the administration continues with its recent more business-friendly attitude in contrast to its generally anti-business tone over much of the past two years).
- In Europe, the key question is will Germany continue to be agreeable to bailing out problem countries and, if so, will the terms of bailout be accepted in problem countries. It seems easy to envisage ongoing volatility as the PIGS (Portugal, Ireland, Greece and Spain) et al suffer near deep recessionary conditions, while Germany and northern Europe enjoy robust economic growth. These conditions put the European Central Bank ("ECB") in a difficult position and the ECB clearly seem conflicted; which also adds to market uncertainty and volatility.

INVESTMENT ADVISER'S REPORT - CONTINUED FOR THE YEAR ENDED 31 OCTOBER 2010

- Emerging markets continue to be where the growth is; but loose monetary policies in developed worlds appear to be adding to the bubble environment in certain markets. Many countries are tightening monetary policy, and using capital controls to control bubbles and cool their economies. Today, many emerging markets trade at valuations in excess of developed countries; historically a bearish signal. In addition, rising interest rates and a tighter monetary policy are usually not bullish for equities.

As we expect the beta returns in both equities, credit and fixed income markets to be more limited this year, we will remain oriented towards investing with well-hedged managers who have exhibited an ability to generate returns on both their longs and their shorts as well as an ability to trade around their positions as we expect the choppy market environment to continue.

Saguenay Capital LLC

January 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BANK OF CANADA ARC FUND LIMITED

We have audited the Group Financial Statements (the "financial statements") of the Royal Bank of Canada ARC Fund Limited for the year ended 31 October 2010 which comprise the Consolidated Portfolio Statement, the Consolidated Statement of Significant Changes to the Portfolio, the Consolidated Statement of Total Return, the Consolidated Statement of Movement in Net Assets Attributable to Participating Redeemable Preference Shareholders, the Consolidated Balance Sheet and the related notes 1 to 14. 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 262 of The Companies (Guernsey) Law, 2008. 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 opinion we have formed.

Respective Responsibilities of the Directors and Auditor

As described in the Statement of Directors Responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable Guernsey law and United Kingdom Generally Accepted Accounting Practice. Our responsibility is to audit the financial statements in accordance with relevant Guernsey 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 (Guernsey) Law, 2008, The Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, The Collective Investment Schemes (Class B) Rules, 1990, The Investment Management Statement of Recommended Practice, 2008 and the principal documents.

We also report to you if, in our opinion the Company or Group has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). 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 the judgements made by the Directors in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the Group'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 mis-statement 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BANK OF CANADA ARC FUND LIMITED - CONTINUED

Opinion

In our opinion the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 31 October 2010 and of the Group's net increase in participating redeemable preference shareholders' funds from investment activities for the year then ended and have been properly prepared in accordance with The Companies (Guernsey) Law, 2008, The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, The Collective Investment Schemes (Class B) Rules, 1990 and the principal documents.

