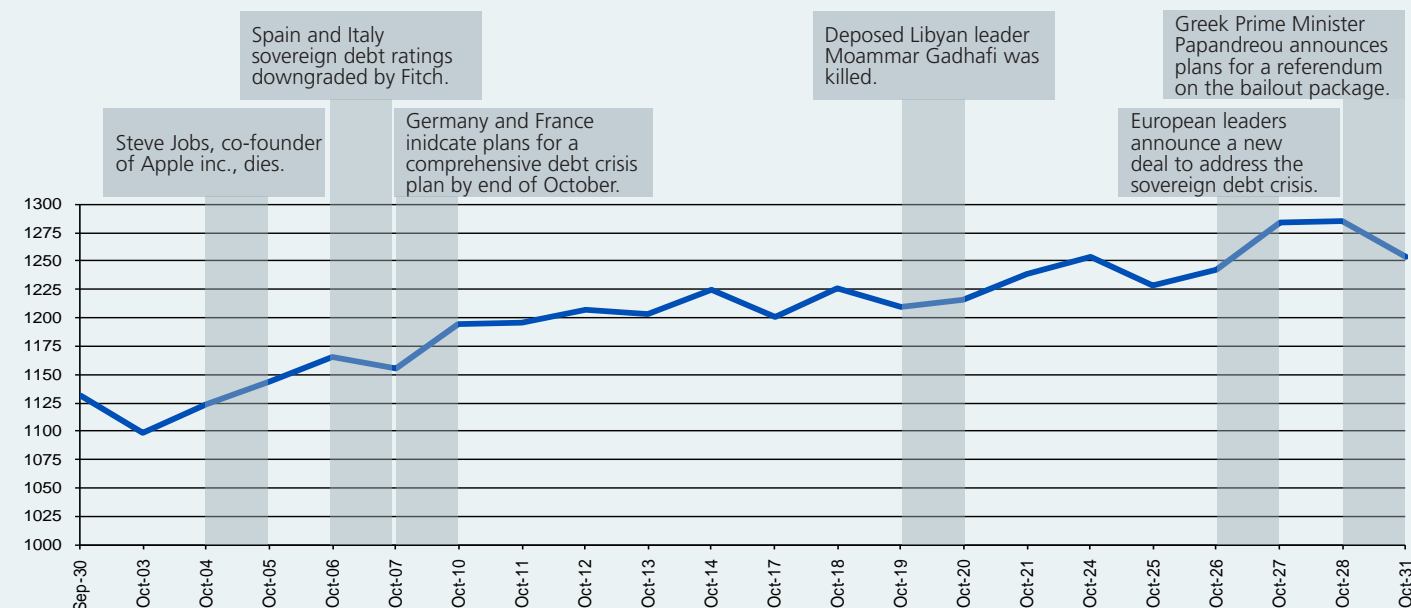


HEDGE FUND MONTHLY COMMENTARY

October 2011



S&P 500 Index



Market Review

The financial world was focused on Europe, as expectations for a comprehensive plan to address the sovereign debt crisis drove markets higher. The plan, revealed in the last week of the month, calls for Greek bondholders to take a 50% haircut on the debt and for banks to raise more than \$100 billion in new capital. It also allows for the European Financial Stability Facility to expand up to \$1.4 trillion. Equity markets responded enthusiastically. The S&P 500 (+10.93%), MSCI World (+9.65%) and FTSE 100 (+8.20%) posted solid gains for the month. This was the best monthly return for the S&P 500 in nearly 20 years.

Economic data also was generally positive, helping add to the market enthusiasm. U.S. employment, while not strong, was better than expected. The economy added 103,000 jobs to non-farm payrolls during September, beating expectations for a gain of 60,000. Retail sales for September came in at +1.1%, beating the expected

	October 2011		
	Month	QTD	YTD
HFRI Fund of Funds Conservative Index *	0.18%	0.18%	-3.40%
HFRI Fund of Funds Diversified Index *	0.84%	0.84%	-3.61%
HFRI Equity Hedge Index *	5.23%	5.23%	-5.21%
HFRI Event Driven Index *	2.71%	2.71%	-2.16%
HFRI Merger Arbitrage Index *	1.30%	1.30%	1.26%
HFRI Distressed Index *	1.53%	1.53%	-2.66%
HFRI Relative Value Index *	1.33%	1.33%	0.93%
HFRI FI Convertible Arbitrage Index *	1.18%	1.18%	-4.57%
HFRI Macro Index *	-1.38%	-1.38%	-3.32%
S&P 500	10.93%	10.93%	1.30%
FTSE 100	8.20%	8.20%	-3.25%
MSCI EAFE	9.65%	9.65%	-6.38%
Barclays Capital U.S. Credit Index	1.46%	1.46%	8.10%
Barclays Capital High Yield Index	5.99%	5.99%	4.52%

* 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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increase of 0.7%. August sales also were revised higher. Housing starts for September increased by 15%, widely beating the anticipated increase of 3.3%.

