



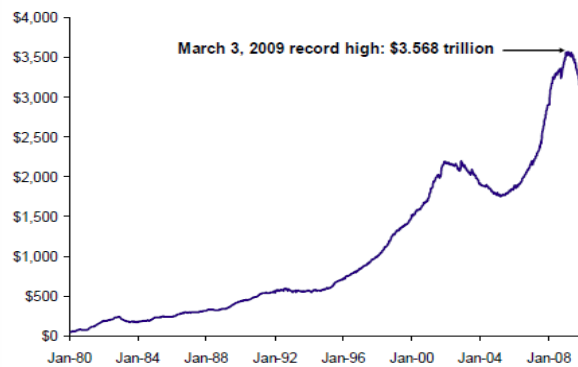
Nurturing Wealth Together

Dear Investors,

February 2010

The graph shows the estimated amount of cash sitting in money market funds up to the end of February. As always there are two sides to the story. The bulls, who currently have control of the markets, see the \$3 trillion dollars still in cash as fuel to support a further equity market recovery. Bear's on the other hand see this as an indication of just how fragile investor sentiment is and how fearful investors remain. It is important to note that the majority of the \$670bn of cash that has been invested from the peak in February 2008 actually went into fixed income funds. One should remain sceptical on investing in fixed income at current levels given the low historical yields on offer and the material risk of inflation. On the other hand sitting in cash and earning close to 0% is not that attractive either.

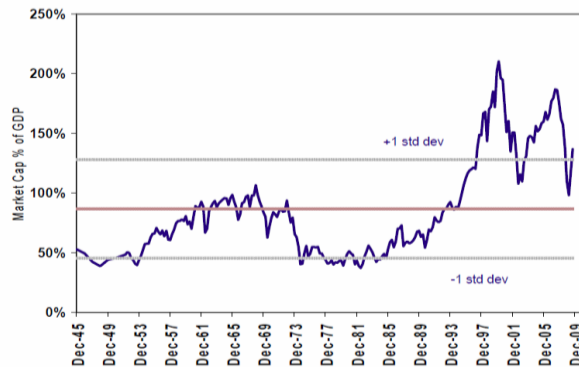
Total Money Funds (\$b) – January 1980 to present, weekly chart



Source: BofA Merrill Lynch Global Research, Federal Reserve

While the rally in equity markets to date has been exceptional, volume remains thin and a concern. The graph shows the market valuation as compared to US GDP, which looks expensive. While on average market capitalisation as compared to GDP has been about 90%, the past 15 years have seen this exceed 100% and peak in 2000 at 200%. Equity returns from this peak to February 2010 have been a dismal -2% p.a. nominal. The price you pay for something is always key in the long term journey of wealth creation.

US equity market cap as a percentage of US GDP – 1945 to Sep 09, quarterly



Source: BofA Merrill Lynch Global Research, Federal Reserve

So where to invest? Equity markets are pricing in a recovery in earnings and economic activity. Should this transpire equity markets will move higher. My view is that the environment remains difficult to predict, with many potential negative catalysts out there such as we saw with Greece.

In an environment like this, it remains sensible to protect the downside using option strategies, especially given the low level of expected volatility.

RISK IS WHAT YOU BUY RETURN IS WHAT YOU GET.

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We have started to invest during the last weeks of February, and I thought it relevant to briefly share our investment themes with you and provide some colour on where we are looking for investment opportunities. We remain focused on investing where long term secular trends persist such as in 'Ageing Demographics', 'Peak Oil', 'Technology Giants Cash Machines' and 'Legalised Addiction'. These themes continue to support and sustain the likely revenue and profitability growth of the companies we are investing in. We are focused in investing in quality companies which will be around for many years and where their value will ultimately be represented by the huge amounts of cash they generate and accordingly difficult to ignore by investors.

'Ageing Demographics' focuses on the global ageing population and the industries that will benefit from this. This includes the healthcare sector (pharmaceuticals, medical equipments manufacturers, laboratory testing, age care facilities etc.). We are particularly excited about this theme in the pharmaceutical industry where a second theme 'patent expirations' will also be a strong tail wind for generic drug manufacturers. Drug patent expirations will exceed \$150bn over the next 5 years. It also provides the opportunity to invest in large drug manufacturers who, while losing revenues to patent expirations, (until replaced by new drugs) are trading at low valuations and high dividend yields for those patient investors.