Deloitte LLP
Chartered Accountants
Guernsey
Channel Islands
18 February 2011

CONSOLIDATED PORTFOLIO STATEMENT

AS AT 31 OCTOBER 2010

Investment	Nominal Holding	Fair Value US\$	% of NAV
Amaranth International Limited, Series 1130	805	449,381	0.45%
Anchorage Capital Partners Offshore Ltd	3,000	3,218,667	3.20%
Aristeia International Fund, Class B, Series 11	2,464	2,037,061	2.02%
Artis Partners 2X Ltd	50,000	5,279,670	5.24%
Blue Mountain Equity Alternatives Fund Ltd, Series 19	2,901	4,939,570	4.91%
CC Asia Absolute Return Fund Limited - USD Class	13,162	2,396,623	2.38%
CC Asia Advantage Fund Limited - Class C	45,812	4,880,791	4.85%
Claren Road Credit Fund Ltd, Class B, Series 24	2,556	3,496,784	3.47%
Claren Road Credit Fund Ltd, Class B, Series 26	1,500	2,004,664	1.99%
Claren Road Credit Fund Ltd, Class L Interests, Series 24 Payable	255,548	255,548	0.25%
Court Hill Fund, L.P.	116,200	116,200	0.12%
Dundonald Offshore Ltd, Class II, Series 1	3,362	5,215,173	5.18%
Fortress Mortgage Opportunities Fund, Series 1 LP Restricted	2,027,880	2,027,880	2.01%
Galle Global Macro Offshore Fund Ltd, Class 2A, Series 2	2,500	2,329,297	2.31%
Highland Crusader, Class A, Series 12	2,500	-	0.00%
Highland Crusader, Class D, Series 7	135	744,820	0.74%
Investcorp Silverback Arbitrage Fund Ltd, Class A Restricted, Series 1	1,610	3,194,528	3.17%
Landsdowne Global Financials Fund Limited, Class R, USD Shares	17,972	4,867,046	4.83%
MAK Capital International Limited, Class B, Initial Series	3,064	9,243,720	9.18%
MKP Credit Offshore Ltd, Class B, Series A	1,881	7,516,903	7.46%
Nisswa Fixed Income Fund Ltd, Class A, Series 13	4,500	5,068,794	5.04%
PFM Diversified Offshore Fund Ltd, Class C, Series 1	3,368	5,837,554	5.80%
PFM Healthcare Offshore Fund Ltd, Class C, Series 5	2,639	3,282,312	3.26%
QFR Victoria Fund Ltd, Class A, Series 01/10	6,510	7,701,691	7.65%
QFR Victoria Fund Ltd, Class C, Series 02/10	1,500	1,739,825	1.73%
Seyn River Capital Offshore Fund Ltd, Class B, Series 2009-12	2,000	1,926,270	1.91%
Seyn River Capital Offshore Fund Ltd, Class B, Series 2010-6	1,500	1,490,461	1.48%
Sola 1, Class L2, Series E 03-2008	159	182,793	0.18%
Sola 1, Class L2 (Reds) Series E Initial	333	382,256	0.38%
Sola 1, Class L2 (Reds), Series E 03 - 2008	79	90,766	0.09%
Sola 1, Class L2, Series E Initial	669	769,015	0.77%
Sola 1, Class V, Series 01 - 2010/L2	452	517,001	0.51%
Sola 1, Class V, Series 02 2010/L2	331	373,027	0.37%
Sola 1, Class V, Series E 03 - 2008	553	616,595	0.61%
Sola 1, Class V, Series E Initial	2,320	2,587,657	2.57%
Tremblant Partners Ltd, Subclass D Restricted, Series 1	5,295	844,262	0.84%
Victoria SPV Class A 2010	34	2,693	0.00%
Total Investments		97,627,298	96.95%
Cash at Bank		3,762,755	3.74%
Net liabilities		(690,131)	(0.69%)
Net assets attributable to participating redeemable preference shareholders		100,699,922	100.00%

CONSOLIDATED STATEMENT OF SIGNIFICANT CHANGES TO THE PORTFOLIO AS AT 31 OCTOBER 2010

Significant changes are defined as any purchase or sale of an investment, the value of which exceeds 2% of the opening Net Asset Value of the Fund subject to a minimum of twenty transactions.

Purchases	Nominal Holding	Cost US\$
Artis Partners 2X Ltd	50,000	5,000,000
Nisswa Fixed Income Fund Ltd, Class A, Series 13	4,500	4,500,000
Anchorage Capital Partners Offshore, Ltd	3,000	3,000,000
Galle Global Macro Offshore Fund Ltd, Class 2A, Series 2	2,500	2,500,000
Severn River Capital Offshore Fund Ltd, Class B, Series 2009-12	2,000	2,000,000
Landsdowne Global Financials Fund Limited, Class R, USD Shares	7,272	2,000,000
Severn River Capital Offshore Fund Ltd, Class B, Series 2010-6	1,500	1,500,000
QFR Victoria Fund Class C	1,500	1,500,000
Dundonald Offshore Ltd, Class II, Series 1	1	1,886

