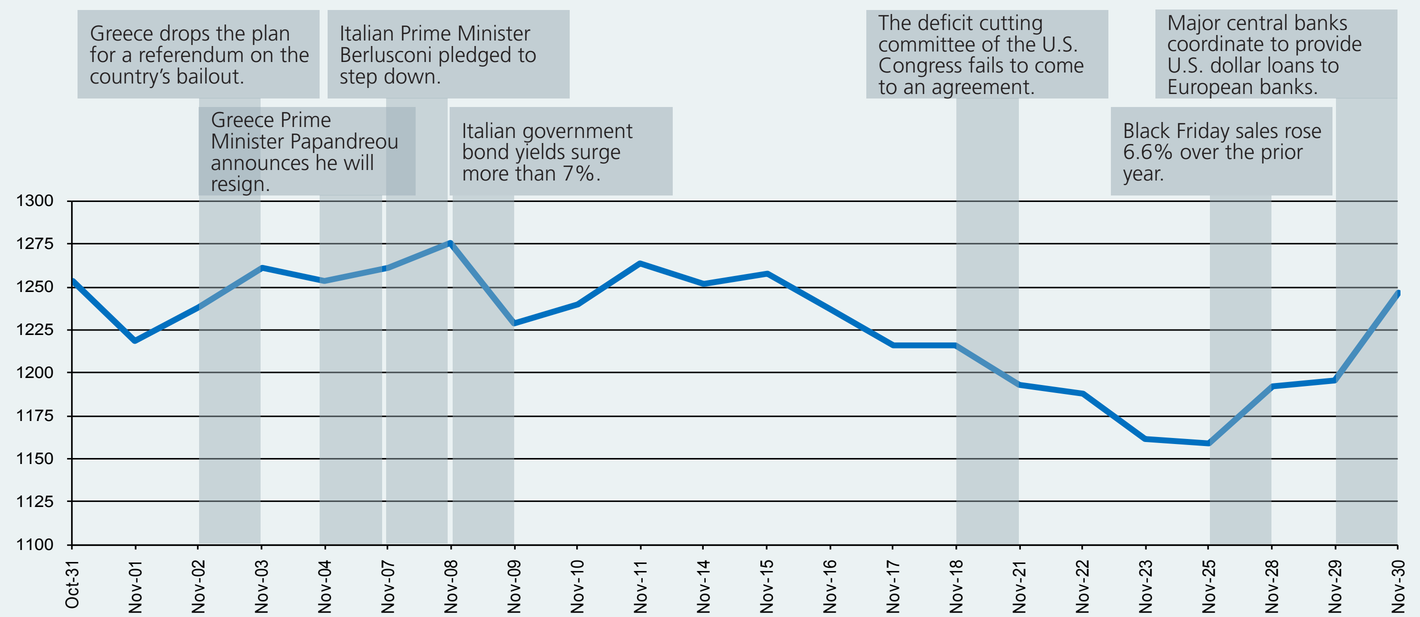
HEDGE FUND
MONTHLY COMMENTARY

November 2011

AVIVA INVESTORS

S&P 500 Index



Market Review

Sovereign debt issues were the focus of the month. Germany and France demanded that Greece declare whether or not it wanted to remain a member of the European Union. Greece dropped its plan for a referendum on the country's bailout, and Prime Minister Papandreou announced his resignation shortly thereafter. Italian Prime Minister Berlusconi also pledged to step down, while Italian government bond yields surged above 7%. The special deficit-cutting committee established by the U.S. Congress failed to reach an agreement on austerity measures, which will trigger $1.2 billion of automatic cuts beginning in 2013, the largest portion of which will come from defense. Equity markets sold off during much of the month but rallied sharply on the last day, as global central banks coordinated to provide cheap U.S. Dollar loans to banks in Europe. The S&P 500 rallied more than 4% November 30, ending the month with a return of -0.22%.

	November 2011		
	Month	QTD	YTD
HFRI Fund of Funds Conservative Index *	-0.81%	-0.05%	-3.66%
HFRI Fund of Funds Diversified Index *	-0.23%	0.58%	-3.87%
HFRI Equity Hedge Index *	-1.60%	3.21%	-7.10%
HFRI Event Driven Index *	-0.65%	2.48%	-2.45%
HFRI Merger Arbitrage Index *	0.21%	1.47%	1.47%
HFRI Distressed Index *	-1.35%	0.93%	-3.23%
HFRI Relative Value Index *	-0.15%	0.98%	0.41%
HFRI FI Convertible Arbitrage Index *	-1.31%	0.47%	-5.10%
HFRI Macro Index *	-0.35%	-1.38%	-3.47%
S&P 500	-0.22%	10.68%	1.08%
FTSE 100	-0.15%	8.04%	-3.39%
MSCI EAFE	-4.83%	4.36%	-10.90%
Barclays Capital U.S. Credit Index	-1.68%	-0.24%	6.29%
Barclays Capital High Yield Index	-2.16%	3.71%	2.26%

* Source of HFRI indices is Hedge Fund Research, Inc. These indices are preliminary and subject to change, with final returns reported on the 1st day of the following month (i.e., March 1st for January returns).