Hedge Fund Strategies

After two years in development, the proposed Volcker rule was finally unveiled. The SEC unanimously supported the new rule, which would bar banks from proprietary trading and limit stakes in hedge funds and private equity funds to a maximum of 3%. The rule would not go into effect until June 2012, and it is far from final; it now resides in the public comment period.

The SEC has approved a separate new rule revising the reporting requirements for hedge funds. Funds with more than \$1.5 billion in assets will be required to report quarterly. Funds with less than \$150 million will be exempt from reporting. Those with assets between \$150 million and \$1.5 billion will generally be required to report annually.

In the final chapter of the Galleon insider trading scandal, Raj Rajaratnam was sentenced to 11 years in prison, the longest-ever sentence for an insider trading case. In announcing the sentence, the judge referred to insider trading as a virus that needs to be eradicated. Mr. Rajaratnam also was ordered to pay a \$10 million fine and forfeit \$54 million in profits.

Long/Short Equity Strategies

Long/short equity was a top performing strategy, with a return of +5.23% (HFRI Equity Hedge Index), benefitting from the strong global equity rally. All S&P 500 sectors were positive, led by materials (+17.60%) and energy (+16.95%). Despite

the strong rally, long/short equity returns were less than they would have been if the funds had remained more aggressively positioned, as they had been earlier in the year. Managers reduced risk throughout the third quarter, resulting in a more conservative position than their historical norms. The better performing managers did increase exposure during the month of October, however. Also detracting from performance was massive short covering within the equity markets. The most heavily shorted equities outperformed the least shorted equities, and contributed to small cap outperformance. This resulted in negative alpha generation from the short side of the book and contributed to a broad dispersion of long/short equity manager returns.

Relative-Value Strategies

Convertible arbitrage posted a modest return of +1.18% (HFRI FI Convertible Arbitrage). The broad equity market rally, coupled with tightening credit spreads, provided a positive contribution and offset losses due to declining volatility. Managers focused on securitized products did not fare as well as other relative value managers, producing a return of -1.18% (HFRI FI Asset Backed Index). CMBS gained, but most RMBS produced flat to negative performance. Investors are concerned about the potential increase in supply of RMBS due to potential liquidations by European banks, as those financial institutions look to right-size their balance sheets.

Event-Driven Strategies

The equity market rally and the tightening of deal spreads contributed to merger arbitrage profits. Merger arbitrage produced a return of +1.30% (HFRI Merger Arbitrage Index). Announced deal volume remained light compared to the first half of the year, but there were still a number of deals from

which to profit, headlined by the Kinder Morgan agreement to acquire El Paso Corp in a \$21 billion transaction. Managers continue to add new deals to their portfolios but are focusing on higher quality announced deals in light of the heightened volatility.

Distressed investing was up 1.30% (HFRI Distressed Index). The strategy benefitted from the sharp decline in yields on lower quality assets. The yield on the Barclays High Yield Index declined 131 bps despite the general increase in interest rates. Bank loans, as measured by the S&P Leverage Loan Index, returned +4.35%. Consistent with other strategies, distressed managers entered October with a more conservative positioning, a result of increased hedges they entered during September. The additional hedges detracted from performance.

Macro Strategies

Macro managers struggled to a return of -1.38% (HFRI Macro Index). The announcements around new plans to address the European sovereign debt issue resulted in a reemergence of the "risk-on" trade. This hurt managers who were still positioned for an economic slowdown. Short exposure to the Euro detracted from performance, as the currency rallied more than 3% against the U.S. Dollar. Long commodities positions offset some of the losses. Commodities as a group rose more than 9%. Precious metals, energy and agricultural commodities all rose, with oil leading the way, at +17.66%. Systematic macro, sometimes referred to as managed futures, was one of the worst performing strategies in October, as trends reversed for many equities, commodities and fixed income positions. This sub-strategy within the global macro group was down 3.37% (HFRI Macro Systematic Diversified Index).

Important Information

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