Sales	Nominal Holding	Proceeds US\$
Dundonald Offshore Ltd, Class II, Series 1	2,739	4,000,000
Investcorp Silverback Arbitrage Fund Ltd, Class A Restricted, Series 04 08	2,130	4,000,000
Court Hill Offshore Ltd, Class II, Series III	2,742	3,077,674
Apis Offshore Capital Ltd, Series B Initial	1,562	2,654,976
Aristeia International Fund, Class B, Series 11	2,661	2,000,000
MAK Capital International Limited, Class B, Initial Series	748	2,000,000
Blue Mountain Equity Alternatives Fund Ltd, Restricted, Series 24-1.5%	1,412	1,427,382
Sola I, Class V, Initial Series	1,160	1,062,036
Fortress Mortgage Opportunities Fund, Series 1 LP Restricted	1,042,726	1,042,726
Tremblant Partners Ltd, Subclass D Restricted, Series 1	2,902	437,114
Sola I, Class V, Series E 03-2008	276	253,066
Sola I, Class L2, Series E Initial	191	224,133
Sola I, Class L2, Initial	114	133,263
Claren Road Credit Fund Ltd, Class L Interests, Series 24 Payable	114,946	114,946
Sola I, Class L2, Series E 03-2008	27	32,021

CONSOLIDATED STATEMENT OF TOTAL RETURN FOR THE YEAR ENDED 31 OCTOBER 2010

	Notes	1 Nov 09 to 31 Oct 10 US\$	1 Nov 08 to 31 Oct 09 US\$
Net gains on investments	2	8,296,788	15,957,258
Gross income	3	1,943	33,527
Expenses	4	(1,975,827)	(1,842,851)
Net expenses for the year		(1,973,884)	(1,809,324)
TOTAL RETURN FOR THE YEAR		6,322,904	14,147,934
NET INCREASE IN PARTICIPATING REDEEMABLE PREFERENCE SHAREHOLDERS' FUNDS FROM INVESTMENT ACTIVITIES		6,322,904	14,147,934

The results above derive from continuing operations.

The Company has no recognised gains or losses other than those reflected in the Statement of Total Return above, therefore a Statement of Total Recognised Gains and Losses has not been prepared.

CONSOLIDATED STATEMENT OF MOVEMENT IN NET ASSETS ATTRIBUTABLE TO PARTICIPATING REDEEMABLE PREFERENCE SHAREHOLDERS FOR THE YEAR ENDED 31 OCTOBER 2010

	Notes	31 Oct 10 US\$	31 Oct 09 US\$
Net assets at the start of the year		94,156,610	135,180,783
Movement due to sales and repurchases of shares			
Amounts received on issue of shares	5	13,506,514	2,837,803
Less: amounts paid on redemption of shares	5	(13,286,106)	(58,009,910)
		220,408	(55,172,107)
NET INCREASE IN PARTICIPATING REDEEMABLE PREFERENCE SHAREHOLDERS' FUNDS FROM INVESTMENT ACTIVITIES (see Consolidated Statement of Total Return)		6,322,904	14,147,934
Net assets at the end of the year		100,699,922	94,156,610

The notes on pages 14 to 23 form part of these Financial Statements

CONSOLIDATED BALANCE SHEET
AS AT 31 OCTOBER 2010

	Notes	31 Oct 10 Total US\$	31 Oct 09 Total US\$
Investments at Market Value			
Cost US\$95,672,725 (2009 US\$87,380,968)	1(b)	97,627,298	89,788,154
Current Assets			
Cash at Bank		3,762,755	1,422,346
Debtors and Accrued Interest		2,331	8,656
Amounts due from Sale of Investments		-	3,806,022
		3,765,086	5,237,024
Current Liabilities			
Management Fee payable	6	407,604	258,421
Performance Fee payable	7	203,494	-
Other Creditors		81,364	610,147
		692,462	868,568
Net Current Assets		3,072,624	4,368,456
Net Assets Attributable to Participating Redeemable Preference Shareholders		100,699,922	94,156,610
Net Asset Value Per Share			
- B Class	13	166.96	156.99
- C Class	13	172.16	160.43

Approved by the Board of Directors and signed on 18 February 2011.

R Amer
Director

G Riley
Director

The notes on pages 14 to 23 form part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2010

1 ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Royal Bank of Canada ARC Fund Limited ("the Company") and ARC Multi-Strategies Limited ("the Subsidiary"), together ("the Group"), are prepared under the historical cost convention as modified by the revaluation of investments to market value. They have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2008. The Group has decided not to adopt FRS 23 'The Effects of Changes in Foreign Exchange Rates', FRS 25 'Financial Instruments: Disclosure and Presentation', FRS 26 'Financial Instruments: Measurement and Recognition' and FRS 29 'Financial Instruments: Disclosures' other than the mandatory presentational requirements of FRS 25.

