

# BARCLAY MANAGED FUNDS REPORT

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## BARCLAY ROUNDTABLE

# Emerging Markets Funds Rally; Fair Value or a New Bubble?

## As Investor Risk Appetite Returns to Normal, Frontier Markets are Now Poised for Growth

Oh, what a difference a year can make! This time last year the global markets were on the verge of Armageddon, and investors could not pull their capital out of any risk-based asset class fast enough, let alone one of the riskiest asset classes, emerging markets.

The aggregate emerging markets were hit particularly hard, with equity losses of more than 50% on \$50 billion of fund outflows. It would seem that investors had finally had enough of the frivolous risk taking that has all too often driven many a market to bubbly proportions. Fast forward nine months, however, and emerging market equities have advanced more than 60% year-to-date through September, and fund inflows have returned to a breakneck pace. It's not overly evident where the steam for this recent rally is coming from – whether it's the few trillion dollars of global stimulus spending, a serious case of investor amnesia, or a sense of urgency to win back the investment losses from 2008.

Perhaps the emerging markets were just simply oversold and may not be susceptible to the lingering economic downturn and eventual hangover effects of a few trillion dollars' worth of debt. Whatever the cause, it appears that the emerging markets are set to post spectacular returns for all of 2009, although a keen eye may be critical to determine the inflection point between fair value and a new and improved bubble. To review the opportunities and risks in emerging market investments, we have assembled a

panel of experts with hands on experience in the sector. Our panel includes;

**Ajay G. Jani, Gramercy LLC.** Mr. Jani is a managing director and portfolio manager at Gramercy, an emerging markets asset manager established in 1999 and currently managing \$2.5 billion in assets. Mr. Jani manages the firm's emerging markets macro fund and additionally works on designing and implementing macro hedges for the existing emerging market credit portfolios. Prior to joining Gramercy, Mr. Jani managed emerging market macro portfolios at London Diversified Fund Management and at BNP Paribas. Mr. Jani holds a bachelor's degree in international economics from UCLA, and an MBA from Columbia University where he graduated Beta Gamma Sigma.

**Gavin Joubert, Coronation Fund Managers.** Mr. Joubert heads up Coronation's Global Emerging Markets unit, which manages both a long-only and long/short global emerging fund. Coronation is based in Cape Town, South Africa and has been managing South African equities for 15 years since the firm was founded. It currently has over \$20 billion under management. Mr. Joubert has been with Coronation for over 10 years and has 13 years of investment experience. At Coronation he managed a range of South African equity and absolute return portfolios before starting to focus on global emerging markets three years ago. He is a Chartered Accountant and a CFA charterholder.

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*Past results are not necessarily indicative of future results. An investment in commodity futures and options involves the risk of loss. Please read the important disclosure on page 19.*

**Ian McCall, MSc, Argo Group Limited.** Mr. McCall is a Director at Argo. He began his career in emerging markets in 1989, financing trade between Western Europe and the former Soviet Union. He has also worked as a Tokyo-based investment analyst and a London-based portfolio manager and has held various sales positions based in Madrid and London. Prior to joining Argo, he was Senior Investment Advisor at Rainbow Advisory, and prior to that he was head of West European Emerging Market Debt Sales for ING. Ian holds bachelor's degrees in business administration and economics from the University of Regina, Canada. He also holds an MSc in finance from The London Business School.

**Q:** Emerging market stocks have led the global stock market rally in 2009, earning a year-to-date return of 29.80% though September. How much of

**this rally has been driven by attractive valuations and favorable economic prospects within various emerging markets, as opposed to blind risk appetite and return chasing? What are the key factors that can sustain or derail the rally at this juncture? Which countries appear to be strongest? Which countries would you avoid or look to take net short exposure?**

