Dear Investors,

The Orange Capital Master Fund returned 3.71% net of commissions and fees in the first quarter of 2010. Since inception the Fund returned 43.73% net of commissions and fees which is an annual compound rate of return of 19.88%

Current Positions

L'Oreal (since inception the position made +5.5% to the portfolio)
Air Liquide (+1.2%)
Dupont (+1%)
Africa Oil (+0.2%)
Palladium (+6.6%)
Gold (short) (-4.6%)
Euro (+1.2%)
Pound (-0.1%)

Closed positions

Whole Foods (+7.7%)
Arcelor Mittal (+0.85%)
Monsanto (-1%)
Vale (short) (-1.8%)

In our most recent letter we spoke about the jittery markets in January when the major indices were down 8%. We decided to stick with our long positions for two main reasons. First, we believed the steep yield curve in the US will support banks and the stock market, and second we expected US retail sales in the first quarter to be much higher than expected. By the end of 2009 we noticed that many retailers were out of merchandise. In the meantime cargo volumes in airports and ports globally picked up over 20% year over year. We concluded that the retailers in the US and to some extent in other parts of the world will be stocking up quickly. Sales in the first quarter came out much better than expected. The market took this very positively and continued its rally into the second quarter.

Perceived risks

The main risks in the headlines are European Governments and Goldman Sachs. We think both are not threatening the recovery of financial markets. Greece is financially finished and needs to be bailed out. Portugal and Spain will not default and will be able to refinance their debt. However, we believe that the Euro will further depreciate against the Dollar and hence we are keeping our short Euro versus Dollar position.

Goldman Sachs is being investigated by the Justice Department for criminal wrongdoing in the bond market. We are not concerned since there is a solution to the problem. We expect Warren Buffett to take over until the dust settles.

The real risks

The main risk to the market is the situation in China. The country is trying to deflate real estate prices by introducing strict mortgage regulation. We believe that the government is doing the right thing but in the short term this might dampen growth. While this is a risk the rest of the economy is doing fine so we don't think the Chinese market is a short.

Another major risk are the financial markets is Brazil. The mood in Brazil is very bullish and the country is very popular among investors. We don't think the growth of the country is sustainable since most of it is based on credit based consumption. Brazil is helping its poor get out of poverty by subsidizing loans for housing and consumption. Another risk with Brazil is the lack of infrastructure and competition. Most sectors are closed and prices and margins are higher than elsewhere. This will further fuel inflation. However, we don't think there is reason to believe the bubble will burst anytime soon. There is a lot of liquidity in emerging markets and valuations while high are not out of control.

What we bought and sold in the first quarter

In the past quarter we decided to close three positions. We got out of Whole Foods, Monsanto and Arcelor Mittal. We added Dupont.

Whole Foods. We closed the position because the stock reached our target price.

Monsanto. We bought Monsanto at 81 and closed the position at 76. Monsanto is the world leader in the application of biotech to agriculture. We bought the stock with the expectation that they will deliver strong earnings growth due to their superior competitive position. However, given depressed corn prices farmers are not willing to pay high prices for premium Monsanto products. Monsanto maintained its long term targets but kept pushing out its short term targets. This was not consistent with our horizon.

Arcelor Mittal is the world's largest steel company. We bought the stock in September at 41 and closed the position at 44. Our main thesis was that the company will profit from a recovery in the US. However, recently iron ore and coal prices doubled in China and steel companies are not able to absorb these cost increases. We have no clarity on iron prices and we are not sure they will come down to more sustainable levels. Hence we decided to close the position.

We bought Dupont at 37.97. Dupont is a leader in high margin chemicals and agriculture. We bought Dupont for three reasons. First, the new CEO Ellen Kullman is restructuring the company and has set very high earnings targets. Second, she is pushing into interesting fields with high growth and margin potential and third, the stock does not reflect the upside and offers a very good risk reward.

Our research

We made two trips in the first quarter. First we visited Dubai and Qatar. We liked Qatar and believe investing in the country through its banks (Qatar National Bank) is a good way to take advantage of the potential there. Dubai has a few impressive companies who have debt outstanding. When they raise equity will consider investing in them.

We also visited a number of leading German industrials. Germany is a great country to visit since you can travel by train and hence get a lot of work done in between the meetings. The mood amongst the German industrials was very good. They are happy with the rise in orders and the fall in the Euro. We believe the Euro will stay weak against the Dollar since that is the only way Europe can get out of its self made funk.

What's next ?

Going forward we are focusing on situations we feel are not well understood by the street. One example is Colombia, a country with lots of potential and a disciplined government that is willing to work with foreign investors to help build the economy. Another situation is Africa Oil, a small oil exploration company with prospects in Eastern Africa. The region is geologically promising but politically challenging. Africa Oil is controlled by the Lundin Group, which has a track record of success in difficult countries.

Since last autumn we decided to get more exposure to the car market. However we could not find a suitable car company to invest in since none of them fulfills our criteria. We therefore decided to invest in Palladium since the marginal growth in this raw material comes from the car market and particularly from the Chinese market.

Operations

We are very happy with Interactive Brokers and please let us know if you have any issues with them. They enable us to keep our trading costs down and they offer real time NAVs, transparency and advanced execution technology. The downside is that we cannot trade all the securities we want since they only support electronic exchanges. There were instances where we couldn't invest, for example Qatar, Singapore, Denmark and Norway. To overcome this we will set up your accounts so we can trade with third parties.

Please feel free to let us know if you have any questions or if you want to discuss further.

Thanks, Krim Delko

New York, April 2010