The significant accounting policies adopted by the Group are as follows:

a) Income Recognition

Bank interest is accrued on a day to day basis. All income and expenses are recognised in the Company.

b) Investments

The Subsidiary is 100% owned and controlled by the Company. Investments of the Subsidiary consist of shares or units in hedge funds and these are valued at either the published net asset value of these funds as at the year end date or, if this is not available, the latest estimate of net asset value from the administrator or manager of the respective fund.

Realised gains and losses on the disposal of investments are calculated by reference to the net proceeds received on disposal and the average cost attributable to those investments. Gains and losses on investments are included in the Consolidated Statement of Total Return.

The investments made by the Group may not be regulated by the rules of any stock exchange or investment exchange or other regulatory body or authority. In valuing the investments, the Group will rely on the net asset value of the underlying funds as supplied by the various managers or administrators.

Some of the investments made by the Group may not be readily realisable and their marketability may be restricted, in particular where markets in these investments are made only by the relevant fund manager, allowing redemption only at specific times and dates and it may be difficult for the Group to sell or realise its investments.

The Group will invest in funds which may be subject to issue and redemption charges and to management, administration, and incentive or performance fees, in addition to those payable by the Group.

Movements in unrealised gains and losses on investments resulting from the revaluation of investments are also included in the Consolidated Statement of Total Return.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED 31 OCTOBER 2010

1 ACCOUNTING POLICIES - continued

b) Investments - continued

Two classes of shares exist within the Company: class B shares and class C shares. Currently the two share classes of the Company invest in the Subsidiary which holds the pool of underlying investments with a single investment objective and policy. The B and C shares differ in respect of the type of investor eligible to invest, the amount of minimum initial investment and the rate of management fee paid in respect of the share class. The Subsidiary is held at fair value as determined by the NAV of the Subsidiary based on the market value of the underlying investments and underlying investments fair value. The share classes B and C have been aggregated and held as one in the Company.

c) Cashflow Statement

A cash flow statement has not been included in the financial statements, as the Company is exempt from doing so under the provisions of Financial Reporting Standard No. 1 "Cash Flow Statements" (Revised) on the grounds that the Company is an open-ended investment scheme that satisfied the exemption criteria set under the standard. These criteria are; the investments held are liquid; investments are held at market value; and the company presents a Statement of Movement in Amounts due to Shareholders.

d) Basis of Consolidation

The results of the Subsidiary are included using the acquisition method of accounting.

d) Going Concern

After making all reasonable enquires and having respect to the nature of the Company, its subsidiary and its investments, the Directors are satisfied based on information available to them at the present time, that it is appropriate to adopt the going concern basis in preparing the financial statements and, after due consideration, the Directors consider that the Company is able to continue in operational existence for the foreseeable future. Further information is included in note 12.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED 31 OCTOBER 2010

2 NET GAINS ON INVESTMENTS

The Net gains on investments during the year comprise :

	1 Nov 09 to 31 Oct 10 US\$	1 Nov 08 to 31 Oct 09 US\$
Net realised gains for the year	8,749,401	3,729,181
Net unrealised (losses)/gains for the year	(452,613)	12,228,077
Net gains on investments	8,296,788	15,957,258

3 INCOME

Notes

	1 Nov 09 to 31 Oct 10 US\$	1 Nov 08 to 31 Oct 09 US\$
Bank interest	57	26,039
Other Income	1,886	7,488
	1,943	33,527

4 EXPENSES

Notes

	1 Nov 09 to 31 Oct 10 US\$	1 Nov 08 to 31 Oct 09 US\$
Payable to the manager, associates of the manager and agents of either of them:		
Manager's Fee	6	1,599,245
Performance Fee	7	203,493
		1,802,738
Other Expenses:		
Audit Fee		29,196
Directors' Fee		8,110
Bank Interest Paid	14	38
Other General Expenses		135,745
		173,089
Total Expenses		1,975,827
		1,842,851