**Jani:** Favorable valuation without risk appetite is akin to firewood without a match. You need confidence in the financial system to induce investors to part with their cash hoard and purchase risky assets. Once the fire is lit, the results depend on the quality of the wood, the surrounding conditions, and the supply of extra matches or accelerant if needed. At the prices we witnessed during Q4 2008 to Q1 2009, emerging market valuations became very attractive across all asset classes: interest rates, credit, foreign exchange, and equity. So during the depths of the crisis we had lots of firewood, but no matches. Rapid infusions of liquidity and equity capital into the global financial system by central banks and governments gave participants the matches and some accelerant to boot, and the results are stunning. From the lows in October 2008 until the end of Q3 2009, emerging market sovereign and corporate bonds returned 56% and 68% respectively. The MSCI EM equity index doubled in USD terms, while a basket of EM currencies returned 22%. Local currency bonds also soared after plunging in October 2008, so the rally has been broad based both geographically and across the asset classes that we track.

Going forward, the keys to sustaining the rally are similar to those that have brought us this far: investor faith that markets still offer value combined with the willingness of authorities to insure that liquidity continues to flow as needed to stabilize and turn around the real economy. Emerging markets have several added advantages in the near term. For the most part, these countries entered the crisis with the best fundamental underpinnings in several decades. During the worst economic crisis since the 1970s (or perhaps the 1930s), most emerging nations came through with flying colors and are now viewed as battle tested. From a policy perspective, many emerging nations still appear to be working at the margin towards liberalizing their

economies, contrary to policy direction in G-7. The emerging market demographic picture generally remains favorable. Finally the global investor base is still very underweight in emerging market assets relative to the perceived opportunity. In Asia, many equity indices are unchanged or even lower than they were at the end of the last emerging market equity boom in December 1993 when priced in U.S. dollars. Examples include Taiwan, Korea, Indonesia, and Malaysia. The MSCI China equity index measured



**Ajay G. Jani**

Gramercy LLC

***"Favorable valuation without risk appetite is akin to firewood without a match."***

in US dollars is down nearly 54% since the end of 1993. So while the markets have enjoyed a tremendous rebound, there is still some value out there for those intrepid enough to seek it out.

In the near term we continue to find opportunity in emerging market securities across many asset classes. Ideas in distressed corporate and sovereign credit have been particularly fertile fields in 2009, but we are still finding plenty of opportunity across the board. Our concerns at this point are focused on a few select countries where the market has yet to price in real risks, or where the risks have been acknowledged but not yet dealt with. Mexico finds itself in a difficult situation. It has continued to lose

manufacturing competitiveness to China, and is also suffering from the drop in US consumer demand. At the same time, Mexico's oil production is deteriorating rapidly, and the constitution prohibits opening much of the energy sector to foreign expertise and capital. On current trends, Mexico will become a net oil importer by 2015, which would be catastrophic for a budget that derives approximately 1/3 of its revenue from oil production. Tax reform is on the congressional agenda, but the result will likely be short-term triage rather than a fundamental change in the long-term budget framework. Dubai in the UAE is another area where we are concerned that the full repercussions of a debt fuelled asset and real estate bubble have yet to be fully recognized. Much of the debt was via "Sukuks" or Islamic bonds, and the restructuring process for this form of indenture has not yet been tested. The bursting of the oil bubble puts additional pressure on the region, reducing the liquidity necessary to help facilitate debt restructurings. The Baltics are also under severe economic pressure. While the problem is widely acknowledged, the markets are hesitant to invest in the region in anticipation that one or more of these nations will break their currency pegs.

**Joubert:** Emerging markets were sold off significantly during 2008 – more so than developed markets. In many cases it appeared that technical factors (outflows, deleveraging) were playing more of a role than fundamental factors, and as a result many emerging market stocks declined to simply ridiculous levels. The appreciation of emerging markets in 2009 therefore needs to be considered in this context – the base was low. In our view the primary reason for the rally this year has therefore been very attractive valuations and favourable economic prospects rather than blind risk appetite and return chasing. More recently, however, risk appetite appears to be playing a larger role, in particular within the commodity stocks which we feel now offer very little value and in many cases are overvalued. Structural overvaluation across the board in emerging markets would of course make them vulnerable to a sell-off. We don't believe we have reached this point yet – there is still good selected value to be found within emerging markets, particu-

larly amongst the more defensive businesses which have lagged significantly.

