Lipper Hedge Funds Insight Report

Global Hedge Funds Summary—July 2008

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LIPPER

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HEDGE FUND RETURNS PAUSE IN JUNE—DIRECTIONAL STRATEGIES CONTINUE TO GAIN, WHILE RELATIVE-VALUE AND EVENT-DRIVEN LAG

- The Credit Suisse/Tremont Hedge Fund Index performance returned a negative 0.005% in June for 0.51% YTD. This compared to the 2.00% performance for the broad index in May.
- For the month a minority of hedge fund substrategies (6 of the 13) posted positive performance. The best performing hedge fund substrategy was Dedicated Short-Bias, returning 9.02%, while the worst performing substrategy was Emerging Markets at minus 1.59%.
- June performance dispersion among Credit Suisse/Tremont hedge fund substrategies blew out to 1,051 basis points (bps), compared to 309 bps in May and a monthly average since 1994 of 865 bps.
- Over June the average performance for the 6,700 hedge funds tracked by Lipper was a negative 0.14%—13 basis points below the Credit Suisse/Tremont Hedge Fund Index.
- A 80.62-percentage-point monthly performance difference in June divided the top and bottom performers of the 6,700 actively reporting hedge funds tracked by Lipper.

Hedge Fund Strategy Review and Performance Analysis

In spite of a relatively poor absolute performance number the Credit Suisse/Tremont Hedge Fund Index outperformed many traditional equity indices. For example, it outpaced the S&P 500 TR Index by 843 bps, the MSCI World TR (USD) by 794 bps, and the MSCI Emerging Markets TR Index by 996 bps. It also beat out the Dow Jones Stoxx TMI (USD) by 875 bps in addition to the JP Morgan EMBI+ by 241 bps. In contrast, one widely recognized fixed income measure—the Lehman Global Aggregate Bond Index TR—outpaced the broad hedge fund index by a slight 9 bps.

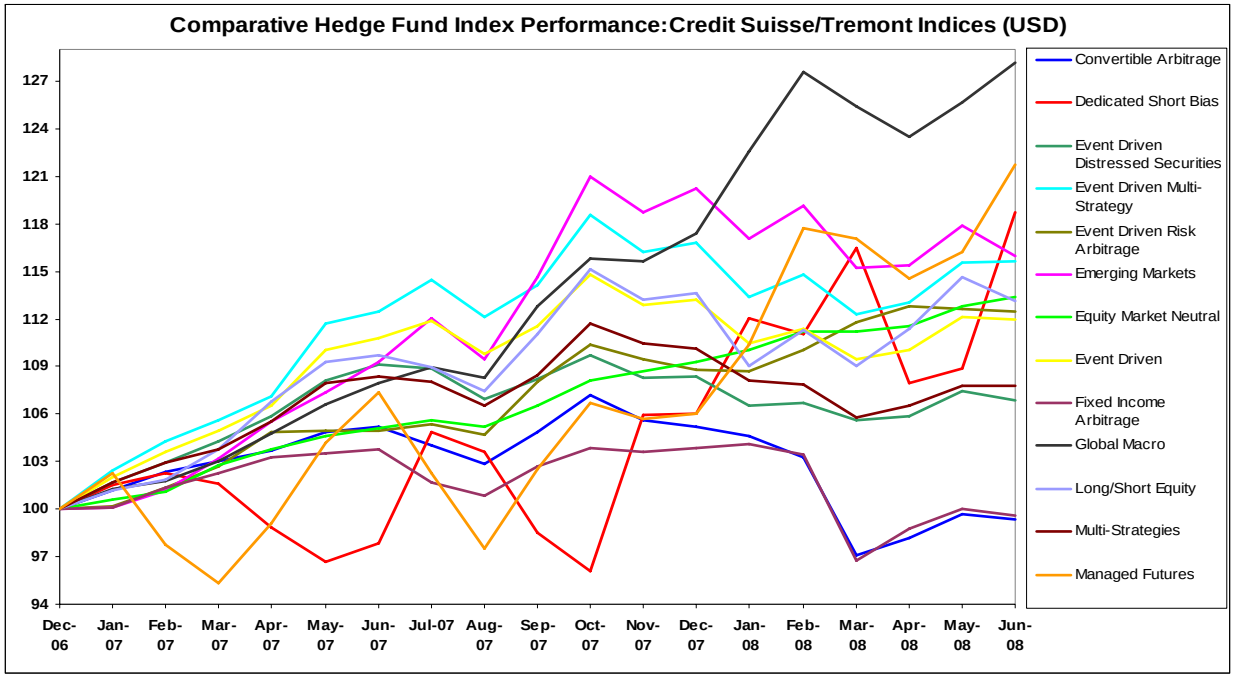
The performance of hedge funds remained firmly intact on a relative basis over the first half of 2008. The depth and speed of the global equity market declines took their toll on a majority of traditional equity market benchmarks. For example, the broad hedge fund index outpaced the S&P 500 TR Index by 1,241 bps, the MSCI World TR (USD) by 1,076 bps, and the MSCI Emerging Markets TR (USD) by 1,215 bps. Only the Lehman Global Aggregate Index outperformed the broad hedge fund index—by 302 bps.

Table 1 Risk-Return Analysis of Major Indices (%)

Index Name	Performance TR USD 1M 30/05/2008 To 30/06/2008	Performance TR USD Year-to-date To 30/06/2008	Performance TR USD 1Y 29/06/2007 To 30/06/2008	Performance TR USD 3Y 30/06/2005 To 30/06/2008	Performance TR USD 5Y 30/06/2003 To 30/06/2008	Volatility Ann TR USD 6M 31/12/2007 To 30/06/2008	Volatility Ann TR USD 1Y 29/06/2007 To 30/06/2008	Volatility Ann TR USD 3Y 30/06/2005 To 30/06/2008
Credit Suisse/Tremont Hedge Fund	-0.005	0.514	4.082	36.791	62.554	5.687	6.038	4.784
Dow Jones Stoxx TMI TR	-8.754	-12.368	-11.936	47.972	124.926	21.033	16.962	12.946
JP Morgan EMBI+	-2.412	-0.634	5.160	23.889	57.552	4.334	4.883	5.367
Lehman Global Aggregate Bond TR	0.087	3.527	12.896	18.464	33.225	6.472	5.118	4.778
MSCI Emerging Markets TR	-9.957	-11.638	4.893	107.349	273.425	30.564	28.230	21.298
MSCI World TR	-7.940	-10.246	-10.179	31.070	80.564	18.113	14.802	10.805
Reuters/Jefferies CRB CR	9.610	29.001	46.557	54.247	97.938	21.904	19.452	16.476
S&P 500 TR	-8.430	-11.914	-13.120	13.809	44.129	16.929	13.827	10.236
UBS Global Convertible	-5.128	-5.614	-3.238	30.833	51.454	11.062	10.208	7.343

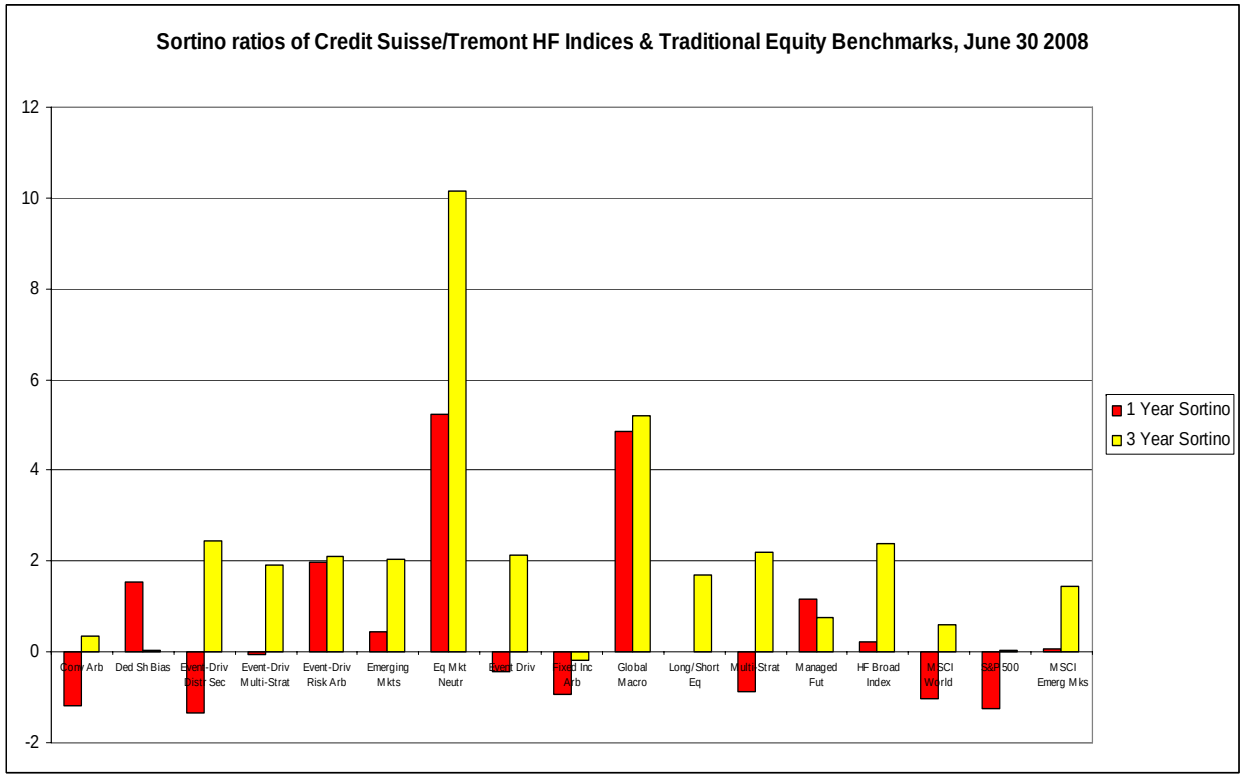
Source: Lipper

Figure 1 Indexed Performance of Credit Suisse/Tremont Hedge Fund Indices–December 31, 2006-June 30, 2008



Source: Lipper

Figure 2 Correlation of Credit Suisse-Tremont Hedge Fund Indices Versus MSCI World TR Index

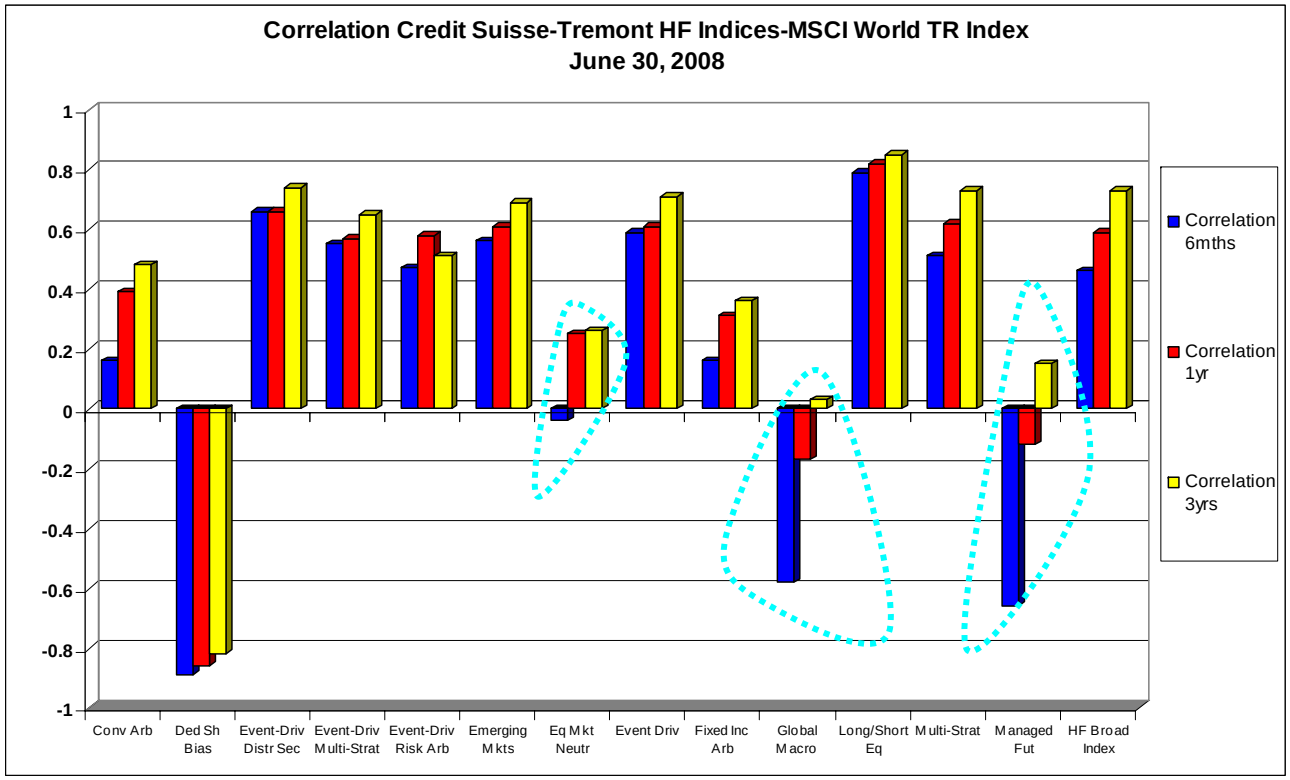


Source: Lipper

The Sortino ratio is one way to assess relative performance. It measures the incremental return over the minimum acceptable return, divided by the downside deviation. This contrasts with the standard deviation, which is used in the Sharpe ratio. The Sortino ratio can accommodate different degrees of target returns, with the essential focus being that of a downside-risk approach.

For data through June 30, 2008, and the minimum acceptable rate set as the T-bill rate, the broad hedge fund index posted 0.23 over the one-year and 2.38 over the three-year window. This easily beat a number of equity benchmarks. In fact, Sortino ratios across 7 of the 13 hedge fund substrategies were positive over the one-year time window, while the Sortino ratios were positive for 12 of the 13 hedge fund substrategies across the three-year time window—easily outperforming the MSCI World and S&P 500 Indices. Thus, on a relative performance basis using the Sortino ratio, the case for hedge funds remains intact.

Figure 3 Correlation of Credit Suisse-Tremont Hedge Fund Indices Versus MSCI World TR Index



Source: Lipper

June added further evidence to the findings in terms of the correlation pattern showed by hedge fund strategies with the MSCI World TR Index in May. The correlation of the Global Macro and Managed Futures strategies against the MSCI World Index suggested—in the last six months compared to historical standards—a shift of invested portfolios toward asset classes that might offer better arbitrage opportunities such as commodities, FX, and debt.

Also, evidence from the correlation matrix below shows how the correlation of both the Global Macro and Managed Futures strategies with Dedicated Short-Bias turned positive in the past six months at the end of June and increased from the end-of-May reading, highlighting a short bias in equity portfolios. That is particularly true for discretionary macro-managers, since they apply value investing based on fundamentals, trying to participate in large trends in major equity markets. That investment approach is also reflected in the exposure to the equity asset class they had in 2007, compared to the first six months of 2008 (the correlation dropped) when they shifted exposure to other asset classes with higher arbitrage

opportunities. The more recent shift in portfolio allocation by Global Macro and Managed Futures managers is also confirmed by the negative six-month correlation reading of the two strategies above with Long/Short Equity strategy (which has a long bias), compared to historical patterns showing a positive correlation figure.

Although easing from the May reading, the six-month negative correlation figure of the Equity Market-Neutral strategy against the MSCI World Index continued to suggest either a delevering or portfolio rebalancing in order to insulate portfolios from volatility disturbances in the stock market as inflationary expectations have mounted over the course of 2008.