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED 31 OCTOBER 2010

5 SHARE CAPITAL AND SHARE PREMIUM

a) Authorised Share Capital

	US\$
100 Management Shares of US\$1 each	100
50,000,000 Unclassified shares of US\$0.001 each	50,000
	<u>50,100</u>

b) Issued Share Capital

Number of Shares		US\$
Management shares	100	100

	B Shares	C Shares	Total
	US\$	US\$	US\$

Participating Redeemable

Accumulation Shares:

Balance at 1.11.2008	718,669	287,904	1,006,573
Issue of shares	6,239	14,531	20,770
Redemption of shares	(335,186)	(93,366)	(428,552)
Balance at 31.10.2009	<u>389,722</u>	<u>209,069</u>	<u>598,791</u>

Balance at 1.11.2009	389,722	209,069	598,791
Issue of shares	28,496	49,424	77,920
Redemption of shares	(61,845)	(19,184)	(81,029)
Balance at 31.10.2010	<u>356,373</u>	<u>239,309</u>	<u>595,682</u>

Nominal Shares

Balance at 1.11.2008	1,675,860
Issue of shares	428,552
Redemption of shares	(20,770)
Balance at 31.10.2009	<u>2,083,642</u>
Total	<u><u>2,682,433</u></u>

Balance at 1.11.2009	2,083,642
Issue of shares	81,029
Redemption of shares	(77,920)
Balance at 31.10.2010	<u>2,086,751</u>
Total	<u><u>2,682,433</u></u>

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED 31 OCTOBER 2010

5 SHARE CAPITAL AND SHARE PREMIUM - continued

b) Issued Share Capital - continued

Share Capital

Management shares	100	-	100
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	B Shares	C Shares	Total
Participating Redeemable Accumulation Shares:			
Balance at 1.11.2008	719	288	1,007
Issue of shares	6	14	20
Redemption of shares	(335)	(93)	(428)
Balance at 31.10.2009	390	209	599
Balance at 1.11.2009	390	209	599
Issue of shares	28	49	77
Redemption of shares	(62)	(19)	(81)
Balance at 31.10.2010	356	239	595

Nominal Shares

Balance at 1.11.2008			2,849
Issue of shares			428
Redemption of shares			(20)
Balance at 31.10.2009			3,257
Total			3,856

Balance at 1.11.2009			3,257
Issue of shares			81
Redemption of shares			(77)
Balance at 31.10.2010			3,261
Total			3,856

Share Premium

Participating Redeemable Accumulation Shares:

Balance at 1.11.2008	31,956,990	45,559,795	77,516,785
Issue of shares	627,283	2,210,520	2,837,803
Redemption of shares	(44,905,937)	(13,103,973)	(58,009,910)
Transfer from reserves	11,971,201	-	11,971,201
Balance at 31.10.2009	(350,463)	34,666,342	34,315,879
Total	(350,073)	34,666,551	34,316,478

Balance at 1.11.2009	(350,463)	34,666,342	34,315,879
Issue of shares	5,151,344	8,355,170	13,506,514
Redemption of shares	(10,075,139)	(3,210,967)	(13,286,106)
Transfer from reserves	5,624,331	-	-
Balance at 31.10.2010	350,073	39,810,545	34,536,287
Total	-	39,810,784	34,536,982

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED FOR THE YEAR ENDED 31 OCTOBER 2010

5 SHARE CAPITAL AND SHARE PREMIUM - continued

Each holder of the Participating Redeemable Accumulation Shares is entitled, on a poll, to one vote each for each share held. Both classes of Participating Redeemable Preference Shares carry identical rights save as to management fees, minimum subscription levels and eligibility of investors.

In a winding-up, the assets available for distribution shall be applied in the repayment of the nominal amount paid-up firstly on Participating Shares, secondly on Nominal Shares and thirdly on Management Shares. Any surplus of assets then remaining shall be distributed among the holders of Shares in pro-rata to the respective holding.

Under Financial Reporting Standard No. 25 (Financial Instruments: Disclosure and Presentation) Participating Redeemable Preference Shares are now treated as debt rather than equity. Therefore net assets are now stated as being attributable to shareholders on the balance sheet.