From an economic point of view, Brazil and China stand out as countries that have recovered well, and Russia on the other hand is still struggling and vulnerable. Our investment approach is strictly valuation based and stock specific, so we wouldn't necessarily be long the strong countries and short the weak countries – in fact the opposite is quite typical as poor short term outlooks often provide opportunities on the long side for investors with a long-term time horizon, and positive short-term outlooks often mean that valuations are unattractive as everyone wants to be there. On a valuation-based, individual stock basis, we happen to be net short Chile and South Africa, but this is due to stock specifics, not to a negative outlook for those two particular countries. We also have a few shorts amongst Brazilian and Russian stocks, but we are overall net long these two countries.

**McCall:** To say that the valuations emerging market investors were presented with in early 2009 were very compelling is a dramatic understatement. In my experience of investing in emerging markets, living through the Asian crisis/Russian collapse and the Argentine default/Brazilian real crisis, the experience of the credit crisis has been very special indeed. P/Es had collapsed below their long term averages, numerous companies' market capitalizations were lower than the cash on their balance sheets, and lightly-levered sovereign and corporate bonds were priced to indicate a very high probability of default. Using US risk assets with their long histories of recorded data as a proxy for emerging markets illustrates the point precisely. The lowest recorded historic P/E valuations would have produced an S&P 500 of around 500 in Q1 2009, versus the 666 that it fell to in March. USD High Yield Bonds were priced to imply default rates of 69% versus the average default rate since 1970 of 19.3%. USD High Yield default rates "only" reached 45% during the worst 5 years of the Great Depression. High yield bonds had sold off so dramatically that never previously experienced default rates were implied in the price! So we see clearly that the starting point for the rally in emerging markets, particularly in credit, was that assets had been sold down to levels that had little connection with reality.

Emerging markets were not able to decouple from the crisis. However, they

entered the crisis in much better economic shape than developed economies. Emerging economies growth rates have outpaced the G-7 every one of the last ten years. In 2006 the accumulated FX reserves of emerging economies surpassed those of developed economies. They are currently \$4.4 trillion, almost double the \$2.4 trillion of developed economies. Public sector debt as a percent of GDP is running at close to 110% in the G-3, while for emerging economies the average is approximately 40%. Very importantly, unemployment in the



**Gavin Joubert**

*Coronation Fund Managers*

*"On a valuation-based, individual stock basis, we happen to be net short Chile and South Africa..."*

emerging markets has already begun to decline, while in the developed economies it is still rising. We are seeing the best risk/reward in Eastern Europe while spreads in LATAM and Asia are very tight.

Couple these extremely depressed prices with the fact that the source of the crisis did not originate in the increasingly robust economies of the emerging markets but in the developed markets, and you had the necessary conditions in place for a dramatic rebound by emerging markets. The risk appetite is therefore far from blind; on the contrary, there is now better connectivity between the perceived risk of emerging markets and its real risks.

**Q:** Frontier markets have become an investment buzz word over the past few years and have spawned specialized indices as well as numerous focused products that invest in these regions. To what extent has the globalization of economies and markets blurred the line between developed and emerging markets to the extent that the frontier markets have become synonymous with the emerging markets of old? How much return potential and what accompanying level of risk are intrinsic to the frontier markets? To what extent should risk and reward expectations of the "old" emerging markets be revised?

**Jani:** The line has clearly blurred between developed and emerging, and in some cases several "emerging" economies are ranked higher in terms of freedom and flexibility than some well established developed nations. The genie is out of the bottle, and it's no longer a secret how to create a dynamic, thriving economy. The result of having two separate economic systems run side by side for many decades conclusively demonstrated which method works better. So at this point, progress on the economic front is driven primarily by political will to establish the proper economic framework rather than by winning the debate on which system is better. It is ironic that many developed nations have forgotten these lessons at precisely the time when emerging nations are working hard to capitalize on them.