Figure 4 Correlation Matrix of Credit Suisse-Tremont Hedge Fund Indices

CORRELATION MATRIX
CREDIT SUISSE-TREMONT HEDGE FUND STRATEGY INDICES
6mths (lower diagonal) & 1yr (upper diagonal) To 30/06/2008

	Convertible Arbitrage	Dedicated Short Bias	Event-Driven Distressed Securities	Event-Driven Multi-Strategies	Event-Driven Risk Arbitrage	Emerging Markets	Equity Market Neutral	Event Driven	Fixed Income Arbitrage	Global Macro	Long/Short Equity	Multi-Strategies	Managed Futures
Convertible Arbitrage	1.00	-0.51	0.65	0.65	0.17	0.69	0.63	0.66	0.95	0.47	0.66	0.80	0.29
Dedicated Short Bias	-0.38	1.00	-0.55	-0.46	-0.51	-0.51	-0.23	-0.50	-0.49	-0.05	-0.73	-0.55	-0.09
Event-Driven Distressed Securities	0.55	-0.53	1.00	0.93	0.54	0.89	0.76	0.96	0.49	0.33	0.93	0.92	0.38
Event-Driven Multi-Strategies	0.60	-0.49	0.95	1.00	0.48	0.94	0.70	0.99	0.46	0.33	0.88	0.91	0.26
Event-Driven Risk Arbitrage	-0.69	-0.36	-0.12	-0.12	1.00	0.58	0.52	0.51	0.02	0.29	0.56	0.55	0.43
Emerging Markets	0.64	-0.59	0.90	0.93	-0.10	1.00	0.77	0.94	0.52	0.47	0.86	0.89	0.30
Equity Market Neutral	0.61	-0.07	0.53	0.59	-0.46	0.76	1.00	0.73	0.54	0.74	0.65	0.75	0.75
Event Driven	0.59	-0.51	0.97	1.00	-0.11	0.93	0.58	1.00	0.47	0.33	0.91	0.93	0.30
Fixed Income Arbitrage	0.98	-0.45	0.46	0.53	-0.62	0.61	0.58	0.51	1.00	0.43	0.54	0.63	0.29
Global Macro	0.32	0.35	-0.11	0.01	-0.48	0.22	0.78	-0.02	0.35	1.00	0.21	0.33	0.79
Long/Short Equity	0.49	-0.73	0.94	0.94	0.13	0.92	0.44	0.95	0.45	-0.17	1.00	0.89	0.28
Multi-Strategies	0.77	-0.50	0.91	0.93	-0.34	0.83	0.47	0.93	0.69	-0.09	0.86	1.00	0.36
Managed Futures	0.09	0.49	-0.16	0.05	-0.28	0.15	0.64	-0.01	0.10	0.90	-0.18	-0.13	1.00

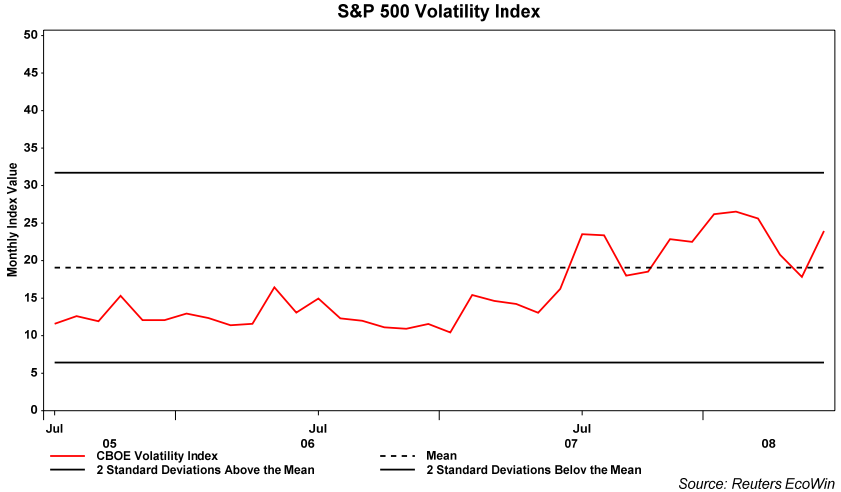
Source: Lipper

Hedge Fund Strategies Review

Convertible Arbitrage

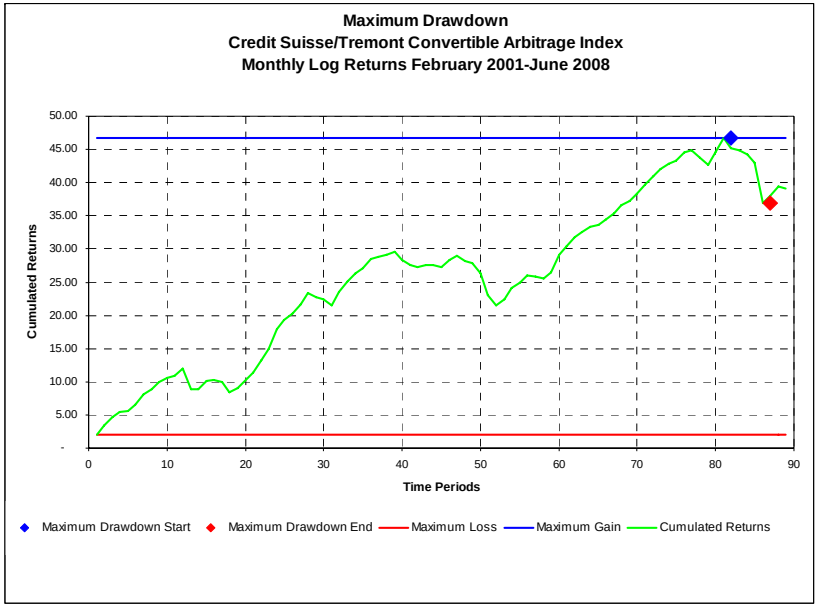
The Credit Suisse/Tremont Convertible Arbitrage Index returned minus 0.36%, minus 5.56% for 2008 to date, and minus 5.57% for the rolling 12-month time window. The steep losses suffered across most developed and emerging equity markets put pressure on the convertibles market and resumed the poor sentiment and deleveraging experienced in April. This was in spite of the sharp rise in implied volatility rates as the VIX rose over 34% over the month to approach levels experienced in January and February. On the traditional side the UBS Global Convertible Index returned minus 5.13% in June for minus 5.61% over 2008 to date.

Figure 5 S&P 500 Volatility Index, January 1994-June 2008



Source: Reuters EcoWin

Figure 6 Maximum Drawdown—Convertible Arbitrage, February 2001-June 2008



Source: Lipper

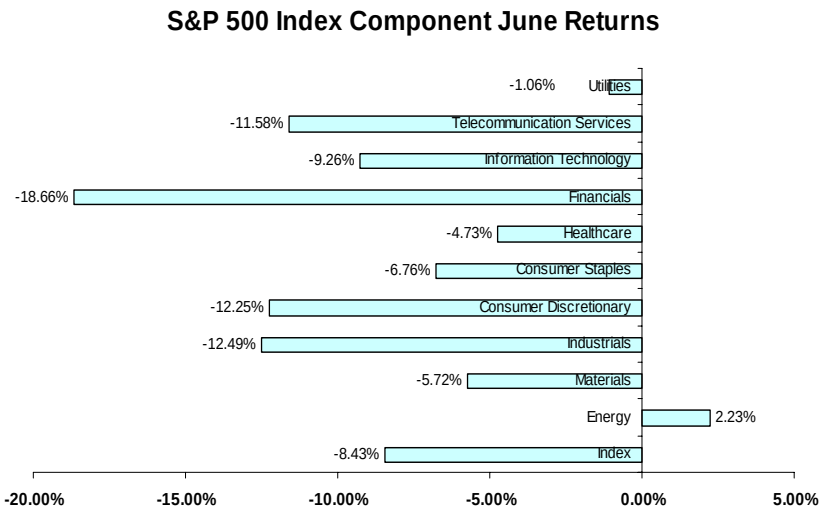
The maximum drawdown of minus 9.84% started on November 30, 2007, and ended on April 30, 2008.

Dedicated Short-Bias

The Dedicated Short-Bias substrategy in June posted its best monthly performance since November 2007. Financial stocks suffered the most substantial negative returns, led by ongoing and increasing asset write-downs, continued credit market concerns, and lowered expectations for economic growth. Over the second quarter the S&P 500 Index declined 2.7% and the Russell Index fell 1.7%, while the NASDAQ posted a modest gain of 0.6% because of the relative strength of the tech sector. Within the S&P 500 Index all but the energy subsector posted negative returns, providing a windfall for a number of short sellers. The biggest S&P 500 sector losers included: financials—down minus 18.66% in June for minus 30.89% year to

date; industrials—minus 12.49%, and Consumer Discretionary—minus 12.25%.

Figure 7 S&P 500 Index Sector Return Contribution–June 2008

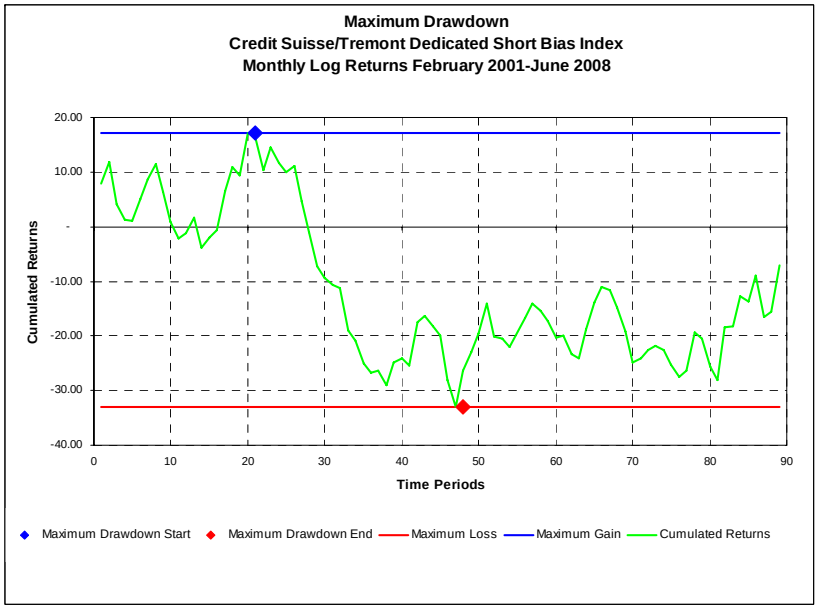


Source: Reuters EcoWin

Short-sellers did very well in international markets, including Europe, the U.K., and Asia-Pacific (ex-Japan). A number of well-known activist managers went public about the financial credibility surrounding some investment banks, including Lehman Brothers, eventually leading to the resignations of its CFO and a member of the executive committee. The Dedicated Short-Bias substrategy returned 9.02% in June, 11.95% for the first half of 2008, and an impressive 21.32% over the 12-month rolling window, making it the best performing hedge fund substrategy over that period.

As crude oil rose, a number of short sellers are believed to have increased their short exposure in that component of the energy complex on the grounds that the high price will lead to a rationing of demand and slower economic growth over the medium term.

Figure 8 Maximum Drawdown, Dedicated Short-Bias, February 2001-June 2008



Source: Lipper

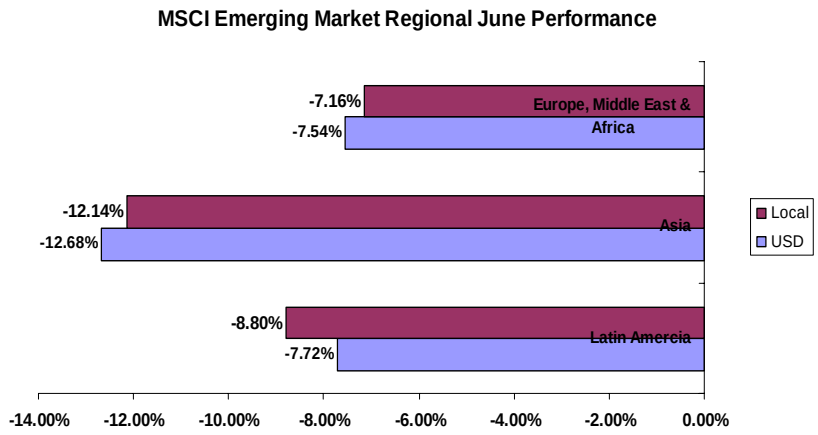
The maximum drawdown of minus 50.17% started on October 31, 2002, and ended on January 31, 2005.

Emerging Markets

Many emerging market equities and fixed income markets sold off in June, dragged down by ongoing growth and inflationary concerns. The runaway increase in the price of commodities, including food staples and crude oil (which jumped from US$100 to US$145 over the quarter), all added to the negative sentiment. The MSCI Emerging Markets TR USD Index returned minus 9.96% for the month, while the JP Morgan EMBI+ returned minus 2.41%. Of note, resource-rich Russia and Latin America managed to stave off most losses over the second quarter, while Asia—with special emphasis on China and

India—suffered on concerns about building inflationary pressure, forcing the respective central bank interest rate hikes and liquidations by foreign long-only investors. Investments in both local and U.S.-dollar terms were equally damaged by the downdraft in performance.

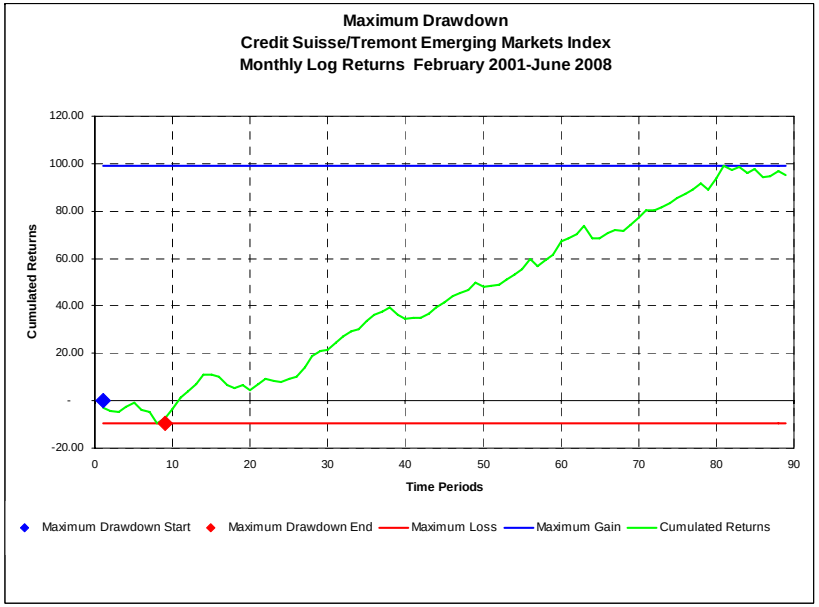
Figure 9 MSCI Emerging Market Index–June 2008



Source: Reuters EcoWin

The Credit Suisse/Tremont Emerging Markets Index returned minus 1.59% in June, minus 3.55% over the first six months, and 6.13% for the 12-month rolling return window.