'Peak Oil' acknowledges the current cyclicity of oil, but also looks to a future where this cyclicity will reduce materially as demand exceeds supply. At current estimates, discovered reserves are around 1.3 trillion barrels, with current annual consumption around 36 billion barrels per annum. This equates to approximately 36 years left of oil at current levels of demand (will be less as China and India come on board). While there are other discovered reserves, they require a higher oil price to make them economically viable, so either oil prices rise and remain high or the supply of oil continues to fall. A risk to this theme and ultimately where the future lies is substitution. The world has reached a tipping point with respect to high oil prices and will seek to employ new technologies that can replace oil. These include natural gas, electrification of motorised travel, and nuclear power generation. Ironically, coal will also be a material beneficiary of Peak Oil, although environmental pressures will force cleaner technologies to be invented. Part of this theme is to look at global utility companies, which are likely to be the future petrol companies as people 'fill-up' by plugging in.

'Technology Giant Cash Machines' while a more risky and cyclical theme, this focuses on quality technology companies that dominate their market position and have material cash on balance sheet and continue to produce huge amounts of cash annually as compared to their market capitalisation. Many of these companies are trading at cash yields above 8% and continue to grow cash earnings at greater than 10% per annum. As it is always difficult to predict when a new technology can become disruptive and materially damage the market position of a technology company we will manage this risk through appropriate position size while remaining focused on quality.

'Legalised Addiction' focuses on consumer monopolies in the carbonated-beverages, coffee, tobacco, telecommunications and gambling industries. We continue to search for companies that are strongly cash generative, have high return on shareholder's equity and can protect their competitive market positioning. With the exception of gambling (too cyclical and which we are not invested in) and a material economic slowdown, these companies will continue to grow ahead of developed world population growth rates and GDP, and represent a conservative way to invest in the long term growth prospects of a rapidly growing emerging market middle class.

In future months we anticipate communicating with you, indicating how each of the themes is performing. We continue to investigate other themes and opportunities and will discuss them in the monthly newsletter when appropriate.