In terms of frontier markets becoming the new emerging, there is probably some truth to that; but there are many risks involved. These markets and economies by definition are much less developed, and this engenders more volatility in both the real economy and asset prices. The legal framework is less developed, and investor rights are often amorphous. Volatility and return opportunities are still quite high in the "old emerging" markets relative to their developed counterparts while liquidity is superior to the "frontier" markets. There are selective opportunities out on the edge but we would advise caution on entering positions where the doors often seem to allow only one way traffic.

**Joubert:** Emerging markets have come a long way over the past several years, and in many ways the line between developed and emerging markets has blurred. However, the risks (particularly

political risk and also currency risk in some cases) in emerging markets are still higher than those in developed markets, and one should therefore incorporate this into investment decisions by requiring a higher rate of return (and therefore use a higher discount rate in valuations) from emerging markets than from developed markets. That said, too many investors appear to still ignore emerging markets – this is becoming more difficult to justify given that emerging markets now make up almost half the world's GDP on an adjusted purchasing power parity basis and also make up 25% of the world's market capitalisation. Many investors still use the MSCI World Index as their benchmark/reference point, which is in our view seriously flawed, as it significantly understates the size and relative importance of emerging markets. Frontier markets is a very general term, but what is clear is that over time certain emerging markets mature and begin to resemble developed markets (South Korea, Taiwan, and Israel, for example). At the same time, other emerging markets become bigger and more important within an emerging market context (Indonesia for example). So the universe of emerging markets will evolve over time.

**McCall:** Traditionally, emerging market countries were not rated investment grade and were very heavily reliant on commodities exports with weaker domestic institutional frameworks. The underlying economies of many emerging markets have become very important to the global economy, and have been rated investment grade and strengthened their domestic institutional frameworks. This seismic shift is reflected in the rise in importance of the G-20 at the expense of the G-7. Many frontier markets have weak domestic institutional frameworks, particularly at a governmental level. These higher risks require higher rewards.

**Q:** MSCI recently announced that Israel would be upgraded to developed market status from an emerging market for index construction purposes. Other markets, such as South Korea, appear to have economic and capital market development on par with Israel, but have yet to be upgraded. What are the critical factors in differentiating emerging markets from developed markets? Are there any outright or arbitrage opportunities that may be inherent

**in a market upgrade and index change of this nature? What other markets do you expect may be poised for an upgrade?**

**Jani:** Clearly in terms of economic and social development, physical infrastructure, and market liquidity, South Korea is a developed nation. Sometimes the assignment of labels masks the reality on the ground. However, MSCI evaluates several criteria when assigning countries to various indices. Among them are geopolitical risk, currency convertibility, market liquidity, and restrictions on capital flows. In the case of South Korea,



**Ian McCall, MSc**  
Argo Group Limited

*"It is now the case that many emerging market countries are rated investment grade and are largely indistinguishable from developed economy countries."*

MSCI highlighted market accessibility issues as the primary impediment to advancing to developed market status. These included lack of full currency convertibility and anti-competitive practices in disseminating real-time data among others.

MSCI is continuing to evaluate South Korea for its 2010 review due in June, and the government has expressed a willingness to address the issues. Taiwan suffers from similar issues, but is also on review for 2010. We believe that there is a high probability that one or both of these nations will be moved to the developed index in 2010. In addition, as previously

mentioned, both of these markets are at or below levels seen 15-20 years ago when priced in US dollars, so there is still opportunity for outperformance there. Investors should also evaluate whether any nation is demoted from developed to emerging. We believe that Greece in particular is at risk. Generally downgrades are less frequent than upgrades. It is likely Greece will get the benefit of the doubt until at least 2011, but conditions continue to deteriorate on a number of fronts.