The subscription date of the fund is the last business day in each month. The minimum initial subscription for B shares in the Company is US\$50,000. The minimum subscription for C shares in the Company is US\$10,000,000. For any subsequent subscription, the minimum is US\$10,000. The directors have discretion to accept subscriptions of lower amounts.

Shares may be redeemed on a quarterly basis on the last business day in March, June, September and December each year. Requests to redeem shares should be received by the Manager 45 days prior to the appropriate redemption date. The directors have discretion to waive the notice period. Investors may make partial redemptions of their holdings provided that the aggregate value of the remaining shareholding does not fall below US\$50,000 for B shares or US\$10,000,000 for C shares, subject to the directors discretion.

Unclassified shares may be issued as Participating Shares or as Nominal Shares. Nominal shares can only be issued to the Manager. The holders of Nominal Shares are entitled to one vote only irrespective of the number of Nominal Shares held. The nominal shares carry no right to dividends. In a winding-up, they have the right to repayment only of paid-up capital after the repayment of nominal paid-up capital to the holders of Participating Shares but before such repayment to the holders of Management Shares.

Management Shares have been created so that the Participating Shares may be issued. To qualify as redeemable shares, the Participating Shares are required to have preference over some other class of share capital. The Management Shares are not redeemable, carry one vote per share and do not carry the right to dividends. In the winding-up they have the right to repayment only of nominal paid up capital, after the repayment of nominal paid up capital of the holders of Participating Shares and Nominal Shares.

The Participating Shares carry the right to dividends as determined by the Company in general meeting, and are entitled to one vote for each share held. In a winding-up, the assets available for distribution shall be applied in repayment of the nominal amount paid-up, firstly on Participating Shares, secondly on Nominal Shares and thirdly on Management Shares. Any surplus of assets then remaining shall be distributed amongst the holders of Participating Shares in pro-rata to the respective holding.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED FOR THE YEAR ENDED 31 OCTOBER 2010

6 MANAGER'S FEE

Under the Management Agreement, the Manager is entitled to receive a fee from the Company, payable monthly in arrears, calculated at the rate of up to 2.0% per annum of the net asset value of the B Share Investor Class and 1.0% per annum of the C Share Institutional Class as at the last business day of the relevant month.

The Manager will pay the fees of the Custodian and the Investment Adviser.

7 PERFORMANCE FEE

The Manager is entitled to receive a performance fee of 10% calculated on the increase of total NAV and after deduction of the greatest of either the high water mark* obtained or an annual hurdle rate of 6% per annum pro rated monthly. The annual hurdle rate is calculated on the rebased NAV at the beginning of each new financial year, which will be the final NAV from the preceding year. The performance fee will be accrued monthly and paid annually. It should be noted that the performance fee was waived in the previous year.

* High water mark is the highest price achieved during any financial year which is rebased at the beginning of each financial year to the closing price of the previous financial year.

8 TAXATION

The Company and its wholly-owned subsidiary ARC Multi Strategies Limited are eligible for exemption from taxation in Guernsey under the provision of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989, for which they are liable to pay an annual fixed fee of £600 each.

9 COMMITMENTS

A short term overdraft facility with Royal Bank of Canada (Channel Islands) Limited is secured over the assets of the Group. The maximum borrowing limit is the lower of US Dollars 12 million or 15% of NAV. Interest is charged at the prime rate set by Royal Bank of Canada (Channel Islands) Limited which is USD 1 week LIBOR plus 1.25% per annum (2009: USD 1 week LIBOR plus 1.25% per annum). The rate is ascertained each Monday, or next available business day or fixed for the next seven days or until the rate is again able to be ascertained. This facility was not utilised during the year

10 AUTHORISATION

The Company was incorporated in Guernsey on 25 February 2000 and the Subsidiary was incorporated in Guernsey on 30 July 2007. The Company is authorised as a Class B Collective Investment Scheme under the Collective Investment Schemes (Class B) Rules, 1990.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED FOR THE YEAR ENDED 31 OCTOBER 2010

11 FINANCIAL INSTRUMENTS

- a) The Group is exposed to a number of risks as a result of the financial instruments it holds. These risks are mitigated as described on pages 3 and 4.
- b) **Currency exposure**
The Group does not have any direct material currency exposure as all of its net assets are denominated in US Dollars.
- c) **Interest rate risk profile of financial assets and financial liabilities**
The Group has no direct fixed rate financial assets. The only floating rate financial asset is the Group's call deposit account which has a balance of US\$3,762,755 (2009: balance of US\$1,422,346) at the year end.
- d) **Short term debtors and creditors**
Short term debtors and creditors have been excluded from the disclosures of financial instruments.
- e) **Fair value of financial assets and financial liabilities**
The financial assets and liabilities of the Group are included in the Consolidated Balance Sheet at fair value.