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Economic news generally continues to indicate a slowly improving U.S. economy. The unemployment report for November indicated that non-farm payrolls rose 120,000, with October's gains revised higher. The unemployment rate unexpectedly dropped from 9.0% to 8.6%, but was affected by the news that more than 300,000 people quit looking for work. Third-quarter GDP was revised down from 2.5% to 2.0%, but the revisions were primarily due to inventory reductions, which are expected to reverse in the fourth quarter. Concerns over the holiday shopping season abated, as Black Friday sales increased 6.6% over 2010 to a record of $52.4 billion.

Hedge Fund Strategies

Federal authorities appear set to pursue new insider trading charges against individuals at Neuberger Berman Group, Diamondback Capital Management and Level Global Investors. The charges stem from a yearlong investigation following raids by the FBI that centered on the expert network firm Primary Global Research. The investigation already has resulted in charges against 15 people, 12 of whom have pleaded guilty.

Based on a recent poll by hedge-fund-industry data provider Preqin, we can expect hedge funds to continue seeing capital inflows in 2012. The poll of institutional investors indicated that 38% plan to increase their allocations to hedge funds, while only 9% plan to cut back.

Long/Short Equity Strategies

Long/short equity was the poorest performing strategy, at -1.60% (HFRI Equity Hedge Index), with the end-of-month rally helping to mitigate some of the negative returns. Long/short equity funds have the most exposure to the consumer discretionary and information technology sectors, which were two of the worst performing sectors. Consumer discretionary was down 0.87%, and information technology lost 1.87%. Managers were fortunate to have significantly reduced exposure to financials over the last few months; financials were down 5.02%. On the positive side, energy remains one of the top exposures, and the sector was up 1.65%. In general, managers remain cautiously positioned due to the overhang of the sovereign debt issue.

Relative-Value Strategies

Like other credit-related strategies, convertible arbitrage struggled during the month, posting a return of -1.31% (HFRI FI Convertible Arbitrage Index). Managers focused on the U.S. markets fared better than those focusing on Asia and Europe. Europe particularly struggled under the weight of the ongoing sovereign debt crisis, with lower rated credits performing the worst. Issuers from Portugal, Ireland, Italy, Greece and Spain understandably lagged. New-issue pricing was not as attractive as it was last month, and most new issues traded lower in the secondary market. Structured credit struggled as well, because concerns persist around the potential liquidation of positions on the balance sheets of European financial institutions. ABS continues to be the most affected sector.

Event-Driven Strategies

Merger arbitrage was the best performing strategy, at +0.21% (HFRI ED: Merger Arbitrage Index). Deal volume was modestly lower than the past few months and was headlined by the Gilead Sciences $10.6 billion acquisition of Pharmasset. Deal spreads were volatile and did expand slightly toward month end, largely a result of declining market participation as we head into the end of the year. Widening spreads provided headwinds for the strategy but also present greater opportunities going forward. The volatility of spreads enabled managers to trade around their high-conviction positions.

Distressed investing was one of the poorest performing strategies, at -1.35% (HFRI ED: Distressed/Restructuring Index). While interest rates declined modestly, credit spreads widened significantly, resulting in overall higher yields on distressed credit. The yield on the Barclays High Yield Index increased 67 bps over the month, leading to a return of -2.16%. Leveraged loans also performed poorly, down 1.34% (S&P Leveraged Loan Index). Post-reorganization equities performed poorly as well, lagging the end-of-month rally in the equity markets. Default activity increased, as AMR, the parent of American Airlines, filed for bankruptcy.

Macro Strategies

Global macro performance was one of the better performing strategies, at -0.35% (HFRI Macro [Total] Index). Commodities were up 1.47% (S&P Goldman Sachs Enhanced Index), driven largely by the 7.7% rise in the price of oil. Gold also was positive, at 1.8%. Macro funds and other speculators continue to have a strong position in both commodities. Many managers also have maintained a short position in the Euro, which provided positive performance; the Euro lost nearly 3% against the U.S. Dollar. Markets went from a "risk-off" mode to a "risk-on" mode late in the month over new developments in the European sovereign debt crisis. The sharp reversal resulted in losses for managers who had been short European and Asian equities and made for a particularly challenging period for trend followers.