**Joubert:** Definitions of emerging markets vary substantially – what we are really trying to do in our funds is get exposure to countries that are still evolving and have a long way to go when seen in the context of developed market consumption metrics. Industrialisation and urbanization in these countries drive rising disposable incomes which in turn results in significantly increased consumption. China, India, Indonesia, Brazil, Mexico, Russia, and South Africa, for example, would fit this mold, whereas Korea, Taiwan, and Israel would not. We will invest in Korean, Taiwanese, and Israeli companies (and we are invested in a few); but generally speaking, given their more mature state, we find the prospects for companies in other emerging markets more attractive. Valuation is everything for us, though so we focus our time on understanding and quantifying whether or not this growth is priced in. We don't manage our funds against any index. We believe that trying to profit from index changes is a dangerous game not anchored by fundamentals, so we rather focus on buying undervalued businesses, not basing decisions on whether or not a country or company will fall in or out of an index. We would expect Korea and Taiwan at some point to be removed from the emerging markets indexes, and the natural beneficiaries would be the biggest five or so other emerging markets whose respective weightings would obviously increase – this would include China, Brazil, South Africa, Russia, and Mexico.

**McCall:** The traditional differentiation was that emerging market countries were not rated investment grade while developed economies were. It is now the case that many emerging market countries are rated investment grade and are largely indistinguishable from developed economy countries. There are often opportunities arising out of countries that are due to

be upgraded, about to be included in an index, or otherwise mispriced versus countries of a similar profile.

**Q: Historically, short exposure and derivatives on emerging markets have been hard to come by. The maturity of a number of markets, however, along with continued development of derivatives based on a number of emerging markets, has increased the opportunity to hedge emerging markets exposures. How effectively can a hedged emerging markets portfolio be employed today? What markets have the greatest amount of short stock interest and most liquid derivatives markets? What markets are still limited in these tools?**

**Jani:** Hedging an emerging market portfolio is pretty straightforward at this point. Currencies have never been a problem to short, other than the potentially high carry costs. However, with rate convergence this is no longer a significant issue. The credit repo market is now well developed, and most liquid sovereign issues can be shorted with ease. In addition, the CDS market has grown exponentially in the past five years, opening another avenue to hedge credit exposure. Interest rate instruments are primarily traded via total return swaps, and for most liquid markets there are two way prices that can be dealt on. The exception remains equities, where idiosyncratic legal restrictions still remain in many markets. The development of liquid futures markets, along with the increase in number of depository receipts traded in New York or London and the high liquidity of the iShares emerging market equity index fund (EEM), means that this is becoming less of a hurdle to hedging portfolio exposures. Brazil's futures market is very liquid, and a recent agreement between the Bovespa and the CME will allow US futures traders to access this market. These types of agreements will expand in concert with the growth in demand for exposure to emerging market assets. We also find that there are many interesting opportunities for cross market hedging since asset correlations increase towards 1.0 during a crisis.

**Joubert:** Today there are more than enough places to look to in order to get short emerging market exposure or hedges. Many emerging market companies are listed in the US, London, and in Hong Kong, and these markets are well-developed and liquid in terms of borrow-

ing stock. South Africa also has a relatively deep and liquid borrowing market as well as a liquid index futures and options market. One can also use Hong Kong and Bovespa (Brazil) futures to short/hedge. And lastly, one can short emerging market index ETFs. Other than the countries already mentioned, most other emerging markets still have a long way to go in terms of offering liquid stock borrow and derivative markets.

**McCall:** The deepening of local markets has been a very important contributor to recent emerging market development. The larger local markets like Brazil, Mexico, and Russia allow FX or interest rate swaps, while not surprisingly, smaller local markets like Ukraine or Vietnam do not readily offer these possibilities. In external markets, our options include single name CDS and Index CDS, along with the reverse repo of cash assets.