Figure 10 Maximum Drawdown, Emerging Markets, February 2001-June 2008



Source: Lipper

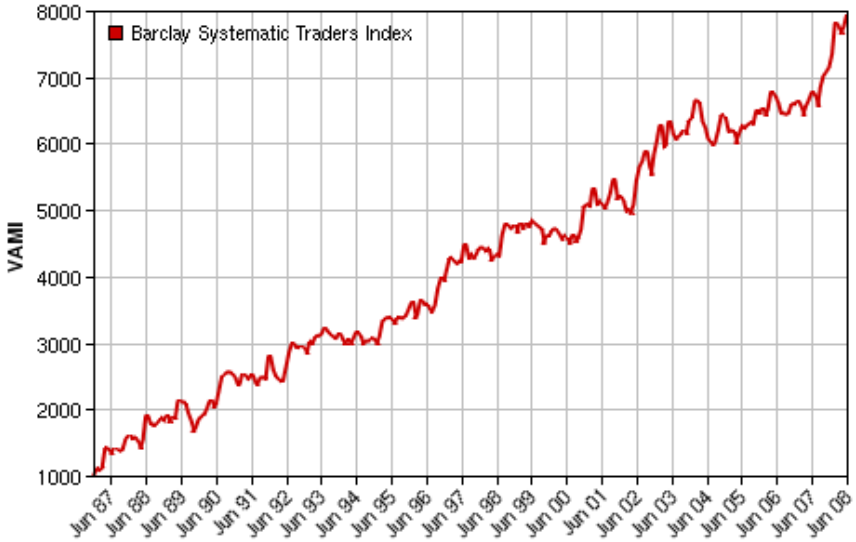
The maximum drawdown of minus 9.33% started on February 28, 2001, and ended on October 31, 2001.

Equity Market-Neutral

The Equity Market-Neutral substrategy posted its ninth consecutive month of positive returns. The VIX or CBOE index of S&P 500 options prices returned 34.32% in June, and a continued strategy of choice continued to be the shorting of sectors with rapid deterioration of fundamentals (financials, consumer durables) and the purchase of those with relatively improving fundamentals (energy, utilities, and initially technology). The Credit Suisse/Tremont Equity Market Neutral Index returned 0.55 in June, 3.79% for the year to date, and 7.85% for the 12-month rolling window. Certainly, a number of managers remained wary about increasing exposure and leverage, given the perception of growing investor risk-aversion and rumors

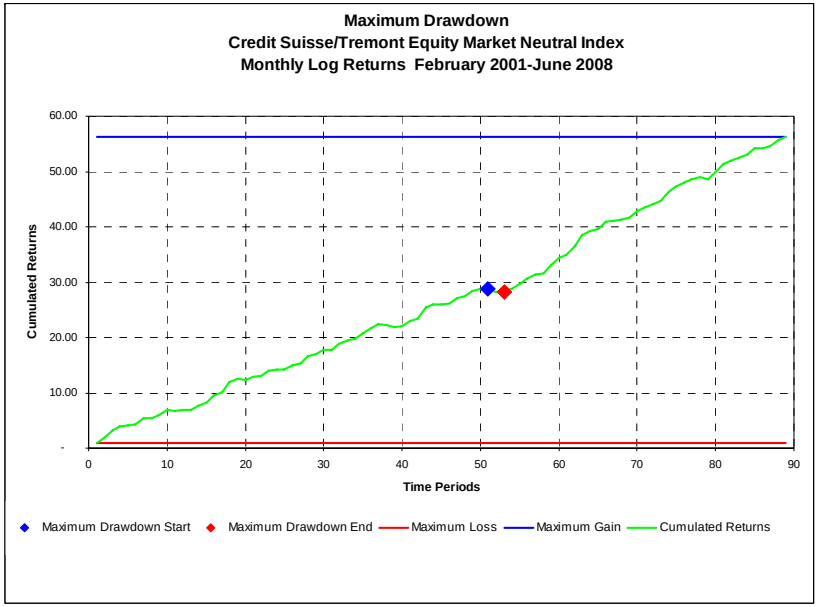
that a few managers may have experienced large investor redemptions amid ongoing losses.

Figure 11 Barclay Systematic Traders Index, June 1987-June 2008



Source: Barclay Hedge

Figure 12 Maximum Drawdown, Equity Market-Neutral, February 2001-June 2008



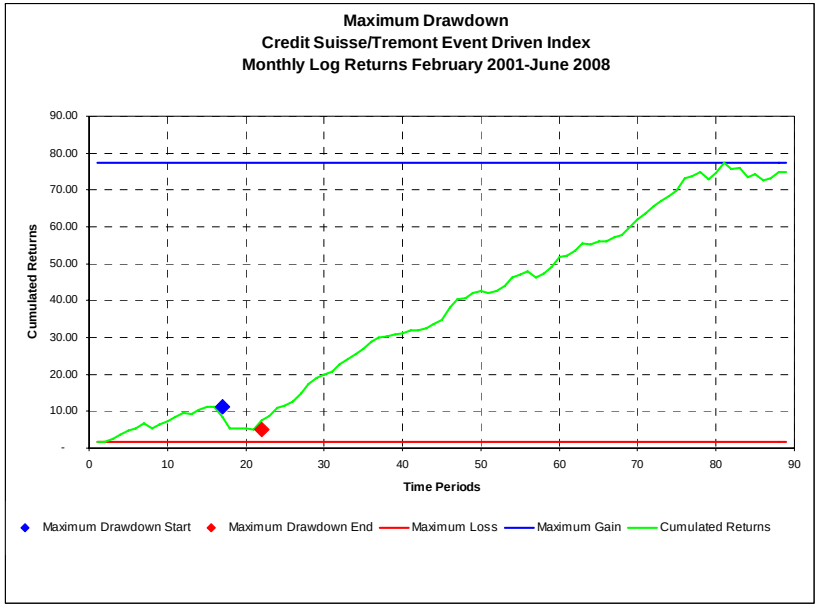
Source: Lipper

The maximum drawdown of minus 0.56% started on April 29, 2005, and ended on June 30, 2005.

Event-Driven

The Event-Driven substrategy slipped back into negative territory; as credit spreads widened special situations had a tough time and distressed securities retreated also. While a few notable players continued to benefit from specific short positioning in specific financial credit default swaps, these were an exception rather than the rule. Distressed securities players were down in June, while credit spreads widened with a vengeance toward month-end as weakening economic data, inflation worries, and increasing bearish sentiment permeated the markets. The Event-Driven substrategy returned minus 0.15% in June, minus 1.12% for the year to date, and 1.02% for the 12-month rolling return window.

Figure 13 Maximum Drawdown, Event-Driven, February 2001-June 2008



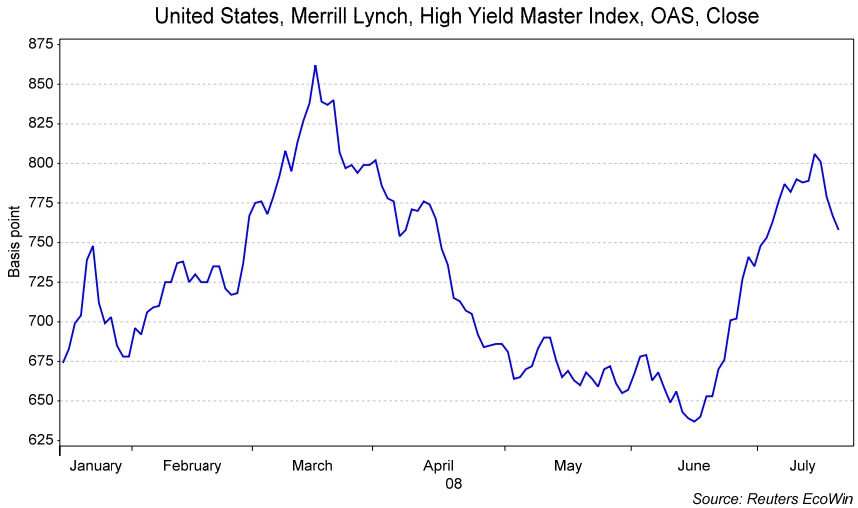
Source: Lipper

The maximum drawdown of minus 6.23% started on June 28, 2002, and ended on November 29, 2002.

Event-Driven Distressed-Securities

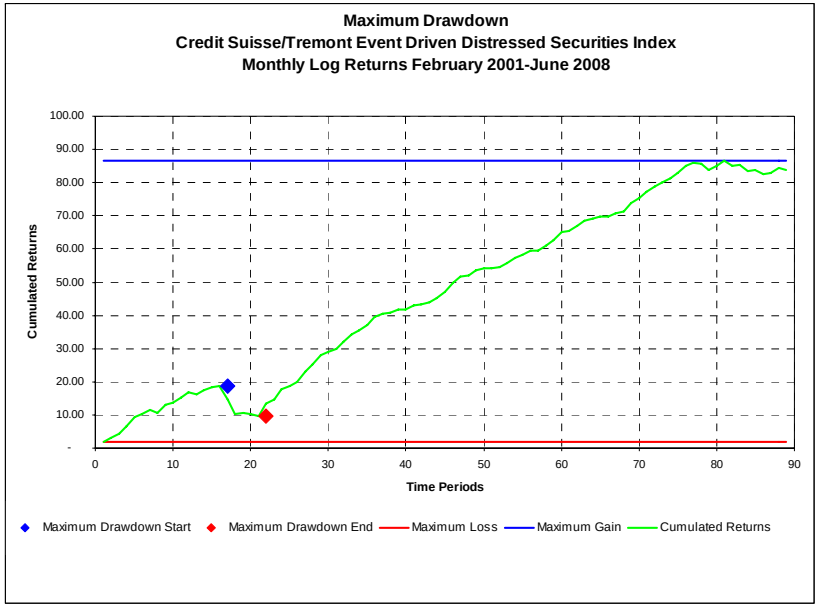
The Distressed-Securities substrategy returned minus 0.51% in June, minus 1.36% for the year to date, and minus 2.05% for the 12-month rolling window. The month started out continuing the positive sentiment and pricing activity based upon a return of investor interest, even in the face of a renewed supply of distressed securities paper. The combination of weakening economic news, heightened fears of corporate bankruptcy rates, and inflation concerns all combined to effect a sharp widening in credit spreads toward month-end in the U.S. and across Europe. Losses for a number of managers were similar to those suffered in February and March, with the largest losses coming in the consumer discretionary and oil sectors. Leveraged loan prices fell from 92.0 cents to 89.3, putting an end to the brief three-month rally, while the euro-leveraged loan market as defined by the LevX Index was flat over the month.

Figure 14 Merrill Lynch U.S. High Yield Master Index, January 2008-June 2008



The Merrill Lynch Global High Yield Index returned minus 2.90% in June, and the spread over U.S. Treasuries increased close to 200 bps to reach 734 bps.

Figure 15 Maximum Drawdown, Event-Driven Distressed-Securities, February 2001-June 2008



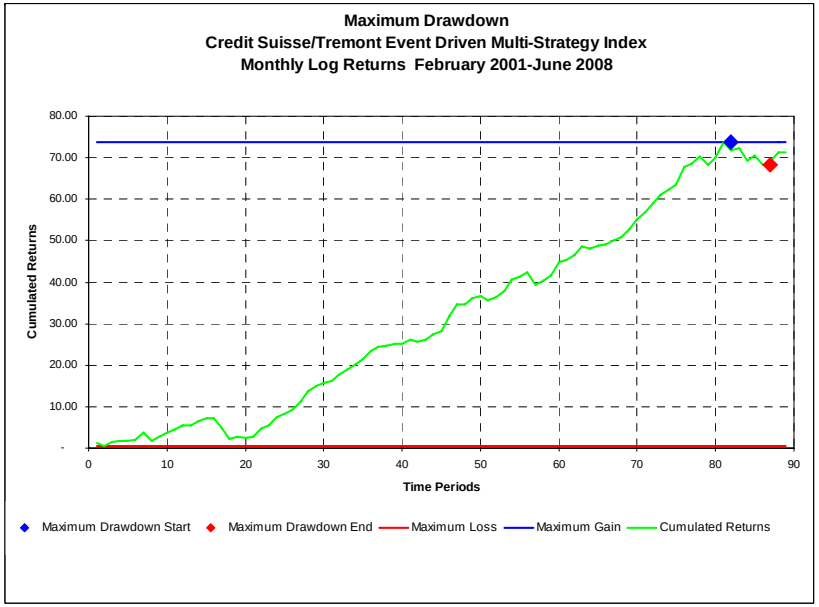
Source: Lipper

The maximum drawdown of minus 8.91% started on June 28, 2002, and ended on November 29, 2002.

Event-Driven Multi-Strategies

Event-Driven Multi-Strategies returned 0.09% in June, minus 1.02% for the year to date, and 2.85% for the 12-month rolling window. Although credit spreads blew out sharply toward month-end, some managers were suitably hedged in their exposure in financials to be able to generate some decent returns to offset losses across distressed securities.

Figure 16 Maximum Drawdown, Event-Driven Multi-Strategies, February 2001-June 2008



Source: Lipper

The maximum drawdown of minus 5.42% started on November 30, 2007, and ended on April 30, 2008.

Event-Driven Risk-Arbitrage

The Credit Suisse/Tremont Event-Driven: Risk Arbitrage Index returned minus 0.12% in June, 3.39% for the year to date, and 7.19% for the 12-month rolling window. Ever since June of last year the trend in the value of global M&A deals has continued to be down, with a recent focus on consolidation in the energy and raw materials sectors. An apparent bear market in global equities crimped the pace still further in June M&A activity. According to Dealogic, global announced M&A volume slipped 43% month on month to US$185 billion. The number of deals fell sharply to 696 after the 2,800 in May as sentiment continued to be negative.

Figure 17 Merger/Acquisitions World Deal Amount, January 2004-June 2008

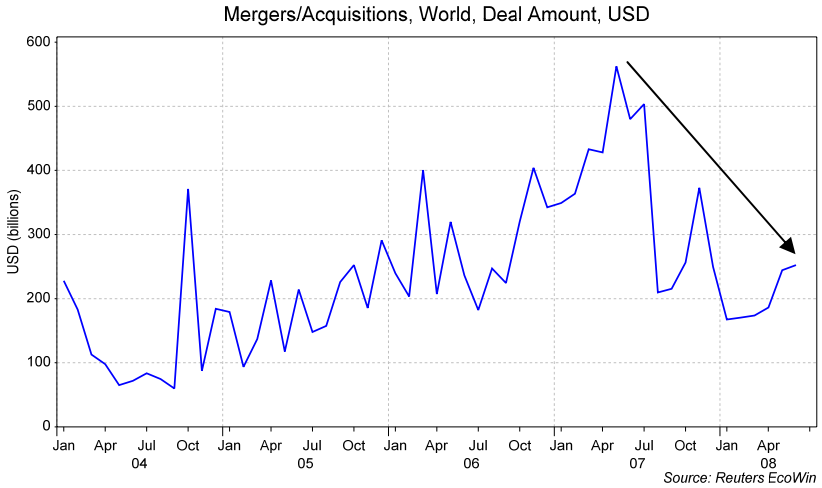
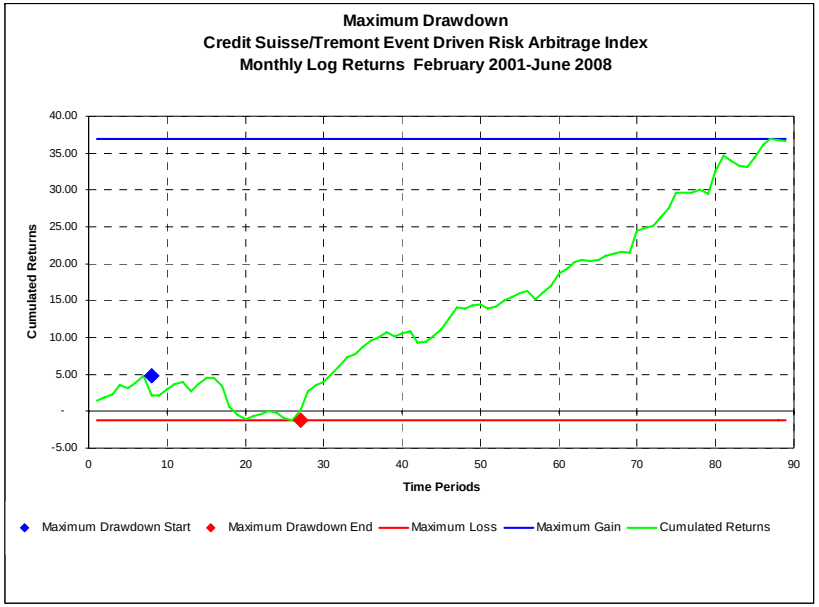


Figure 18 Maximum Drawdown, Event-Driven Risk-Arbitrage, February 2001-June 2008



Source: Lipper

The maximum drawdown of minus 6.11% started on September 28, 2001, and ended on April 30, 2003.