12 LIQUIDITY

The Scheme Particulars of the Company allow shareholders to redeem their shares on a quarterly basis on the last business day in March, June, September and December each year. Requests to redeem shares must be received by the Manager 45 calendar days prior to the appropriate redemption date.

The Group's portfolio mainly comprises investments in unlisted open-ended hedge funds, which are not traded on a recognised exchange. These funds generally hold a mixture of liquid investments.

However during times of elevated market uncertainty when liquidity may be questioned, during either short or longer term periods, the funds may transfer less than optimally liquid assets into "side pockets," which in certain circumstances, may affect the ability of the hedge funds to pay 100% of requested redemption proceeds to its investors. Whether or not these funds have employed "side pockets" to hold less liquid assets, the funds may also put in place a "gate event," whereby a restricted amount of redemptions will be accepted, which could result in staggered payments of redemption proceeds or even a total suspension of redemptions for a prolonged period, sometimes referred to as a "lock-in." As a result of the imposition of any one or more of these events, the Group may, in these circumstances, not receive 100% of redemption proceeds to meet the Group's liquidity requirements.

In order to manage the Group's liquidity to meet any redemption requests, the Investment Advisor monitors the liquidity risk of the Group's portfolio on a monthly basis by performing a full liquidity analysis of the portfolio based on the most up to date market information available. In addition, an overall review of the Group's liquidity risks are monitored on a quarterly basis by the board of directors assisted by RBC Wealth Management, International and their Global Investment Solutions who have specialists in this asset class.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED FOR THE YEAR ENDED 31 OCTOBER 2010

12 LIQUIDITY - continued

If for any reason the Manager was unable to realise sufficient liquidity to meet redemption requests then the Directors have the option to protect its remaining investors by suspending the calculation of the Net Asset Value and the redemption of shares.

Estimated Percentage Liquidity Profile

2010				Held in illiquid	
1 to 3 mths	3 to 6 mths	6 to 12 mths	12 to 24 mths	side pockets	In liquidation
17.72%	56.32%	10.50%	12.40%	1.84% ¹	1.22% ^{2,3}

The above percentages are based on the value of the portfolio as at 31 October 2010.

2009				Held in illiquid	
1 to 3 mths	3 to 6 mths	6 to 12 mths	12 to 24 mths	side pockets	In liquidation
13.83%	75.44%	4.23%	4.18%	1.06%	1.27%

The above percentages are based on the value of the portfolio as at 31 October 2009.

The data above is estimated and is subject to a change in the liquidity terms of the underlying funds. The percentage held in side pockets are considered illiquid by the Directors due to restrictions implemented by Managers of underlying investments.

¹ At the year end the Group held investments in five side pockets in Court Hill Fund, LP which are regarded as illiquid as no future redemption date has been indicated. At the year end, the investments held in these side pockets in Courthill Offshore Ltd represent approximately 0.12% of the total net asset value.

² At the year end Highland Crusader is in liquidation and as a result, the Company is subject to liquidity restrictions should it intend to redeem its investment in the underlying investment. The value stated in the financial statements represents the latest estimate provided by the manager discounted by 28% which, in the opinion of the Investment Advisor, reflects the continued uncertainty in valuing this investment. At the year end the investment in Highland Crusader represents approximately 0.74% of the total net asset value.