**Q: A number of commodity-based emerging markets have benefited from the sharp rise in commodity prices over the past few years. To what extent have any of these countries shifted capital and resources in order to diversify their economic bases? How much steam is left in the commodity boom, and which countries are best poised to benefit most from a continued climb in prices? Of the non-commodity based emerging markets, which countries appear strongest, and what are their major economic drivers?**

**Jani:** The responses of nations to their particular endowments have been varied. Nations such as Mexico were early in shifting from resource based economies towards value added manufacturing industries. The ability of Mexico to secure a free trade deal with the United States and Canada no doubt aided and accelerated this phenomenon. Colombia and Brazil are also working to improve economic diversification. In fact, Brazil is pursuing both opportunities at once, trying to grow manufactured exports while also working to become a major hydrocarbon exporter. However, at the opposite end of the spectrum, Russia and Venezuela seem to have pretty much given up trying to develop any significant manufacturing base and instead are betting on their mineral resource advantage to maintain living standards and increase geopolitical influence.

**Joubert:** The biggest beneficiaries of a commodity boom would obviously be

those countries rich in natural resources and would include Russia, Brazil, and South Africa. Over the next 5-10 years we would expect commodity prices to increase on balance, but within this time period there will undoubtedly be both sharp rises and sharp declines in commodity prices. Commodities have always been cyclical and we see no reason why this will not continue to be the case. We also believe that the long-term outlook for certain commodities are more attractive than others, and we think that oil is among the best long-term prospects. We find it very hard to forecast what commodity prices will do over the shorter term, but in many cases commodity prices are now above what we believe are long-term normalized prices, and the equities are unattractively valued – copper, for example, would fall into this camp. Amongst the non-commodity based emerging markets, India and Indonesia have very good prospects in our view – however we believe that the equity markets in both these countries are on the expensive side, and we are currently not able to find many undervalued stocks in these countries.

**McCall:** The policy goal of taking natural resource wealth and using it to diversify an economy so that it is not solely reliant on volatile commodity prices follows a well travelled path. In practice though, achieving this whether you are Russia, Venezuela, Canada, or Australia can be difficult. Russia has taken steps to diversify, to promote the development of a domestic automobile industry and the growth of its refining industry. Various Middle Eastern countries have aggressively pursued further processing at home of their oil and gas via investment in petrochemicals and fertilizer facilities.

Having said that, there is no escaping the place commodities occupy going forward as the underlying demographic trends that gave us the commodity boom remain firmly in place. Namely as the material wealth of the populations of emerging markets continues to rise (Brazil, China, India, and others), their new lifestyles require higher levels of commodity consumption. Couple this with the fact that commodity consumption levels in developed economies are staying relatively constant and the fact that producers of many commodities are

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# Top 20 CTA Performers Past Five Years

For the period from 10/1/2004 to 9/30/2009. Includes only CTAs managing at least \$10 million as of 9/30/2009

	TRADING ADVISORS	5-YR COMP. ANNUAL RETURN	SHARPE RATIO	LARGEST DRAW- DOWN	% WINNING MONTHS	BEST 12-MO. PERIOD	WORST 12-MO. PERIOD	ASSETS UNDER MGMT. (\$)
1	Vegasoul Capital Mgmt	53.74%	2.45	9.14%	78.33%	130%	1%	92.3M
2	Commodity Fut. Services (IPATS)	38.75%	1.11	25.14%	63.33%	135%	-17%	12.9M
3	Di Tomasso Group (Equilibrium)	38.08%	1.24	26.14%	66.67%	74%	-26%	79.6M
4	Belvedere Advisors (Futures Fund)	29.34%	1.57	14.30%	71.67%	81%	8%	440.0M
5	Scully Capital Mgmt. (Mistral)	29.22%	1.13	21.26%	60.00%	79%	7%	18.9M
6	Dighton (Aggressive)	29.07%	0.53	44.33%	65.00%	226%	-33%	165.0M
7	Aisling Analytics (Merchant Comm.)	28.41%	1.29	23.23%	65.00%	70%	2%	1516.0M
8	24FX Management Ltd	27.16%	1.61	19.28%	81.67%	55%	7%	26.3M
9	FTC Capital (Dynamic)	24.85%	0.87	21.29%	61.67%	68%	-5%	25.4M
10	Dighton Capital CTA (Swiss Futures)	24.65%	0.54	37.52%	65.00%	139%	-26%	27.7M
11	Paskewitz Asset Mgmt (Stock Index)	24.56%	1.26	11.30%	68.33%	64%	6%	241.9M
12	Altis Partners (GFP Composite)	23.85%	0.84	23.58%	60.00%	69%	4%	1365.1M
13	Quality Capital Mgmt. (Global Div.)	23.38%	0.82	22.24%	55.00%	68%	-1%	654.0M
14	Blenheim Capital Mgmt.	23.36%	1.06	25.64%	61.67%	84%	-22%	2954.0M
15	Quicksilver Trading, Inc.	22.81%	0.72	24.59%	63.33%	73%	-20%	167.0M
16	Tactical Invest. Mgmt. (Inst'l)	22.79%	0.70	22.23%	53.33%	60%	-16%	38.2M
17	Eagle Trading Systems (Global)	22.40%	1.04	18.52%	63.33%	64%	-12%	401.0M
18	Red Oak Comm. Advisors	22.10%	0.98	24.81%	68.33%	108%	-7%	36.4M
19	Angle, Kelly Inc. (Genesis)	22.05%	0.53	42.27%	56.67%	128%	-38%	10.0M
20	Scully Capital Mgmt. (Poniente)	21.72%	0.83	14.85%	61.67%	93%	-4%	14.6M