Fixed Income Arbitrage

The Fixed Income Arbitrage substrategy remained under pressure throughout June as deleveraging was seen in the financial sector, coupled with the rise in commodity prices. Fixed Income Arbitrage returned minus 0.47% in June, minus 4.10% for the year to date, and minus 4.02% for the 12-month rolling return window. This was despite the modest 0.09% gain seen in the Lehman Aggregate Bond Index; Treasuries posted their worst quarterly loss in four years. Even non-dollar bonds performed poorly as the strengthening U.S. dollar unit hurt their performance.

On the U.S. economic front the June jobs report pointed to a higher-than-expected 62,000 job loss month over month, while the Case-

Schiller home price index fell a record 15.3% year over year. Some of the GSEs such as Fannie Mae and Freddie Mac came under renewed pressure amid an apparently growing need to raise new capital. In this environment the mortgage basis widened over May, and a number of managers resorted to high cash balances and opportunistic hedging to withstand further potential credit market deterioration.

Figure 19 U.S. Yield Curve, May 30, 2008, and June 30, 2008

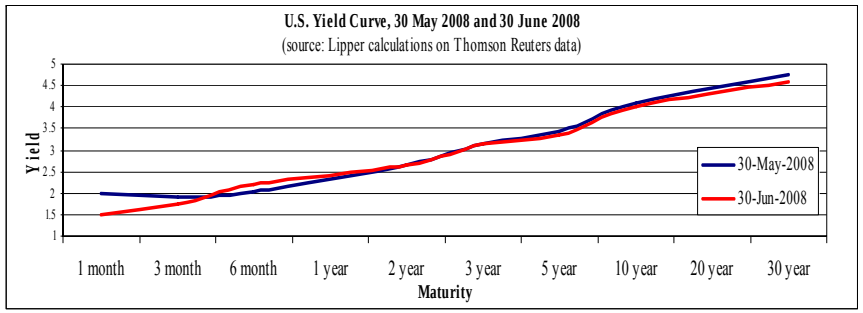
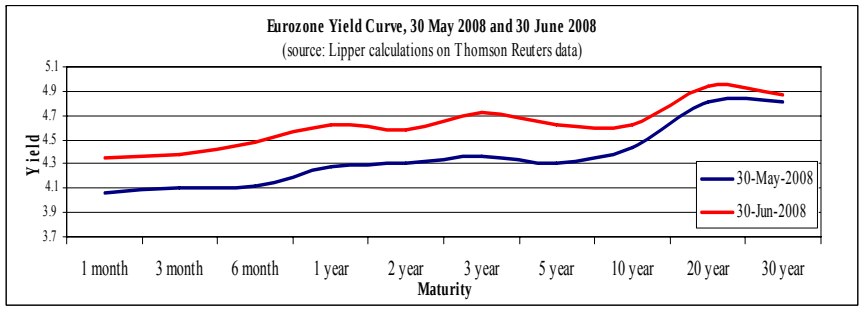
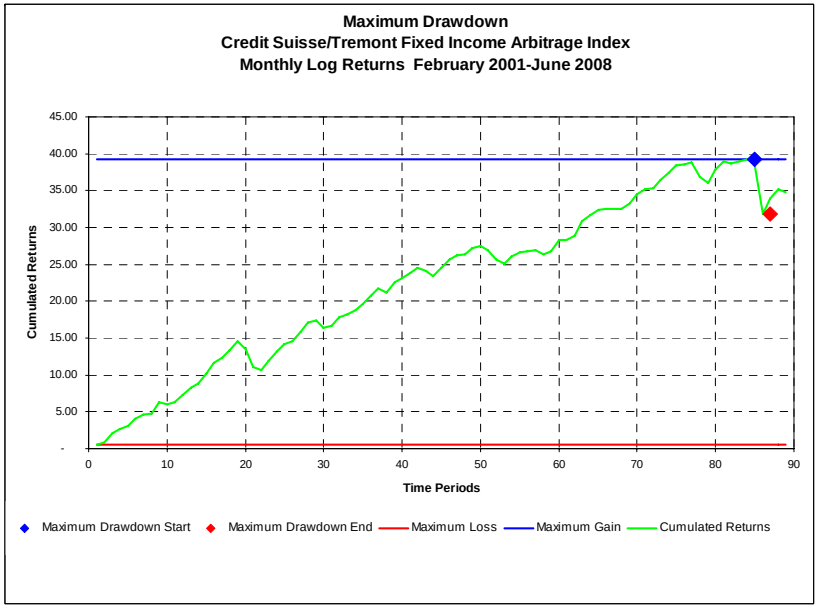


Figure 20 Eurozone Yield Curve, May 30, 2008, and June 30, 2008



The U.S. yield curve edged downward in June—with a flattening bias—for maturities between 2 years and 30 years, with the 30-/2-year spread tightening 17 basis points. Conversely, inflationary concerns priced in further interest rate tightening in the Eurozone, resulting in the yield curve edging upward, also in this case with a flattening bias. The 30-/2-year spread between the U.S. and Eurozone yields increased 5 bps in June as both expectations for further interest moves in the Eurozone and concerns over the U.S. economic slowdown contributed to the spread widening.

Figure 21 Maximum Drawdown, Fixed Income Arbitrage, February 2001-June 2008



Source: Lipper

The maximum drawdown of minus 7.30% started on February 29, 2008, and ended on April 30, 2008.

Global Macro

The Global Macro substrategy returned 2.00% in June, 9.22% for the year to date, and 18.75% for the 12-month rolling window. Together with a sell-off in global equities, commodity markets dominated as crude oil again surged to record highs, while grain prices ran up also. Crude oil peaked around US$145 per barrel on renewed geopolitical tensions, while corn and soybeans increased on news that wet weather might have damaged crops in the U.S. Midwest. Natural gas

prices gained 14% over the month on low stocks out of the U.S., while falling imports from Canada and reduced supplies of liquefied natural gas into the U.S. kept prices elevated. In the metals markets copper gained over 7% as worker strikes in Peru and Mexico ignited supply concerns. Global traders were well-positioned for steepening yield curves in the fixed income markets, especially in the U.K. and Europe, although the front end of the U.K., euro, and eurodollar curves spiked sharply over the latter part of the month. A number of managers were caught a little long in developed and emerging market equity positions, while others correctly shorted financials. The U.S. dollar rallied initially over the month, then sold off again as concerns about credit took hold.

Figure 22 NYBOT U.S. Dollar Index, January 2008-July 2008

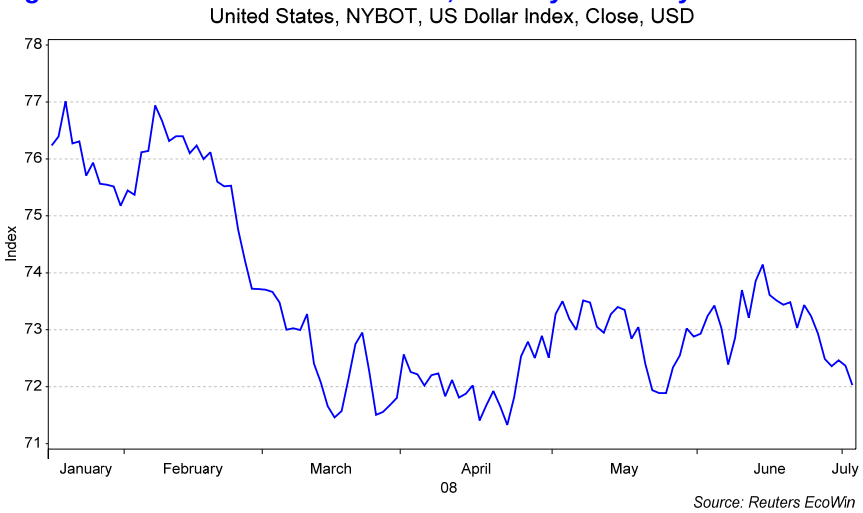
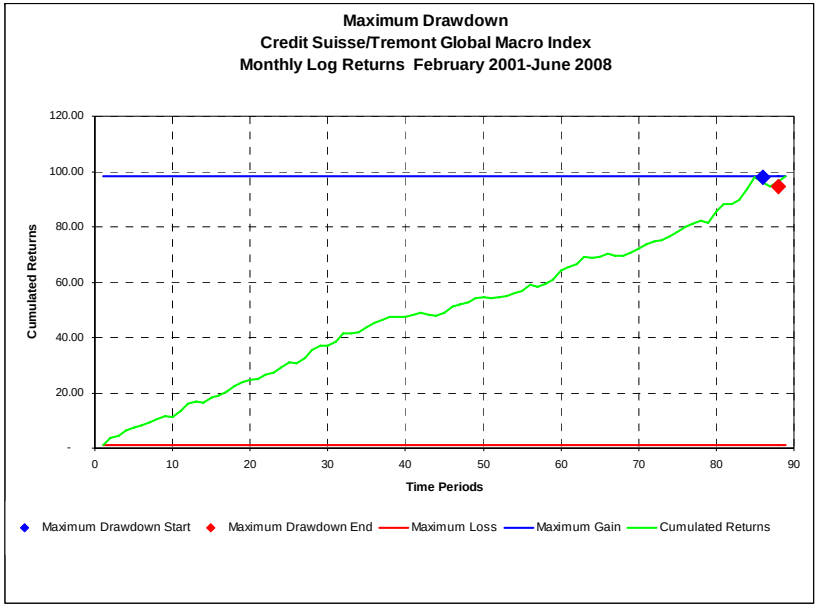


Figure 23 Maximum Drawdown, Global Macro, February 2001-June 2008



Source: Lipper

The maximum drawdown of minus 3.31% started on March 31, 2008, and ended on May 30, 2008.

Long/Short Equity

The Long/Short Equity substrategy returned minus 1.33% in June, minus 0.48% for the year to date, and 3.11% over the 12-month rolling window. This followed the previous month's strong performance rebound that had many managers upping their exposure and long-portfolio bias across many markets and sectors. Near-term earnings estimates across a number of developed markets continued to be positive, albeit at lower levels for the remainder of 2008, mainly because of ongoing issues surrounding the global financial sector in developed economies, together with perceptions of an economic slowdown and negative consumer sentiment taking shape. The majority of returns over the month were generated from the short side of many portfolios, especially in financials and consumer

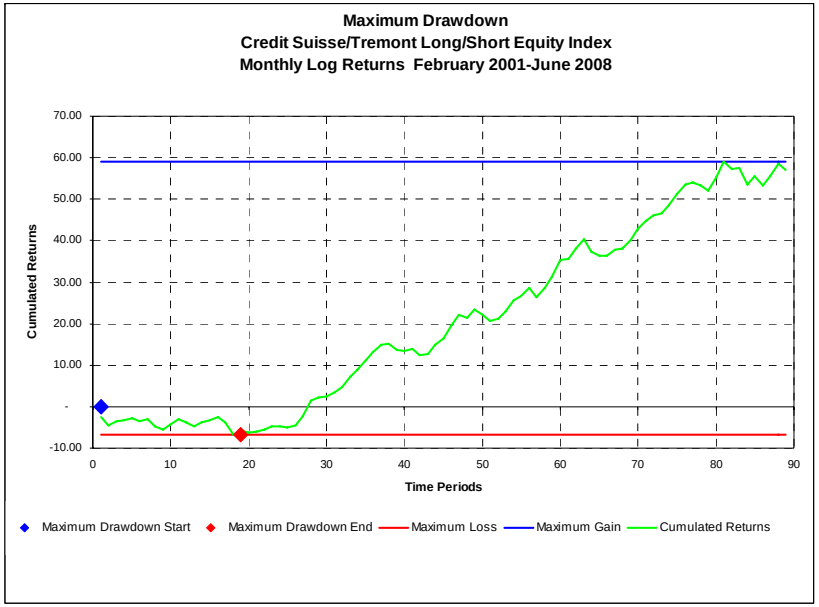
discretionary names. European managers performed relatively well because of weakness in financials, U.K. consumer stocks, European construction, building material names, and media. Asia ex-Japan managers were dragged down by negative sentiment hitting China and India, while Japan exposure continued to buck the negative trend.

Table 2 Earnings Growth, Selected Countries

Global Earnings Growth Estimates for Major Global Indices			
Country	2006A	2007E	2008E
US-S&P 500	14.8%	7.6%	12.5%
UK-FTSE 100	13.3%	7.2%	5.7%
Germany-DAX	22.9%	9.5%	12.0%
France-CAC 40	8.70%	4.47%	10.48%
Italy-MIB Index	17.69%	6.08%	11.54%
Canada-TSX Composite Index	19.23%	7.52%	12.37%
Australia-ASX 200	20.79%	11.67%	11.29%
Hong Kong-Hang Seng Index	5.6%	11.7%	-4.5%
Japan-Nikkei 225	32.5%	12.0%	9.1%
Singapore-Straits Times 50	11.8%	13.8%	8.5%
India-Bombay Stock Exchange 100	13.1%	31.1%	11.5%

Source: *Reuters Estimates* as of June 2008

Figure 24 Maximum Drawdown, Long/Short Equity, February 2001-June 2008



Source: Lipper

The maximum drawdown of minus 7.27% started on February 28, 2001, and ended on August 30, 2002.

Managed Futures

The Managed Futures substrategy returned 4.79% in June, 14.86% for the year to date, and 13.40% for the 12-month rolling return period. Volatility was high across a number of geographies and asset classes, with trend-following models faring better than mean-reverting ones. The rise in crude oil to an intra-month US$145 peak, together with a spike in natural gas prices, also aided a number of managers. Profits in equities were generally created from the short side as the specter of stagflation hit many markets hard.