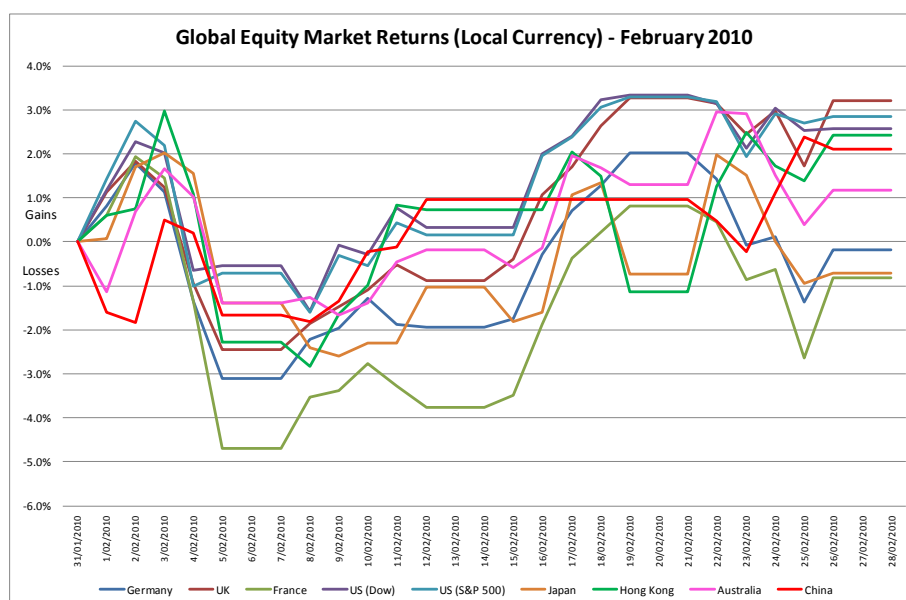
Global Equity Markets

	Monthly Returns				Compound Annual Returns (p.a.)			
	Month	3 Mth	6 Mth	YTD	1 yr	3 yr	5 yr	10 yr
Developed (Local Cur)								
Germany	-0.2%	-0.5%	2.6%	-6.0%	45.7%	-5.9%	5.2%	-3.1%
UK	3.2%	3.2%	9.1%	-1.1%	39.8%	-4.6%	1.5%	-1.5%
France	-0.8%	0.8%	1.5%	-5.8%	37.2%	-12.4%	-1.6%	-5.0%
US (Dow)	2.6%	-0.2%	8.7%	-1.0%	46.2%	-5.6%	-0.8%	0.2%
US (S&P 500)	2.9%	0.8%	8.2%	-1.0%	50.3%	-7.7%	-1.7%	-2.1%
Japan	-0.7%	8.4%	-3.5%	-4.0%	33.8%	-16.8%	-2.9%	-6.6%
Hong Kong	2.4%	-5.6%	4.5%	-5.8%	60.9%	1.6%	7.7%	1.8%
Singapore	0.2%	0.7%	6.1%	-5.1%	72.5%	-3.9%	5.4%	2.6%
Australia	1.2%	-1.4%	3.7%	-4.7%	41.1%	-7.2%	2.3%	4.0%
Developed (Local Cur)								
India	0.4%	-2.9%	4.9%	-5.9%	84.8%	8.3%	19.6%	11.7%
China	2.1%	-4.5%	14.4%	-6.9%	46.5%	1.9%	18.5%	5.9%
Brazil	1.7%	-0.8%	17.7%	-3.0%	74.2%	14.9%	18.8%	14.2%
Israel	2.9%	9.1%	23.6%	2.5%	81.2%	4.1%	10.2%	6.8%
Taiwan	-2.7%	-1.9%	8.9%	-9.2%	63.2%	-2.0%	3.7%	-2.4%

Source: 613 Capital LLC

Markets and Economic Review

Equity markets remained volatile during the month of February. While Germany, France and Japan showed losses for the month, the 2.6% gain in the S&P 500 hides the true market volatility. Global equity markets were shaken by continued concerns over the potential default of Greece as well as mixed economic data releases. Investors were also caught off guard when the US Federal reserve unexpectedly raised the fed funds discount rate (the rate banks pay the Federal Reserve to borrow cash overnight). While this led to some debate and concern as to when the Federal Reserve will commence raising the target rate, this became a one day event. The Federal Reserve was quick to comfort investors, stating that this was not a signal of imminent rates increases but rather a step on the path to more normalised rates environment, removing the extra-ordinary accommodations that occurred during the global financial crisis. Generally, economic fundamentals continued their gradual improvement, although unemployment remains the thorn in the side.



Source: 613 Capital LLC

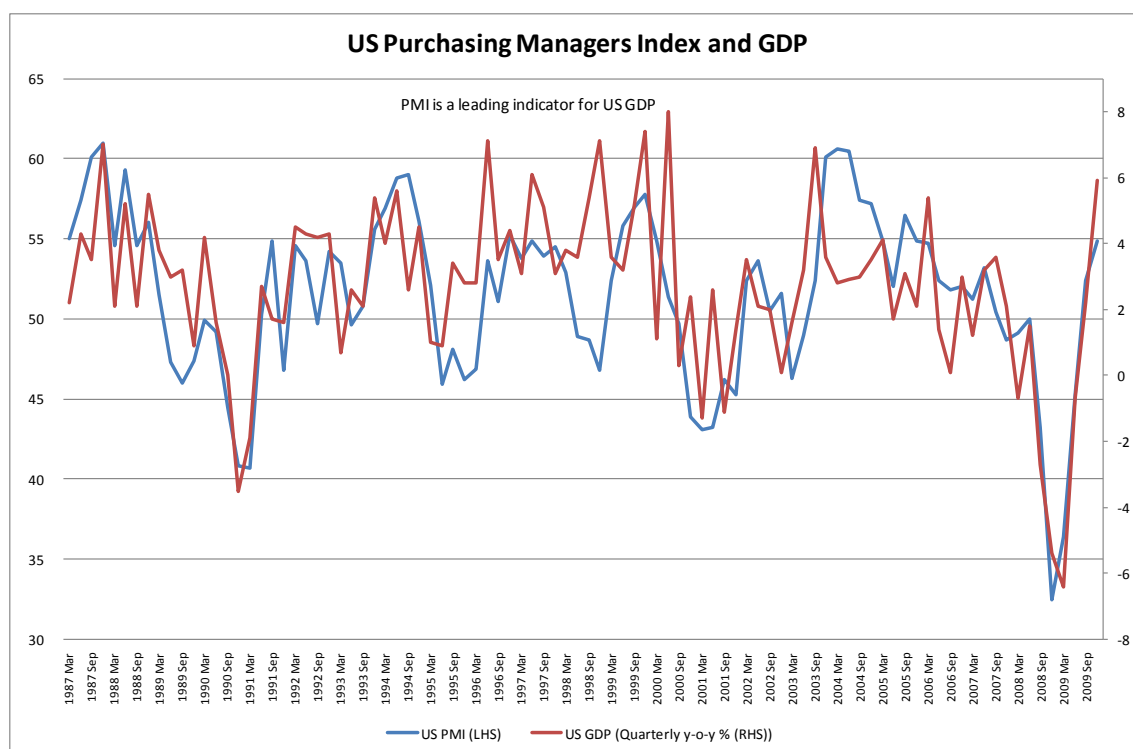
In the US, economic data was mixed but generally positive, boosting confidence in the economic recovery. The employment report however was confusing as payrolls fell 20,000 against expectations for a rise of 15,000, while