## DEFINITION OF TERMS USED IN THE PERFORMANCE TABLES

**Compound Annual Return.** This is the rate of return which, if compounded over the number of years covered by the performance history, would yield the cumulative gain or loss actually achieved by the CTA during that period.

**Sharpe Ratio.** The Sharpe Ratio is equal to the compound annual rate of return minus rate of return on a risk-free investment divided by the annualized monthly standard deviation.

**Largest Drawdown** is the largest loss of equity from a peak to a valley in a single month or period of consecutive

months during the past five years (three years for the 3-Year Table).

**% of Winning Months.** This is the percentage of months during the past five years (three years for the 3-Year Table) in which the CTA achieved a profit for the month.

**Best /Worst 12-Month Period.** These figures indicate the best and worst consecutive 12-month rates of return achieved by the CTA during the past five years (three years for the 3-Year Table).

# Top 20 CTA Performers Past Three Years

For the period from 10/1/2006 to 9/30/2009. Includes only CTAs managing at least \$1 million as of 9/30/2009

TRADING ADVISORS	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	LARGEST DRAW- DOWN	% WINNING MONTHS	BEST 12-MO. PERIOD	WORST 12-MO. PERIOD	ASSETS UNDER MGMT. (\$)
1 Edge Inv Mgmt (GI Diversified)	97.16%	2.67	16.02%	80.56%	286%	25%	18.7M
2 Quantitative Invest. Mgmt (GI. 3X)	65.86%	2.02	22.36%	75.00%	126%	36%	321.5M
3 Pixley Capital Management	60.76%	1.96	18.86%	72.22%	111%	24%	9.0M
4 Pere Trading Group	51.34%	0.58	60.73%	52.78%	570%	-50%	14.5M
5 RAM Mgmt.Group (MRTP Aggressive)	50.67%	1.36	29.70%	63.89%	150%	-10%	2.5M
6 GT Capital (Dynamic Trading Prop.)	50.26%	3.51	4.61%	94.44%	70%	30%	1.3M
7 Commodity Fut. Services (IPATS)	47.67%	1.46	25.14%	63.89%	135%	30%	12.9M
8 Fortress Asset Mgmt. (DTM)	45.61%	2.42	7.67%	80.56%	123%	19%	6.6M
9 Quantum Leap Captl Mgmt (Managed Acct)	42.84%	1.10	20.79%	52.78%	168%	17%	10.0M
10 Revolution Capital Mgmt (Mosaic)	41.14%	1.47	22.46%	66.67%	104%	14%	133.0M
11 Rove Capital (Dresden)	38.23%	1.68	16.60%	72.22%	82%	2%	2.2M
12 Vegasoul Capital Mgmt	37.03%	2.71	6.89%	80.56%	86%	14%	92.3M
13 District Capital Mgmt. (Divers.)	36.39%	0.61	46.37%	58.33%	125%	10%	6.1M
14 Scully Capital Mgmt. (Poniente)	35.87%	1.23	14.85%	63.89%	93%	21%	14.6M
15 Di Tomasso Group (Equilibrium)	34.20%	1.16	26.14%	61.11%	63%	-26%	79.6M
16 Parizek Capital (Futures)	34.18%	1.07	18.47%	61.11%	121%	16%	2.4M
17 Blackwater Cap'l Mgmt (Composite)	33.52%	1.84	9.57%	77.78%	56%	13%	89.0M
18 Washington (Singleton Fund)	33.32%	1.25	28.64%	72.22%	65%	-1%	54.3M
19 FTC Capital (Dynamic)	32.38%	1.16	21.29%	61.11%	67%	7%	25.4M
20 Dorset Futures Corp (E-Mini)	32.25%	1.28	17.94%	50.00%	85%	-18%	2.2M