Figure 25 WTI Crude Oil Index, July 2003-June 2008

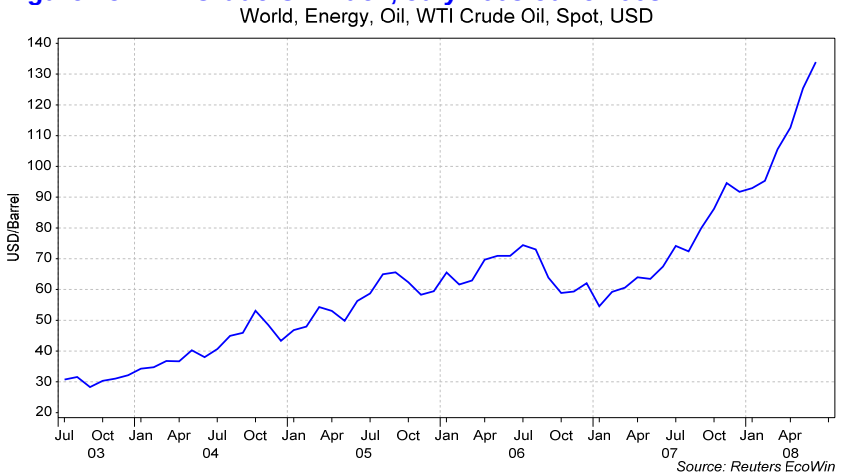
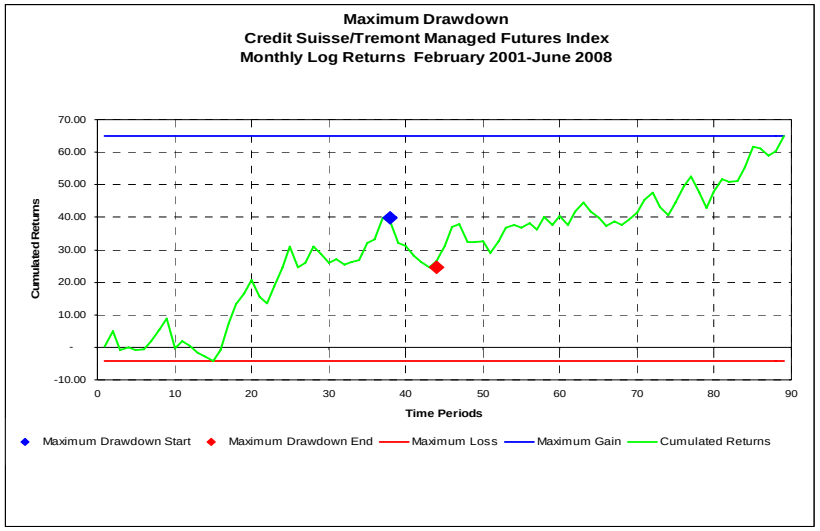


Figure 26 Maximum Drawdown, Managed Futures, February 2001-June 2008



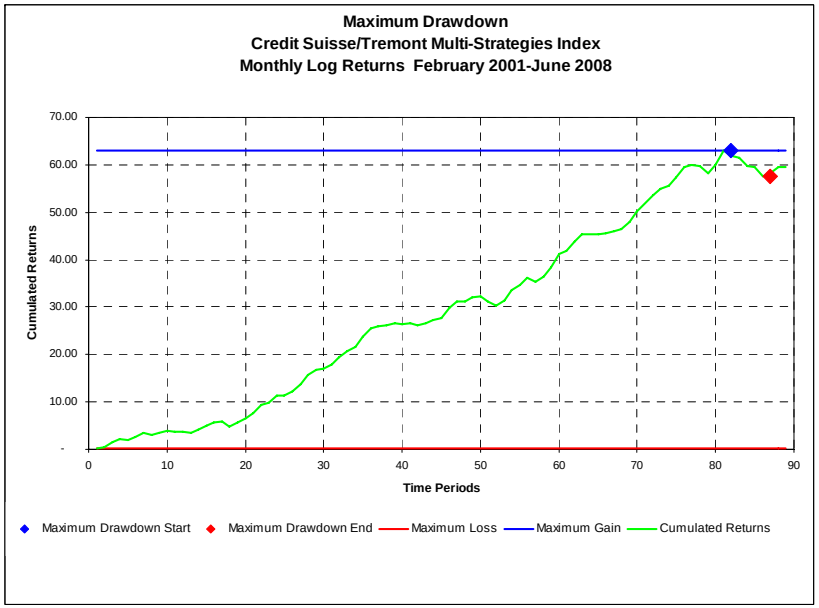
Source: Lipper

The maximum drawdown of minus 14.99% started on March 31, 2004, and ended on September 30, 2004.

Multi-Strategies

Multi-Strategies returned 0.05% in June, minus 2.07% for the year to date, and minus 0.47% for the 12-month rolling return period. Relative-value trading strategies were largely flat. Convertible arbitrage markets softened into month-end, while volatility arbitrage was also pressured and many managers failed to benefit from the widening in realized and implied volatility levels. Credit managers were mixed, with a few performing very well because of net short exposure in specific names and sectors in finance. While overall fixed income arbitrage managers were mixed, those with a higher allocation to equity market-neutral and less to long-credit strategies performed relatively well.

Figure 27 Maximum Drawdown, Multi-Strategies, February 2001-June 2008



Source: Lipper

The maximum drawdown of minus 5.45% started on November 30, 2007, and ended on April 30, 2008.

Hedge Fund Focus and Technical Analysis

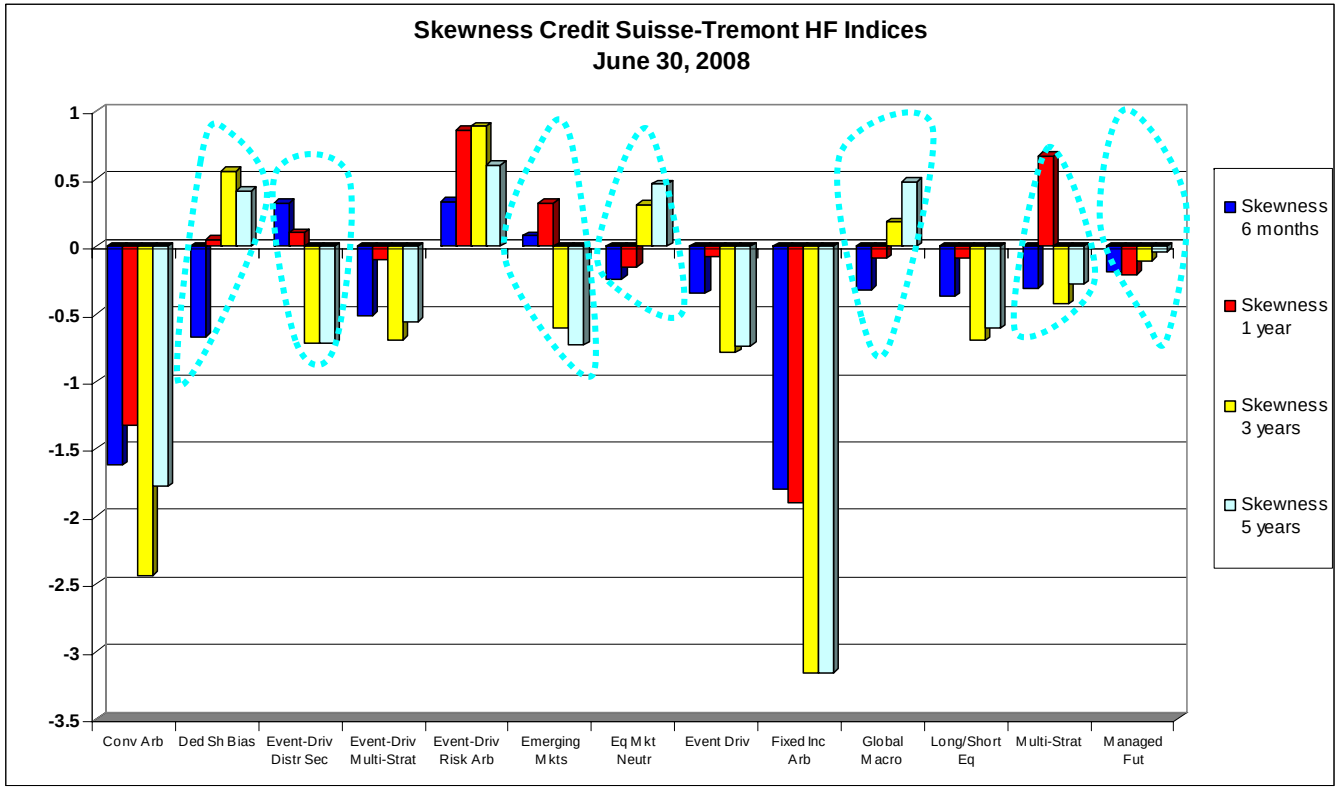
A specific analysis of the return series of the Credit Suisse/Tremont Hedge Fund Indices has been performed to consider higher moments of the distribution of returns. Usually, the analysis of financial instrument series returns focuses on mean and variance, under the hypothesis of "compactness" of the distribution of returns (Samuelson, P. A. [1970], "The Fundamental Approximation Theorem of Portfolio Analysis in Terms of Means, Variances, and Higher Moments," Review of Economic Studies, Vol. 37).

Compactness represents a continuity or inertia of stock prices. In the absence of particular shocks to the series the uncertainty of stock returns over increasingly shorter periods decreases. Under these circumstances investors who can rebalance their portfolios frequently will seek to make higher moments of the stock return distribution so small as to be negligible. In this way the action of the investors in frequently revising their portfolios limits higher moments (even moments representing bad moments in the utility function for the investor) to negligible levels. However, in the presence of shocks or high volatility the usual mean/variance analysis is inadequate, and higher moments of the utility function of the investment need to be considered. In particular, odd moments (third moment, i.e. skewness) represent good moments, since they define the measure of asymmetry. Positive numbers are associated with positive skewness and hence are desirable.

Positively skewed returns' distributions are characterised by more likely but smaller losses and less likely but extreme gains. In other words "bad surprises" are more likely but are limited in magnitude. In a negatively skewed distribution, on the other hand, bad surprises are more likely to be extreme, even if they occur less frequently. Skewness is important because of its impact on portfolio choices and also because kurtosis (fourth-moment skewness, i.e., bad news) is not independent of skewness—the latter may induce the former.

In a normal market situation based on a portfolio analysis of three moments, investors should have a preference for positive skewness, since they prefer portfolios with a higher probability of greater returns. On the contrary, in episodic market crashes it is expected the asymmetry would be characterised by negative skewness, with a higher probability of large falls in prices.

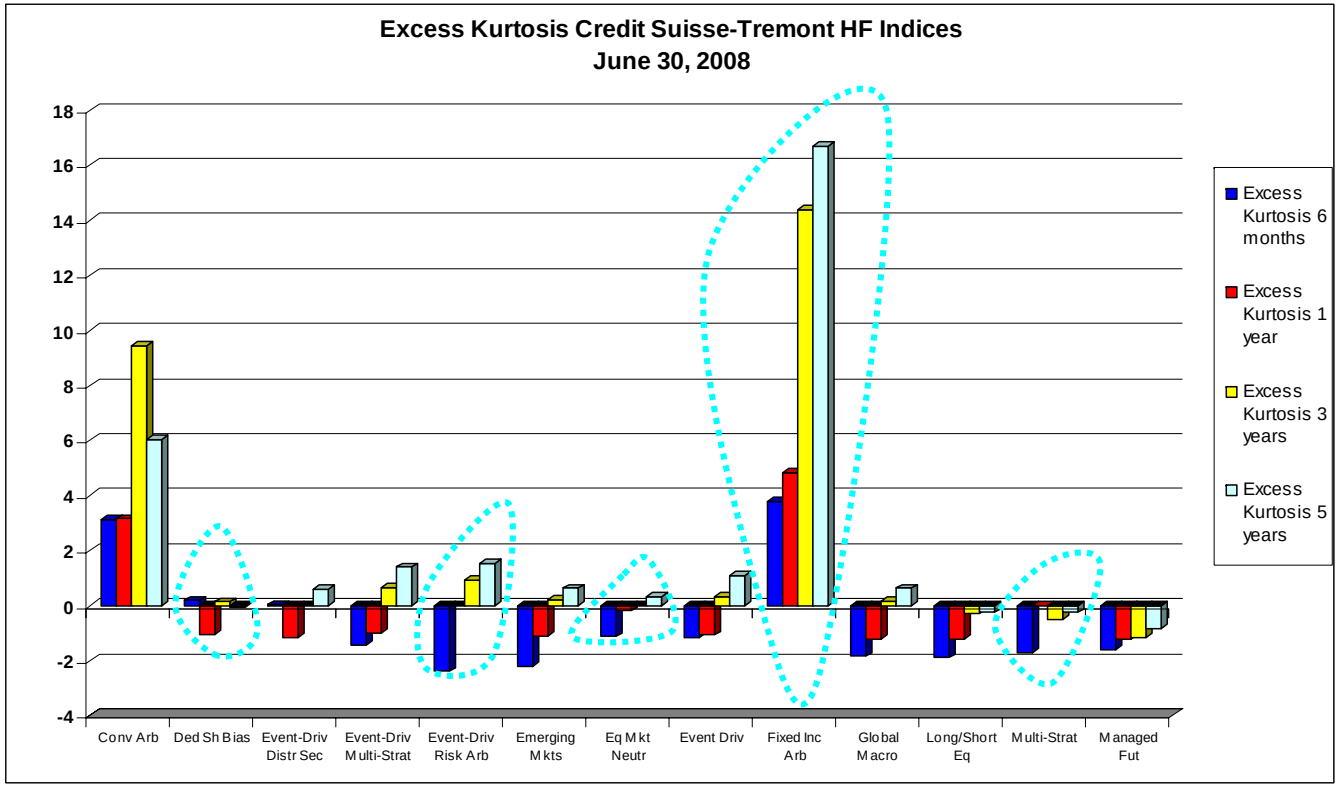
Figure 28 Skewness of Credit-Suisse-Tremont Hedge Fund Indices, June 30, 2008



Source: Lipper

It is interesting to note a change of the sign of the skewness in the past six months to the end of June 2008 compared to historical standards (one- to five-year period) of positive readings for Dedicated Short-Bias, Equity Market-Neutral, and Global Macro. The skewness of Multi-Strategies turned negative (-0.31) for the six-month period to the end of June, decreasing from May's positive reading (+0.67), although the values were negative for the three- and five-year periods. Conversely, in the six-month period to the end of June the Managed Futures strategy turned negative (-0.19) after posting a positive result for the six-month period to the end of May 2008, confirming the negative figures in the one-year and three-year periods at minus 0.11 and minus 0.04, respectively. The Event-Driven Distressed Securities strategy turned positive for the six-month and one-year readings at the end of June, from May's negative figure and negative readings for both the three- and five-year periods.

Figure 29 Excess Kurtosis of Credit Suisse-Tremont Hedge Fund Indices, June 30, 2008



Source: Lipper

Analysis of the peakedness of the probability distribution confirmed the evidence highlighted in May of a general flattening of the tails of the distribution of the hedge fund strategy returns as represented by the Credit Suisse-Tremont Indices in the six-month period to the end of June 2008. In the case of the Event-Driven Risk Arbitrage and Equity Market-Neutral strategies the "reshaping" of the probability distribution implied a change from mesokurtotic to platykurtotic. Conversely, the Dedicated Short-Bias strategy showed an opposite trend, with a higher six-month excess kurtosis (+0.2, easing from the +0.88 reading at the end of May), indicating that a larger portion of the variance of the distribution of the returns was attributable to infrequent extreme deviations as opposed to more frequent modest deviations. Also, at the end of June it is worth noting how the magnitude of the leptokurtosis significantly dropped in the last six-month to one-year period from the three- and five-year readings for the Convertible Arbitrage and Fixed Income Arbitrage strategies. That trend may also reflect a tapering off of negative skewness for the two strategies of the last six months as of the end of June 2008.

The traditional mean-variance approach to performance measurement and portfolio optimisation is based on an approximation of normality in returns. Hedge fund returns are better represented by hyperbolic distributions. The hyperbolic distribution decreases exponentially—more slowly than the normal distribution—being suitable to model financial patterns, where numerically large values are more probable than is the case for the normal distribution. Thus, the hyperbolic distribution provides the possibility of modelling heavier tails.

