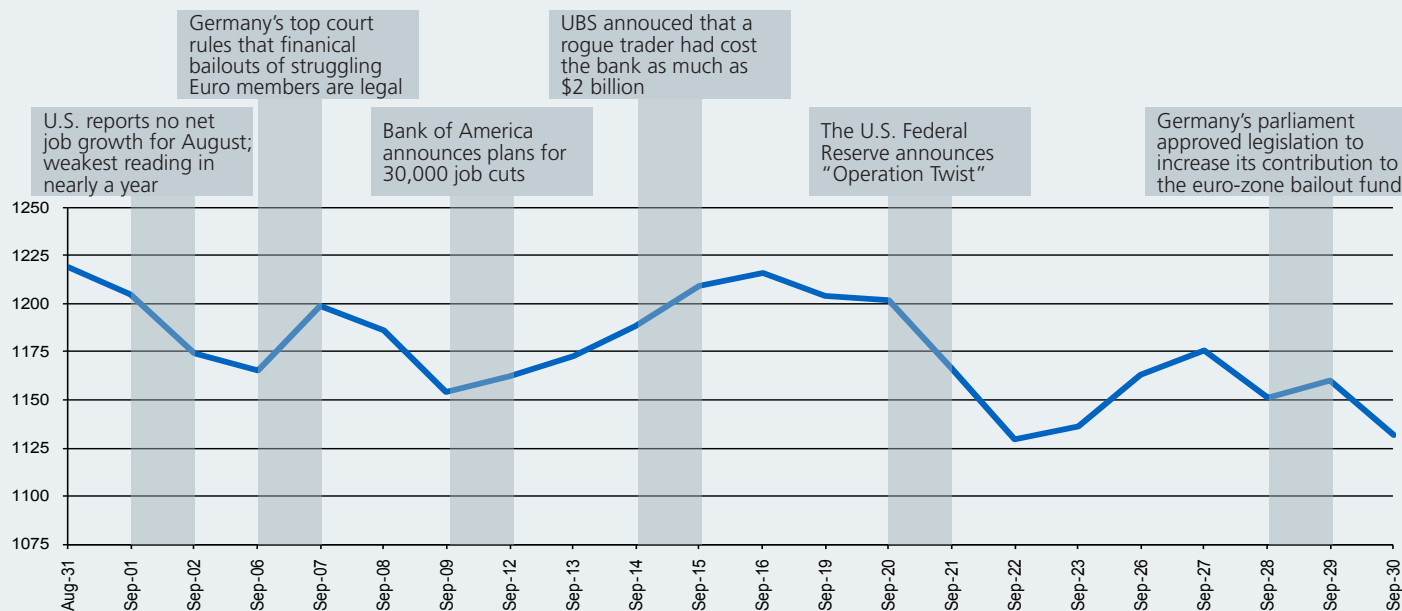


HEDGE FUND MONTHLY COMMENTARY

September 2011



S&P 500 Index



Market Review

A UBS rogue trader has cost the firm up to \$2 billion in an alleged scheme that went undetected for three years. The trader, identified as Kweku Adoboli, reportedly confessed to illegal trades in exchange traded funds. The London law firm representing Mr. Adoboli is Kinsley Napely, the same firm that represented Nicholas Leeson, whose rogue trading led to the collapse of Barings PLC. The losses suffered by UBS led to the resignation of CEO Oswald Grubel.

The U.S. Federal Reserve announced Operation Twist, an attempt to lower interest rates on loans. The Fed will shift its portfolio by purchasing longer-dated U.S. Treasury bonds and mortgage debt. Three Fed governors dissented from the decision, while the markets were disappointed, hoping for an announcement of additional quantitative easing instead.

	September-11		
	Month	QTD	YTD
HFRI Fund of Funds Conservative Index *	-1.88%	-3.73%	-3.42%
HFRI Fund of Funds Diversified Index *	-1.71%	-3.73%	-3.86%
HFRI Equity Hedge Index *	-4.90%	-9.58%	-8.70%
HFRI Event Driven Index *	-3.28%	-7.00%	-4.10%
HFRI Merger Arbitrage Index *	-0.78%	-2.34%	-0.20%
HFRI Distressed Index *	-3.23%	-6.79%	-3.05%
HFRI Relative Value Index *	-1.16%	-3.13%	-0.17%
HFRI FI Convertible Arbitrage Index *	-1.81%	-5.98%	-5.64%
HFRI Macro Index *	-0.43%	0.92%	-1.33%
S&P 500	-7.03%	-13.87%	-8.68%
FTSE 100	-4.74%	-12.93%	-10.58%
MSCI EAFE	-9.50%	-18.95%	-14.62%
Barclays Capital U.S. Credit Index	0.25%	3.03%	6.54%
Barclays Capital High Yield Index	-3.27%	-6.06%	-1.39%