unemployment actually fell from 10% to 9.7%. The reduction in unemployment relates to annual adjustments which factor in deaths and people who have given up looking for employment. The reality remains, that the number of people without jobs continued to increase and therefore the ability for the consumer to rebound remains constrained.

Fourth quarter GDP was revised up modestly, from 5.7% to 5.9%. The details however were less favourable, as the boost from inventory stocking was larger than previously reported while demand was modestly lower as both consumer spending and housing were revised downwards. This was in conflict with retail sales which rose a better than expected 0.6% for January and department stores sales rose 3.5% for February, beating consensus, despite poor weather.

The manufacturing sector continues to improve, as one would expect during an inventory rebuild cycle, with the ISM manufacturing index climbing 58.4 in January from 52.9, the highest level since August 2004. Of the 18 industries, 13 industries reported growth. The rise in the ISM non-manufacturing index however was less favourable, rising from 49.8 to 50.5 as end demand remains in a state of fragile recovery. The graph below supports the continued economic recovery in the US, with the Purchasing Managers Index being a lead indicator for economic growth.



Source: 613 Capital LLC, Bureau Economic Analysis

On the housing front, data was negative as new home sales plummeted 11.2% from December to the lowest level on record, while existing home sales fell 7.2% month on month.

In Europe, the unexpected decline in the IFO index and the stagnation of German GDP weighed on investor sentiment. The business climate index fell slightly to 95.2 from 95.8, while current conditions declined to 89.8 from 91.2 previously, both below consensus. The European Central Bank (ECB) left policy rates on hold, as expected as economic conditions remain challenging. The Euro continued to come under pressure as concerns of the PIGS (Portugal, Ireland, Greece and Spain) and potential defaults became the focal point during the month. While the ECB took a hardline stance with respect to Greece's economic position, it intimated that it would support Greece. The final outcome of this will become clearer during March and could continue to be a source of volatility in the markets. Euroland fourth quarter GDP was also weaker than expected, with fourth quarter GDP rising just 0.1% quarter on quarter. This compared with an expansion of 0.4% in the third quarter. On an annual basis, the economy contracted by 2.1% compared with a consensus of -1.9%.

In the UK, economic data was poor as the labour market data was worse than expected with claimants rising by 23,500 in January. Unemployment however remained at 7.8%. While the PMI services index fell to a weaker than expected 54.5 from 56.9, the manufacturing PMI index beat expectations and rose to 56.7. This is consistent to what was seen in the US and other countries. Consumer spending was also disappointing, falling 1.2% in January against expectations for a fall of 0.5%.



In Asia, Japan saw fourth quarter GDP rise 4.6% quarter on quarter beating expectations, although deflationary fears remain the key economic focal point. In China the government raised its required reserve ratio 0.50% for the second time in an attempt to curb the excessive credit growth that was seen in January. New loans issued rose by CNY1,390bn. Investors are watching the Yuan closely as expectations build for a one-off revaluation of 5% revaluation.

If you would like to share your views with me, please do not hesitate to send me an email at ralphleib@613-capital.com

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