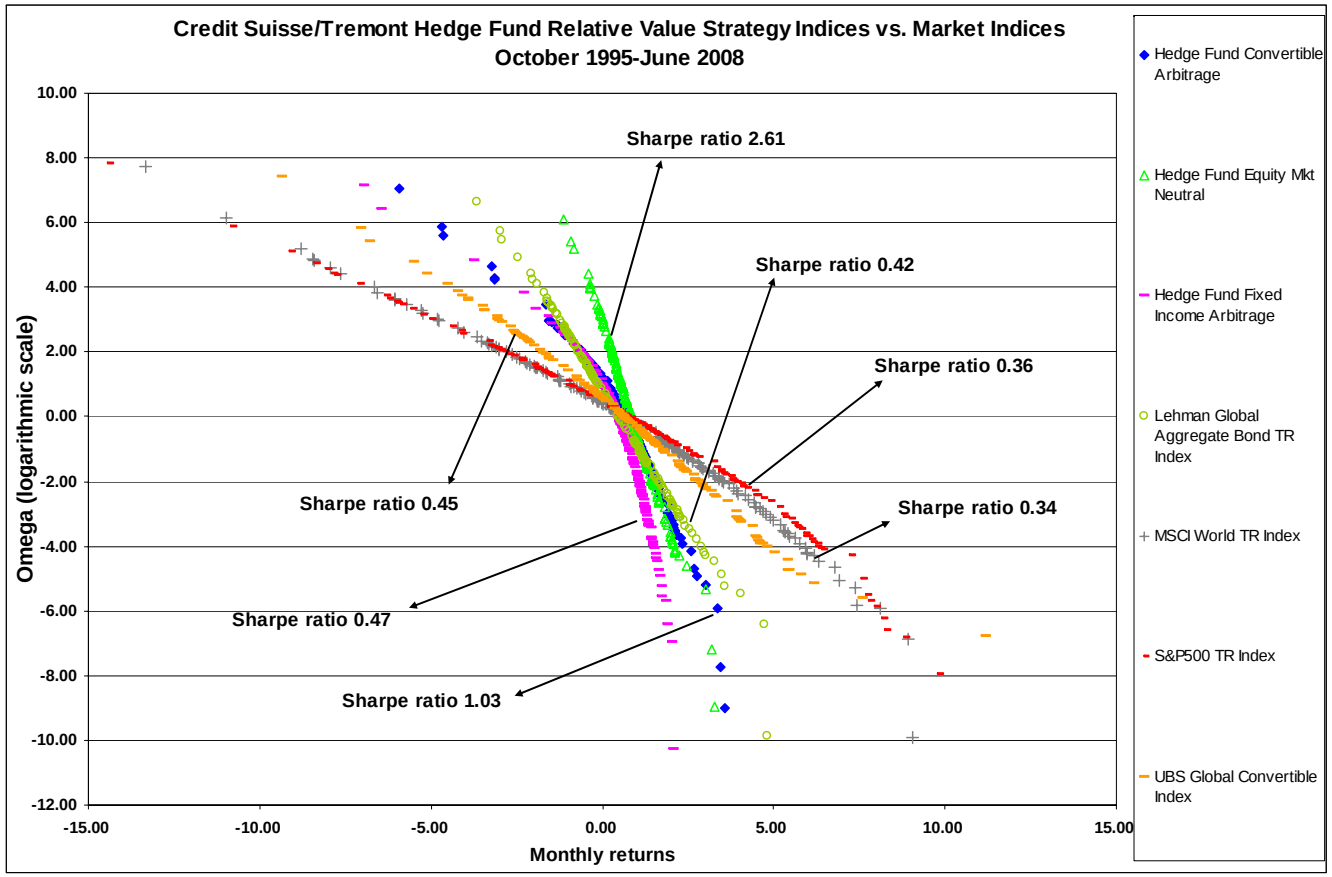
Since in the traditional Sharpe ratio measurement not all asymmetries of the distribution of returns and risk-averse investors' preferences are taken into account, some investments may mistakenly appear better or worse than they are. Thus, in this section we present an alternative and more-powerful performance measure—the Omega (Ω) measure (Keating, C. and F. Shadwick [2002], A Universal Performance Measure, The Journal of Performance Measurement, 6 [3]).

The Omega measure incorporates all the moments of the distribution, since it is a direct transformation of it. The Omega measure splits the distribution of returns into two subparts, according to a return threshold. Thus, returns are divided into losses and gains above and below a return threshold, and then the probability-weighted ratio of returns above and below the partitioning is considered. The relative ranking of the various assets depends on the threshold value. The evaluation of an investment in financial assets with the Omega function should be considered for thresholds between 0% and the risk-free rate. Intuitively, this type of threshold corresponds to the notion of capital protection.

In addition to incorporating all the moments of the distribution of returns, the Omega function has two interesting properties. Firstly, when the threshold return is set to the mean of the distribution, the Omega measure is equal to 1.0. Secondly, whatever the threshold return is, all financial assets may be ranked. Conversely, in the context of the Sharpe measure the ranking leads to cumbersome interpretation for negative ratios.

The figures below show the log Omega values corresponding to a series of monthly return thresholds for the various hedge fund strategies, compared to the relevant market indices and the S&P 500 Index.

Figure 30 Hedge/Relative Value Strategies Versus Market Indices, October 1995-June 2008

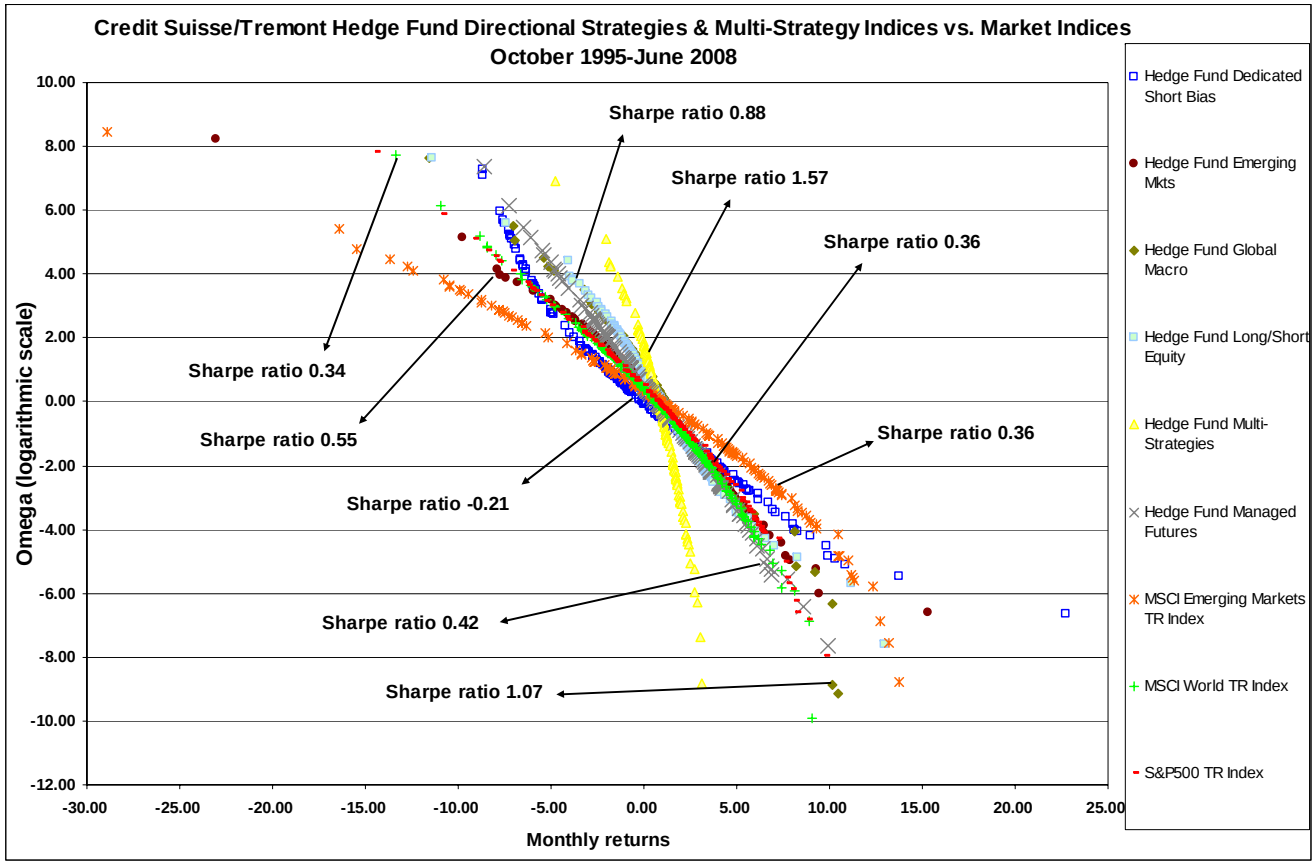


Source: Lipper

In the period October 1995-June 2008 the Equity Market-Neutral strategy provided the best investment choice among other relative-value hedge fund strategies and the MSCI World TR Index, the S&P 500 TR Index, and the UBS Global Convertible Index at the return threshold of 0.167% monthly or 2% annually. At the 0.167% monthly return threshold the Equity Market-Neutral strategy posted a 2.4791 log Omega value, with the Convertible Arbitrage and Fixed Income Arbitrage strategies recording 1.0247 and 0.6964 log Omega readings, respectively. The Lehman Global Aggregate Bond TR, the MSCI World TR, the S&P 500 TR, and the UBS Global Convertible Indices showed 0.5213, 0.3257, 0.3046, and 0.4409 log Omega readings, respectively. Differently from an analysis based merely on the Sharpe ratio, which makes reference to a single reading for the overall period of the analysis, it is interesting to note how the relative ranking depended on the threshold value. For instance, the Fixed Income Arbitrage strategy versus the index was a typical case where, whatever the threshold return, the financial assets could be graded benefiting from the

use of the log Omega function. Conversely, in the context of the Sharpe measure any ranking based on the reading for the overall period might have been ambiguous. Since the two functions for Hedge/Fixed Income Arbitrage and the Lehman Global Aggregate Bond TR Index intersected in the region between the minus 0.803865% and positive 0.4075% returns, the relative convenience of the two assets varied within and outside the given range. Given the polarization of the return distribution of the Equity Market-Neutral strategy within a narrow observation range in the absence of any outliers, any relative preference analysis of extreme returns was limited to the remaining relative-value hedge fund strategies.

Figure 31 Hedge/Directional Strategies & Multi-Strategies Versus Market Indices, October 1995-June 2008



Source: Lipper

In the period October 1995-June 2008 Hedge/Multi-Strategies provided the best investment choice among other directional hedge fund strategies and the MSCI Emerging Markets TR Index, the MSCI World TR Index, and the S&P 500 TR Index at the return threshold of 0.167% monthly or

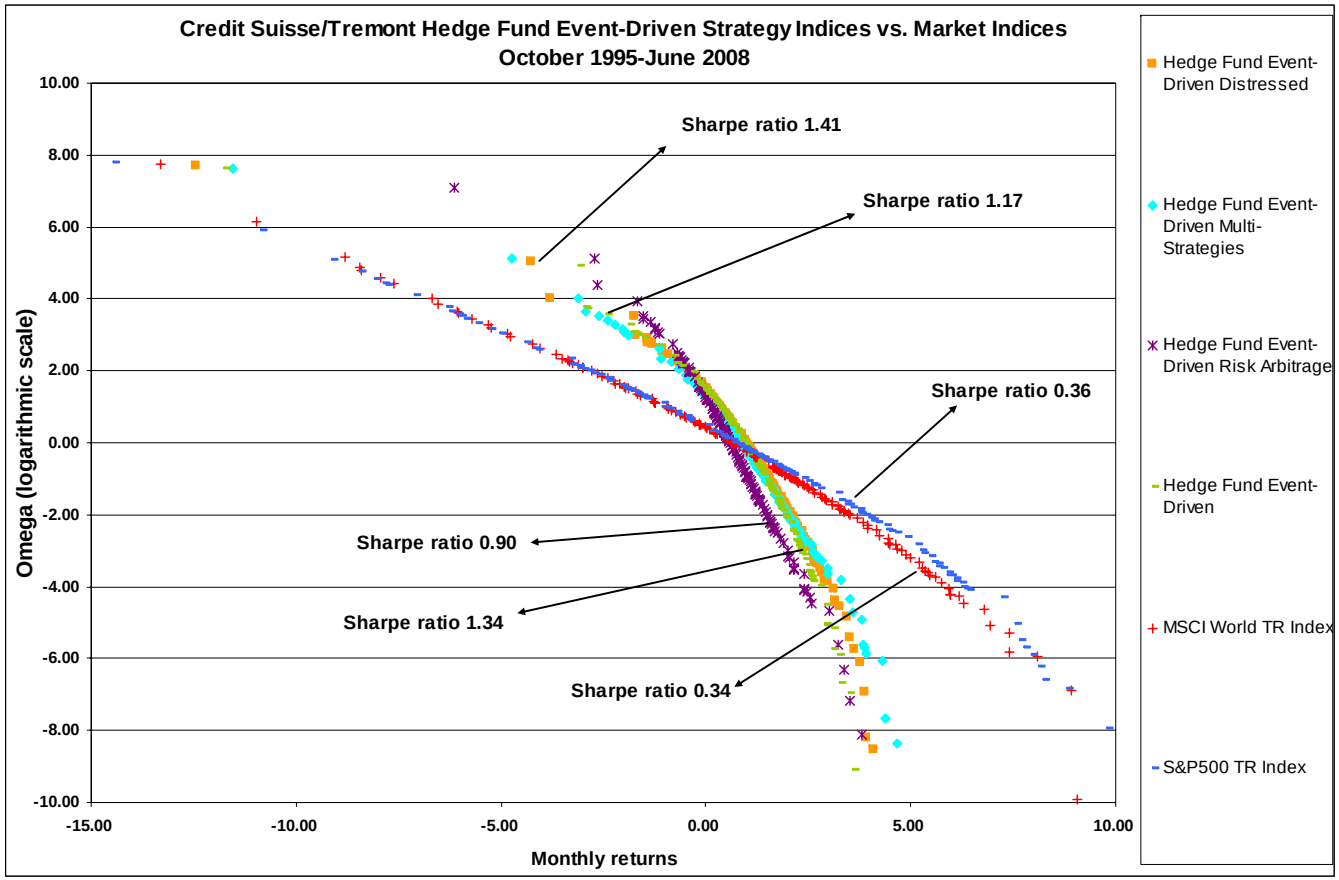
2% annually. At the 0.167% monthly return threshold Hedge/Multi-Strategies posted a 1.4488 log Omega value, with Dedicated Short-Bias, Emerging Markets, Global Macro, Long/Short Equity, and Managed Futures recording minus 0.1030 and positive 0.4371, 0.9559, 0.7868, and 0.3678 log Omega readings, respectively. The MSCI Emerging Markets TR, the MSCI World TR, and the S&P 500 TR Indices showed 0.3625, 0.3257, and 0.3046 log Omega readings, respectively.

The readings for the period analyzed also reflected the performance leverage of cycles of market downturn; the Dedicated Short-Bias, Long/Short Equity, and Managed Futures strategies were confirmed to be the best investment choices under the scenario of heavy market downfall as reflected in highly negative excess return.

The asymmetric properties of the distribution of returns of the various assets were consistent with the findings on relative investment convenience of the Dedicated Short-Bias strategy for extremely positive returns. This might have been attributable to the positive skewness bias with a slight leptokurtic shape of the distribution of returns of Dedicated Short-Bias compared to the other directional hedge fund strategies and the market indices, which showed either a lower positive or a negative skewness bias with a leptokurtic distribution.

It is interesting to note that in this case, whatever the threshold return, the financial assets may be graded using the log Omega function. Conversely, in the context of the Sharpe measure, which was negative for the Dedicated Short-Bias strategy, any ranking based on negative values was ambiguous.

Figure 32 Hedge/Event-Driven Strategies Versus Market Indices, October 1995-June 2008



Source: Lipper

In the period October 1995-June 2008 the Hedge/Event-Driven Distressed-Securities strategy provided the best investment choice among other event-driven hedge fund strategies and the MSCI World TR Index and the S&P 500 TR Index at the return threshold of 0.167% monthly or 2% annually. At the 0.167% monthly return threshold the Event-Driven Distressed-Securities strategy posted a 1.2587 log Omega value, with Event-Driven, Event-Driven Multi-Strategies, and Event-Driven Risk Arbitrage recording 1.2176, 1.0899, and 0.9375 log Omega readings, respectively. The MSCI World TR and the S&P 500 TR Indices showed 0.3257 and 0.3046 log Omega readings, respectively. It is interesting to note that all Event-Driven strategies showed a negatively skewed and highly leptokurtic distribution of returns with fat tails for the period analysed.