* 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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The U.S. August employment report disappointed investors, as the economy failed to add any jobs for the first time in nearly a year. Weekly jobless claims climbed throughout most of the month, remaining stubbornly above 400,000. The last week of the month finally produced a reading below 400,000. At 391,000, it was the lowest level since April.

Investors continued to shed risk during September, contributing to the poor performance of the equity markets; the S&P 500 Index was down 7.03%. Fixed income benefitted by the decline in interest rates, however; the Barclays Capital U.S. Credit Index was up 0.25%.

Hedge Fund Strategies

September was another difficult month for hedge fund strategies, and it brings to a close one of the worst performing quarters in history. The HFRI Fund Weighted Composite Index dropped by more than 6% during the third quarter, making it the worst quarter in nearly three years and the fourth worst quarter since inception of the index. Only the third and fourth quarters of 2008 and the third quarter of 1998 produced lower returns. In light of the current challenging environment, managers have continued to reduce risk, wanting to remain nimble.

Long/Short Equity Strategies

Long/short equity managers significantly reduced exposures during the quarter in light of the choppy, risk-on/risk-off trading environment. Managers generally raised cash while decreasing both gross and net exposures. Despite the move to reduce market risk, long/short equity still captured a large part of the broad market move

downward, resulting in performance of -4.90% (HFRI Equity Hedge Index). In a repeat of last month, performance was affected by sector positioning. Two of the top sector exposures, financials and energy, were once again two of the worst performing strategies, at -11.56% and -12.58%, respectively. Financials have been a drag on long/short equity performance for most of 2011. The sector is now down 25.95% for the year, after a seventh consecutive month of negative returns.

Relative-Value Strategies

Relative-value managers remain cautious, given the macro uncertainty. Like long/short equity managers, they have been looking to minimize broad market beta. Instead, they have focused on company-specific trades. Managers also continued to reduce leverage during the quarter to better weather the market volatility. The recent market dislocation has created attractive credit-related opportunities, but managers have been slow to add new positions in the current environment. Convertible arbitrage posted a return of -1.91% (HFRI FI Convertible Arbitrage Index), with weakness in higher beta names contributing to broader selling, as investors looked to shed risk. Issuance of new convertible securities has been virtually non-existent over the last two months, as the universe continues to shrink.

Event-Driven Strategies

Merger arbitrage was one of the better performing strategies, posting a return of -0.78% (HFRI Merger Arbitrage Index). Managers that were more conservatively positioned were actually able to produce positive performance. Deal volume continues to decline, a function of the uncertain environment. Deal volume was down 15% over the prior month and down 35% from two months ago. Corporations with strong

balance sheets are on the sidelines, waiting for the macro themes to play out. Managers expect corporations to significantly ratchet up their activity once they have a sense that things have bottomed out.

After a long period of very low default rates, near-term default risk began to get priced into the market at the end of September, driven principally by Dynegy, American Airlines and Eastman Kodak. This increased perception of default meaningfully drove down prices on lower quality credit instruments. The yield on the Barclays High Yield Index closed the month at 9.51%, its highest level for the year. The yield is 200 bps above the level at the beginning of the year, with half of the movement coming in September. This contributed to the distressed investing return of -3.23% (HFRI Distressed Index). Managers view the current credit environment as being very cheap.

Macro Strategies

Global macro was the best performing strategy at -0.43% (HFRI Macro Index). Interest rate positions provided positive returns, with the yield on the 10-year U.S. Treasury Bond declining by 31 bps. The 10-year U.S. Treasury Bond benefitted from the Fed's announcement of Operation Twist in an attempt to drive borrowing costs lower. Currencies also provided benefits, particularly short Euro trades; the Euro declined nearly 7% against the U.S. Dollar. Rates and currencies helped offset the negative returns generated by exposure to commodities. The prices of most commodities fell by more than 10%, with silver leading the way with a 28% decline. Looking forward, most managers expect market dislocations and the involvement of governments to continue providing attractive opportunities.

Important Information

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