³ Amaranth International Limited is in liquidation. A gate has been imposed limiting redemption opportunity which have monthly estimates that are still being received from the underlying administrator. At the year end the investment in Amaranth International Limited represents approximately 0.45% of the total net asset value.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED FOR THE YEAR ENDED 31 OCTOBER 2010

13 RECONCILIATION OF NET ASSET VALUE PER PARTICIPATING REDEEMABLE SHARE PER THE FINANCIAL STATEMENTS TO REPORTED NET ASSET VALUE

	NAV US\$	Shares in issue	NAV per Share US\$
B Class			
Reported net asset value as at 31 October 2010	60,183,097	356,373	168.88
Adjustment for decrease in investment value	(681,702)	-	(1.92)
Net asset value per financial statements as at 31 October 2010	<u>59,501,395</u>	<u>356,373</u>	<u>166.96</u>
C Class			
Reported net asset value as at 31 October 2010	41,664,841	239,309	174.10
Adjustment for decrease in investment value	(466,314)	-	(1.94)
Net asset value per financial statements as at 31 October 2010	<u>41,198,527</u>	<u>239,309</u>	<u>172.16</u>

The value of the investment held in Court Hill Side Pocket decreased by 90.81%, resulting in the net asset value of B Class decreasing by US\$681,702 and C Class decreasing by US\$466,314. The factors that resulted in the decrease in the investment were already in place at 31 October 2010, however the valuation of Court Hill Side Pocket was only adjusted for these factors in the 31 December 2010 valuation once the updated information was available. This has resulted in the adjustment in net asset value as at year end.

14 RELATED PARTY TRANSACTIONS AND CONTROLLING PARTY

Royal Bank of Canada (Channel Islands) Limited ("the Custodian") and RBC Offshore Fund Managers Limited ("the Manager") are regarded as the controlling and related parties.

The fees payable to the Manager are explained in Notes 6 and 7. The total amounts paid in respect of the current year are disclosed separately in Note 4. A portion of these amounts remain outstanding at the year end and are included under 'Current Liabilities' in the Consolidated Balance Sheet. The interest received from the Custodian is disclosed in note 3. The Interest paid to the Custodian during the year is disclosed in note 4.

HISTORIC FINANCIAL INFORMATION

Calendar Year:	A Shares ¹	B Shares	C Shares
Highest buying price			
2006	US\$ 1,529.49	-	-
2007	-	US\$ 164.30	US\$ 164.06
2008	-	US\$ 158.27	US\$ 158.59
2009	-	US\$ 155.68	US\$ 158.96
2010	-	US\$ 168.88	US\$ 174.10
Lowest buying price			
2006	US\$ 1,392.07	-	-
2007	-	US\$ 152.46	US\$ 152.46
2008	-	US\$ 133.84	US\$ 135.40
2009	-	US\$ 129.58	US\$ 131.32
2010	-	US\$ 158.73	US\$ 162.33
Net Asset Value			
	US\$ 000's	US\$ 000's	US\$ 000's
2006	US\$ 263,069	-	-
2007	-	US\$ 164,132	US\$ 28,726
2008	-	US\$ 96,194	US\$ 38,987
2009	-	US\$ 60,681	US\$ 33,475
2010	-	US\$ 59,501	US\$ 41,199
No of shares in issue			
2006	186,803	-	-
2007	-	1,000,198	174,007
2008	-	718,669	287,904
2009	-	389,722	209,069
2010	-	356,373	239,309
Net Asset Value per share			
2006	US\$ 1,408.27	-	-
2007	-	US\$ 164.10	US\$ 165.09
2008	-	US\$ 133.84	US\$ 130.44
2009	-	US\$ 156.99	US\$ 160.43
2010	-	US\$ 166.96	US\$ 172.16
Total Expense Ratio²			
2009	-	2.12%	1.12%
2010	-	2.34%	1.46%

¹ On 9 August 2007 each 1 cent A share in the Company in issue was divided into 10 shares of US\$ 0.001 each and redesignated as B Shares Investor Class and a new class termed C Shares Institutional Class was created.

² The Total Expense Ratio (TER) shows the relevant annualised operating expenses from the most recent reporting period as a single percentage of the average net asset value over the same period.

CUSTODIAN'S REPORT

In our opinion the Manager has in all material respects managed the Group for the year ended 31 October 2010 in accordance with The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, The Collective Investment Schemes (Class B) Rules 1990 and the Principal Documents.

Royal Bank of Canada (Channel Islands) Limited
18 February 2011

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