Top- and Bottom-Performing Hedge Funds

Table 3 Ten Top-Performing Hedge Funds, June 2008

Name	Lipper Global	Performance TR USD 1M 30/05/2008 To 30/06/2008	Performance TR USD 1Y 29/06/2007 To 30/06/2008	Volatility Ann TR USD 1Y 29/06/2007 To 30/06/2008
AIS Futures (3x 6x) LP	Hedge/Managed Futures	26.11	225.23	44.27
AIS MAAP (Leveraged 3x 6x Inc Not)	Hedge/Managed Futures	26.11	225.23	44.30
Vision Capital Partners LP	Hedge/Managed Futures	24.20	59.49	60.34
Tulip Trend Ltd (Class G) CHF	Hedge/Managed Futures	24.16	109.96	35.99
Tulip Trend Ltd (Class A) EUR	Hedge/Managed Futures	23.01	105.34	35.76
Superfund Gold C	Hedge/Fund of Funds	22.40	79.47	63.06
Mother Earth Resources Fund	Hedge/Managed Futures	21.84	53.16	40.81
Tulip Trend Ltd (Class C) USD	Hedge/Managed Futures	21.67	77.06	32.68
Rising China Fund	Hedge/Managed Futures	19.39	n.a	n.a.
Superfund Gold B	Hedge/Fund of Funds	18.49	74.06	50.08

Source: Lipper

Table 4 Ten Bottom-Performing Hedge Funds, June 2008

Name	Lipper Global	Performance TR USD 1M 30/05/2008 To 30/06/2008	Performance TR USD 1Y 29/06/2007 To 30/06/2008	Volatility Ann TR USD 1Y 29/06/2007 To 30/06/2008
Japan Synthetic Warrant	Hedge/Convertible Arbitrage	-26.81	-67.95	76.99
Nova Star (E) leveraged (6F)	Hedge/Fund of Funds	-28.13	226.57	143.27
Hillis Partnership	Hedge/Long/Short Equity	-28.46	-31.85	36.13
788 China	Hedge/Emerging Markets	-30.78	-48.87	81.73
Universal Carbon LLC	Hedge/Managed Futures	-31.19	n.a.	n.a.
AAM China Fund	Hedge/Emerging Markets	-31.90	-45.06	53.58
India Synthetic Warrant	Hedge/Emerging Markets	-34.56	-81.96	107.10
Dejima Fund Ltd	Hedge/Fund of Funds	-35.26	-75.19	101.49
AAAsgard Fixed Income Ltd EUR	Hedge/Fixed Income Arbitrage	-53.00	-55.64	56.34
AAAsgard Fixed Income Ltd USD	Hedge/Fixed Income Arbitrage	-54.51	-63.23	57.40

Source: Lipper

Outlook

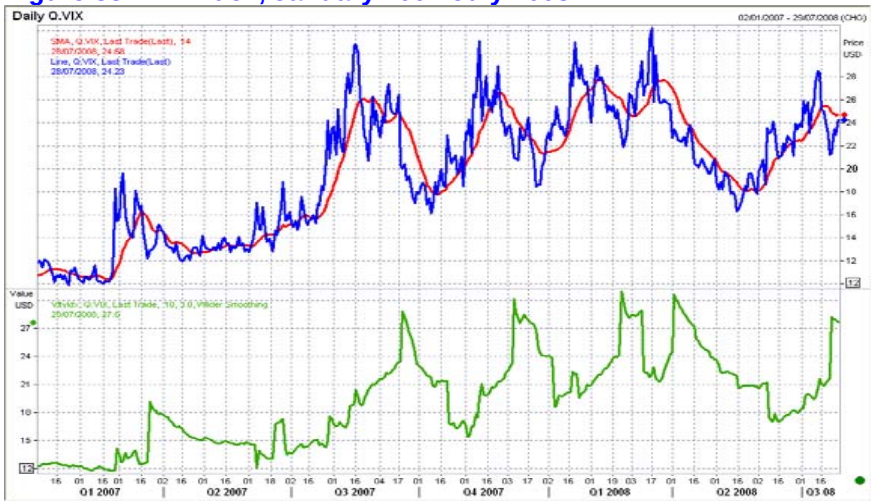
The macro picture appears to be almost intact since the last report, and the global outlook is gloomy. Concerns over the banking and financial sectors in general as well as inflationary fears still dominate the global market.

As highlighted in the previous month's report, we believe the worst of the credit market-related crisis is not over. We expect additional losses, especially on commercial and residential securitised assets and consumer loans, will emerge under a scenario of economic slowdown or, in the worst case, recession.

Additional concerns about the health of the financial sector mounted after the recent collapse of two more U.S. regional banks. Standard & Poor's recently warned it may cut its ratings on mortgage lenders Fannie Mae and Freddie Mac, mentioning fears that the U.S. government's plans to prop up the two companies may subordinate the debt.

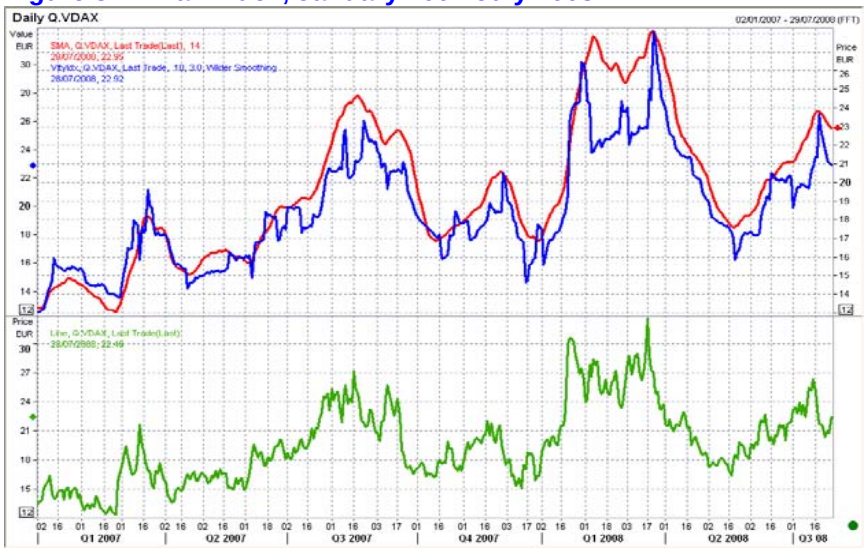
An increased volatility pattern will continue to characterise trading sessions in the short run as flows information arrival on macro-data and tensions in the oil and the broader commodity markets are expected to continue hitting market sentiment.

Figure 33 VIX Index, January 2007-July 2008



Source: Thomson Reuters

Figure 34 VDax Index, January 2007-July 2008



Source: Thomson Reuters

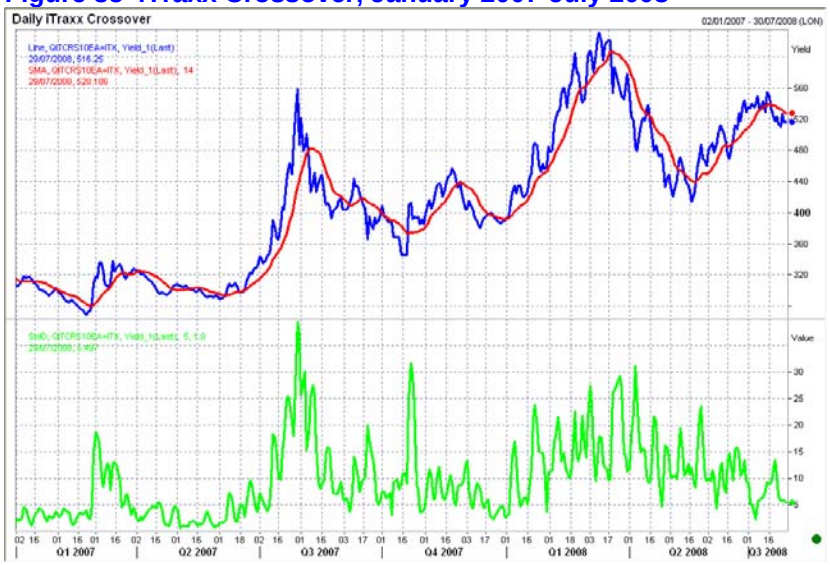
The Global Macro and Managed Futures strategies are still among those favored by the global market scenario. Short-sale strategies will benefit from a deteriorating risk appetite environment, although a short-lived stock market rally might benefit long-biased strategies. That scenario might hold in the U.S.; looking at historical data for the June-October market cycle, the run-up to presidential elections triggered a stock market rally outperforming world markets in 75% of presidential election years.

Emerging markets strategies are expected to continue suffering, reflecting the impact of the U.S. outlook and signs of weakening in BRICs and emerging countries in general as the global tide of economic slowdown hits market sentiment. Nevertheless, in China retail spending does not show signs of slowing; rather, it contributes to sustaining the global economy more than the U.S.'s role. It is expected the Chinese market will lose steam after the Beijing Olympic Games in August.

Among developed countries, market confidence in the world's second largest economy is mixed. In the first three weeks of July foreign investors were net sellers of Japanese stocks, selling a net 501.14 billion yen (US$4.72 billion) worth of shares, according to data published by the Tokyo Stock Exchange for the three exchanges of Tokyo, Osaka, and Nagoya. However, a breakdown by investors showed that investment funds and insurers were net buyers over the same period for 85.65 billion yen (US$806.46 million). According to a recent Thomson Reuters poll, confidence among Japanese manufacturers dropped to a five-year low in July and may be deteriorating faster than the Bank of Japan forecasted in its Tankan corporate survey at the beginning of the month. Equity exposure to Japanese stocks in global portfolios might weight on the further market slowdown that is anticipated to deepen later during the year and build on expectations of a recovery in 2009.

Flight-to-safety drivers might be observed in the government bond market, lowering yields across the various ends and creating arbitrage opportunities in the various segments of the term structure.

Figure 35 iTraxx Crossover, January 2007-July 2008



Source: Thomson Reuters

The Markit iTraxx Crossover index of 50 mostly subinvestment-grade European issuers stayed on a widening pattern in July from the previous month, peaking at 554 bps on July 15 and easing at 516 toward month-end. In the short term credit indices will remain sensitive to financial sector concerns and corporate sector earnings announcements, with spreads negatively correlated to stock market indices. In the absence of market disturbances or negative surprise factors spreads on the iTraxx Crossover will trade range-bound around 520 bps. Conversely, in case the macro scenario worsens the spreads on the iTraxx Crossover index are expected to widen above the 600-bp mark, restoring levels observed in the second half of February.

Although both the Eurozone and the U.S. swap curves are expected to continue on an inverted pattern conditioned by the respective government yield curve movements, the short segment appears to ease the sensitiveness to the monetary stance bias of the central banks

on both sides of the Atlantic. In the credit market curve steepener trades will continue to hit profitability as concerns about the exposure of some companies to mortgage-backed securities determine a flattening bias of the credit curve. On the other hand, the swap spreads and the level of the annualized 20-day rolling window volatility of the swap spreads will continue to convey valuable information about the aggregated likelihood of default prevailing among market participants in the regions. In particular, a resurgence of the volatility pattern of the ten-year Eurozone spread from the previous month can be observed.

Figure 36 Two-Year Eurozone Swap Spread, 2007-2008

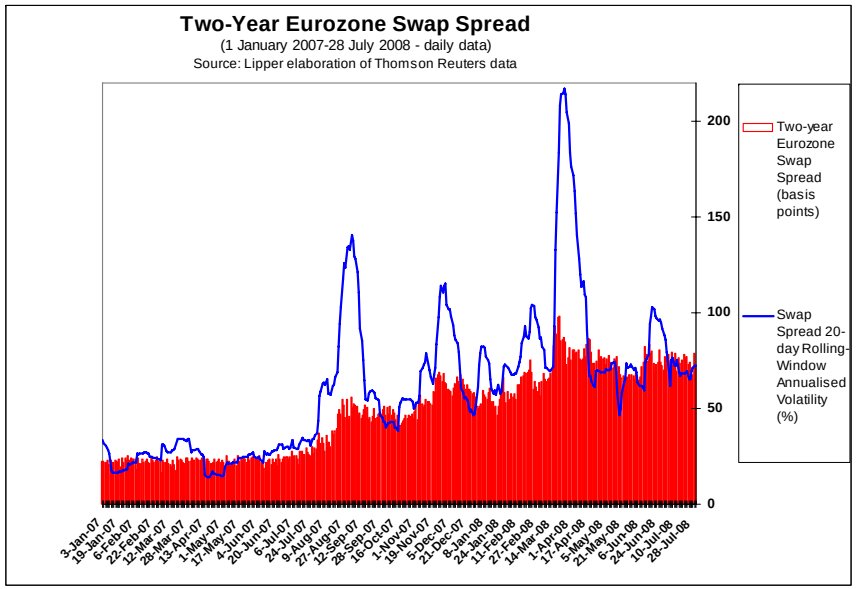


Figure 37 Ten-Year Eurozone Swap Spread, 2007-2008

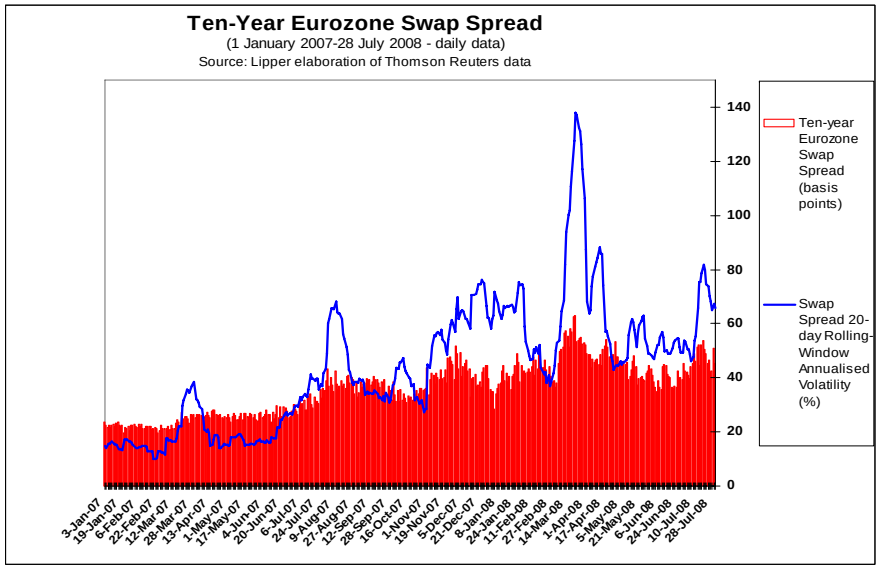


Figure 38 Two-Year U.S. Swap Spread, 2007-2008

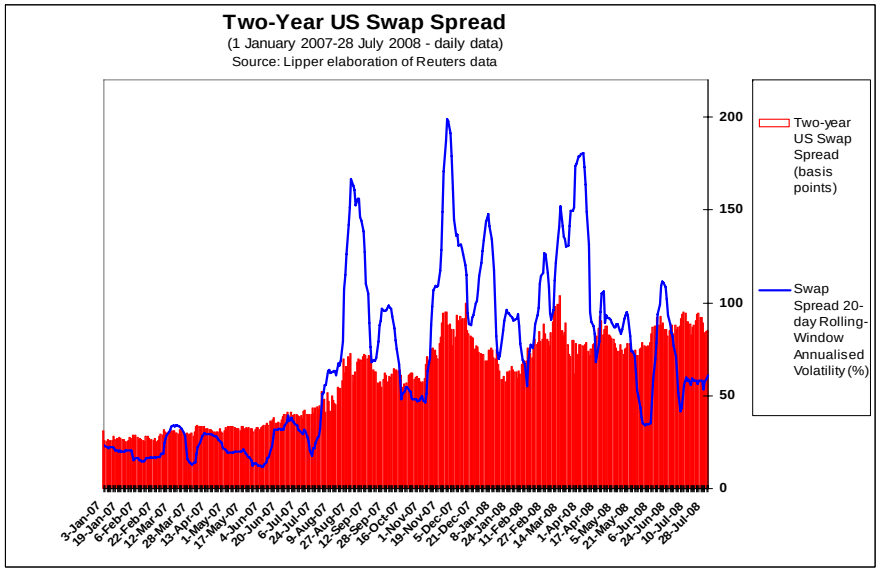
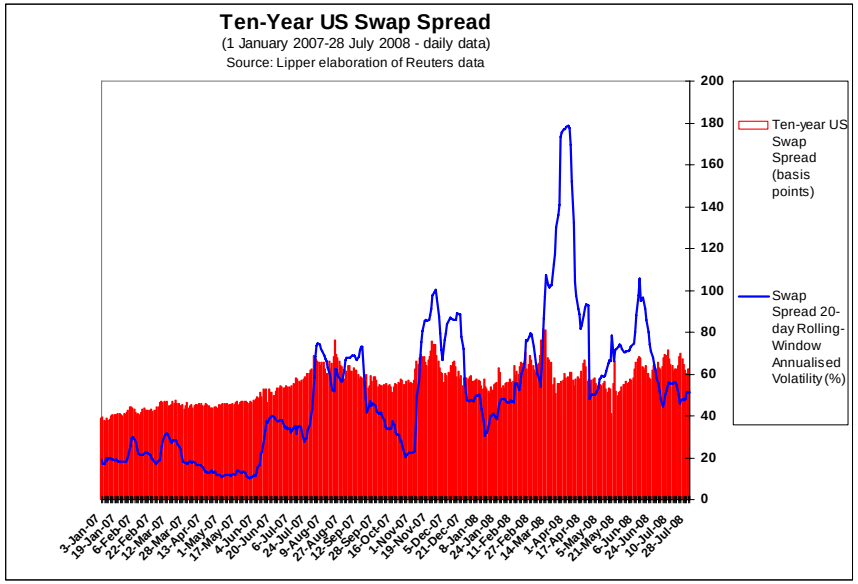


Figure 39 Ten-Year U.S. Swap Spread, 2007-2008



Appendix 1 Risk-Return Analysis per Hedge Fund Strategy and Selected Market Index (%)

Index Name	Performance TR USD 1M 30/05/2008 To 30/06/2008	Performance TR USD 6M 31/12/2007 To 30/06/2008	Performance TR USD 1Y 29/06/2007 To 30/06/2008	Performance TR USD 3Y 30/06/2005 To 30/06/2008	Performance TR USD 5Y 30/06/2003 To 30/06/2008	Volatility Ann TR USD 6M 31/12/2007 To 30/06/2008	Volatility Ann TR USD 1Y 29/06/2007 To 30/06/2008	Volatility Ann TR USD 3Y 30/06/2005 To 30/06/2008	Max Drawdown TR USD 1Y 29/06/2007 To 30/06/2008	Max Drawdown TR USD 3Y 30/06/2005 To 30/06/2008
VIX CBOE Market Volatility	34.32	6.44	47.57	98.92	10.78	68.92	72.44	64.43	-32.82	-36.62
Credit Suisse/Tremont Hedge Fund Cnvrt Arb	-0.36	-5.56	-5.56	18.11	17.76	9.26	7.51	5.11	-9.37	-9.37
Credit Suisse/Tremont Hedge Fund Ded Sh Bs	9.02	11.95	21.32	14.35	0.20	20.03	19.37	13.91	-8.36	-15.82
Credit Suisse/Tremont Hedge Fund ED Dstrss	-0.51	-1.36	-2.05	32.61	74.99	3.88	3.95	3.84	-3.77	-3.77
Credit Suisse/Tremont Hedge Fund ED Mlt Strtgy	0.09	-1.02	2.85	39.64	75.76	6.98	7.32	5.95	-5.28	-5.28
Credit Suisse/Tremont Hedge Fund ED Rsk Arb	-0.12	3.39	7.19	24.09	39.25	2.75	4.36	3.39	-1.52	-1.52
Credit Suisse/Tremont Hedge Fund Emg Mkts	-1.59	-3.55	6.13	55.34	110.18	7.94	10.18	8.58	-4.74	-5.15
Credit Suisse/Tremont Hedge Fund Eq Mkt Ntr	0.55	3.79	7.85	31.87	47.86	1.48	1.88	1.80	-0.39	-0.39
Credit Suisse/Tremont Hedge Fund Evnt Drvn	-0.15	-1.12	1.02	36.22	74.62	5.65	5.89	4.83	-4.63	-4.63
Credit Suisse/Tremont Hedge Fund Fx Inc Arb	-0.47	-4.10	-4.02	10.11	18.88	10.43	7.83	4.90	-7.04	-7.04
Credit Suisse/Tremont Hedge Fund Global Mac	2.00	9.22	18.75	54.41	84.38	9.24	7.48	5.11	-3.26	-3.26
Credit Suisse/Tremont Hedge Fund Ln/Sh Eq	-1.33	-0.48	3.11	40.69	73.20	9.80	8.70	6.99	-5.35	-5.35
Credit Suisse/Tremont Hedge Fund Mlt Strtgy	0.05	-2.07	-0.47	32.45	53.34	4.41	5.17	4.40	-5.30	-5.30
Credit Suisse/Tremont Hedge Fund Mngd Fut	4.79	14.86	13.40	32.62	43.83	11.66	13.36	10.97	-9.18	-9.18
Credit Suisse/Tremont Hedge Fund	0.00	0.51	4.08	36.79	62.55	5.69	6.04	4.78	-2.74	-2.74
Dow Jones Stoxx TMI TR	-8.75	-12.37	-11.94	47.97	124.93	21.03	16.96	12.95	-16.96	-16.96
Gold Troy Ounce	5.02	11.33	42.96	112.66	168.54	22.03	18.33	16.27	-10.34	-10.34
WTI Crude Oil Index	9.34	48.45	99.11	149.31	416.72	18.47	62.31	41.94	-24.90	-26.32
JP Morgan EMBI+	-2.41	-0.63	5.16	23.89	57.55	4.33	4.88	5.37	-2.41	-4.44
Lehman Global Aggregate Bond TR	0.09	3.53	12.90	18.46	33.23	6.47	5.12	4.78	-3.00	-3.74
Lipper Global Hedge/Convertible Arbitrage	-0.40	-0.34	-0.75	8.91	17.80	1.77	3.07	2.35	-2.17	-2.17
Lipper Global Hedge/CTA Commodity Tradng Adv	2.16	11.89	19.22	33.39	47.02	7.00	7.43	5.73	-2.42	-2.42
Lipper Global Hedge/Dedicated Short Bias	5.31	5.43	7.66	-3.43	-13.23	21.25	17.53	11.71	-10.81	-18.79
Lipper Global Hedge/Emerging Markets	-2.23	-5.58	2.13	31.44	91.14	9.83	9.58	7.81	-5.64	-5.64
Lipper Global Hedge/Equity Market Neutral	0.61	2.64	6.34	16.78	34.63	2.68	2.66	2.36	-0.88	-1.17
Lipper Global Hedge/Event Driven	-0.92	-1.24	-0.49	12.34	22.06	4.31	4.67	3.82	-3.60	-3.60
Lipper Global Hedge/Fixed Income Arbitrage	-0.05	-0.25	3.36	10.83	24.38	1.83	2.85	2.30	-1.11	-1.21
Lipper Global Hedge/Global Macro	0.33	3.79	10.09	23.43	35.07	4.08	5.29	3.60	-1.13	-1.13
Lipper Global Hedge/Long Only	-4.60	-7.01	-4.20	10.87	33.93	11.56	10.17	7.19	-9.03	-9.03
Lipper Global Hedge/Long/Short Equity	-0.84	-0.92	2.25	19.24	43.72	7.35	6.95	4.86	-5.19	-5.19
Lipper Global Hedge/Managed Futures	3.45	14.42	20.97	46.95	51.36	8.38	9.84	7.74	-4.36	-4.36
Lipper Global Hedge/Multi Strategies	0.42	2.53	6.95	23.82	44.13	3.50	4.66	4.06	-1.48	-1.82
Lipper Global Hedge/Options Arbitrage/Strat	-0.68	-1.54	-1.02	10.46	24.41	8.13	7.21	4.99	-7.54	-7.54
Lipper Global Hedge/Other Hedge	0.10	2.46	6.72	23.75	46.56	3.61	4.48	3.81	-1.65	-1.65
MSCI Emerging Markets TR	-9.96	-11.64	4.89	107.35	273.42	30.56	28.23	21.30	-18.36	-18.36
MSCI World TR	-7.94	-10.25	-10.18	31.07	80.56	18.11	14.80	10.81	-14.96	-14.96
Reuters/Jefferies CRB CR	9.61	29.00	46.56	54.25	97.94	21.90	19.45	16.48	-6.27	-13.91
S&P 500 TR	-8.43	-11.91	-13.12	13.81	44.13	16.93	13.83	10.24	-16.18	-16.18
UBS Global Convertible	-5.13	-5.61	-3.24	30.83	51.45	11.06	10.21	7.34	-9.04	-9.04

Source: Lipper

Appendix 2 Correlation of Hedge Fund Indices With Market Indices

Index Name	Correlation TR USD BM: VIX CBOE Mkt Volatility USD 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: VIX CBOE Mkt Volatility USD 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: WTI Crude Oil Index 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: WTI Crude Oil Index 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: MSCI World TR USD 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: MSCI World TR USD 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: Lehman Global Aggregate Bond TR 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: Lehman Global Aggregate Bond TR 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: JP Morgan EMBI+ 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: JP Morgan EMBI+ 3Y 30/06/2005 To 30/06/2008
Credit Suisse/Tremont Hedge Fund Cnvrt Arb	-0.30	-0.17	-0.23	-0.19	0.39	0.48	-0.35	-0.28	0.42	0.24
Credit Suisse/Tremont Hedge Fund Ded Sh Bs	0.84	0.58	0.42	0.29	-0.86	-0.82	0.38	0.14	-0.77	-0.40
Credit Suisse/Tremont Hedge Fund ED Dstrss	-0.49	-0.36	-0.25	-0.18	0.66	0.74	-0.38	-0.28	0.32	0.16
Credit Suisse/Tremont Hedge Fund ED Mlt Strtgy	-0.22	-0.30	-0.34	-0.15	0.57	0.65	-0.29	-0.14	0.23	0.19
Credit Suisse/Tremont Hedge Fund ED Rsk Arb	-0.46	-0.30	-0.36	-0.06	0.58	0.51	0.28	0.38	0.50	0.38
Credit Suisse/Tremont Hedge Fund Emg Mkts	-0.29	-0.34	-0.34	-0.08	0.61	0.69	-0.06	0.00	0.43	0.49
Credit Suisse/Tremont Hedge Fund Eq Mkt Ntr	-0.20	0.01	-0.18	0.12	0.25	0.26	0.09	0.13	0.25	0.05
Credit Suisse/Tremont Hedge Fund Evnt Drvn	-0.30	-0.33	-0.33	-0.17	0.61	0.71	-0.31	-0.19	0.27	0.19
Credit Suisse/Tremont Hedge Fund Fx Inc Arb	-0.32	-0.12	-0.05	0.02	0.31	0.36	-0.39	-0.17	0.38	0.17
Credit Suisse/Tremont Hedge Fund Global Macro	0.04	-0.06	-0.26	-0.04	-0.17	0.03	0.37	0.24	0.10	0.14
Credit Suisse/Tremont Hedge Fund Ln/Sh Eq	-0.61	-0.52	-0.24	-0.07	0.82	0.85	-0.40	-0.17	0.46	0.38
Credit Suisse/Tremont Hedge Fund Mlt Strtgy	-0.38	-0.33	-0.37	-0.19	0.62	0.73	-0.29	-0.20	0.43	0.26
Credit Suisse/Tremont Hedge Fund Mngd Fut	-0.15	-0.30	-0.18	-0.12	-0.12	0.15	0.18	-0.06	0.02	-0.14
Credit Suisse/Tremont Hedge Fund	-0.42	-0.41	-0.31	-0.12	0.59	0.73	-0.23	-0.13	0.39	0.29
Lipper Global Hedge Long Only	-0.57	-0.38	-0.14	-0.04	0.87	0.84	-0.17	-0.05	0.51	0.29
Lipper Global Hedge Options Arbitrage/Strtgy	-0.74	-0.61	-0.28	-0.21	0.88	0.84	-0.51	-0.22	0.53	0.36

Source: Lipper

Appendix 2 Correlation of Hedge Fund Indices With Market Indices (Continued)

Index Name	Correlation TR USD BM: MSCI Emerging Mkts TR USD 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: MSCI Emerging Mkts TR USD 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: S&P 500 TR 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: S&P 500 TR 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: Dow Jones Stoxx TMI USD 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: Dow Jones Stoxx TMI USD 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: UBS Global Convertible 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: UBS Global Convertible 3Y 30/06/2005 To 30/06/2008	Correlation TR USD BM: CRB 1Y 29/06/2007 To 30/06/2008	Correlation TR USD BM: CRB 3Y 30/06/2005 To 30/06/2008
Credit Suisse/Tremont Hedge Fund Cnvrt Arb	0.50	0.46	0.33	0.42	0.26	0.42	0.54	0.60	0.60	0.24
Credit Suisse/Tremont Hedge Fund Ded Sh Bs	-0.76	-0.70	-0.85	-0.80	-0.76	-0.74	-0.87	-0.83	-0.32	-0.16
Credit Suisse/Tremont Hedge Fund ED Dstrss	0.77	0.67	0.50	0.62	0.67	0.74	0.71	0.75	0.58	0.19
Credit Suisse/Tremont Hedge Fund ED Mlt Strtgy	0.82	0.75	0.38	0.52	0.61	0.66	0.65	0.72	0.62	0.38
Credit Suisse/Tremont Hedge Fund ED Rsk Arb	0.64	0.56	0.46	0.39	0.65	0.57	0.68	0.63	0.31	0.34
Credit Suisse/Tremont Hedge Fund Emg Mkts	0.85	0.89	0.45	0.50	0.64	0.71	0.74	0.76	0.58	0.42
Credit Suisse/Tremont Hedge Fund Eq Mkt Ntr	0.46	0.33	0.07	0.06	0.30	0.39	0.44	0.41	0.65	0.46
Credit Suisse/Tremont Hedge Fund Evnt Drvn	0.82	0.76	0.42	0.57	0.64	0.71	0.68	0.76	0.61	0.34
Credit Suisse/Tremont Hedge Fund Fx Inc Arb	0.37	0.34	0.28	0.30	0.16	0.31	0.46	0.51	0.58	0.38
Credit Suisse/Tremont Hedge Fund Global Macro	0.11	0.32	-0.29	-0.10	-0.17	0.05	0.07	0.23	0.68	0.60
Credit Suisse/Tremont Hedge Fund Ln/Sh Eq	0.89	0.89	0.66	0.69	0.83	0.85	0.85	0.87	0.52	0.38
Credit Suisse/Tremont Hedge Fund Mlt Strtgy	0.74	0.73	0.48	0.60	0.61	0.73	0.71	0.79	0.56	0.31
Credit Suisse/Tremont Hedge Fund Mngd Fut	0.04	0.26	-0.26	0.09	-0.05	0.15	0.05	0.21	0.67	0.34
Credit Suisse/Tremont Hedge Fund	0.78	0.83	0.41	0.56	0.61	0.73	0.72	0.81	0.70	0.46
Lipper Global Hedge Long Only	0.97	0.86	0.72	0.70	0.91	0.86	0.90	0.87	0.35	0.23
Lipper Global Hedge Options Arbitrage/Strtgy	0.75	0.70	0.82	0.80	0.83	0.80	0.81	0.79	0.23	0.10

Source: Lipper

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