NOTE: Past results are not necessarily indicative of future results. Trading in commodity futures and options is speculative in nature and involves the risk of loss of one's entire investment or more. Prior to investing with any CTA, please read carefully the CTA's disclosure document.

# Top 20 CTA Performers 2009

For the period from 1/1/2009 to 9/30/2009. Includes only CTAs managing at least \$1 million as of 9/30/2009\*

	TRADING ADVISORS	2009 YTD RETURN	SHARPE RATIO	LARGEST DRAW- DOWN	STARTING DATE	BEST 12-MO. PERIOD	WORST 12-MO. PERIOD	ASSETS UNDER MGMT. (\$)
1	CKP Finance Associates (Masters)	210.52%	6.06	6.96%	Jan-09	n.a.	n.a.	4.0M
2	ACE Investment Strategists (DPC)	76.80%	-0.36	80.60%	Aug-04	73%	-71%	19.2M
3	Wealth Builder FX Group	72.87%	4.22	0.00%	Nov-08	n.a.	n.a.	5.7M
4	Level III Management	66.00%	0.31	58.26%	Aug-07	96%	-8%	1.4M
5	Oak Investment Group (Ag Options)	51.61%	0.06	43.05%	Jun-08	-11%	-13%	4.3M
6	Frismeyer, Michael J.	51.14%	0.14	52.92%	Jan-81	109%	-42%	6.3M
7	Quantitative Invest. Mgmt (Gl. 3X)	50.08%	1.80	22.36%	Jun-05	126%	17%	321.5M
8	AIS Futures Management (3X-6X)	48.58%	-0.06	89.66%	Jul-92	225%	-86%	49.7M
9	Carter Road (Option Overlay II)	41.84%	2.49	7.50%	Jan-09	n.a.	n.a.	1.5M
10	Schindler Trading (Intl Equity Plus)	40.69%	-0.05	47.91%	Mar-08	18%	-43%	5.5M
11	White River Group (Diversified)	40.41%	10.90	0.00%	Nov-08	n.a.	n.a.	1.1M
12	Dranger Capital Mgmt (Ascent)	38.79%	2.57	7.96%	Oct-08	73%	73%	1.4M
13	ACE Investment Strategists (SIHA)	37.22%	1.39	32.67%	Nov-07	24%	1%	14.7M
14	Mellon Capital Mgmt (AlphaAccess)	36.35%	-0.20	59.06%	Feb-05	34%	-53%	374.0M
15	ClearQuest (Gl. Futures Founder's)	36.13%	2.47	5.68%	Sep-08	64%	45%	4.5M
16	Sagacity (HedgeEquity 200)	35.61%	2.80	7.25%	Jan-08	99%	69%	1.2M
17	AIS Futures Management (2X-4X)	35.61%	0.05	74.75%	Oct-92	129%	-69%	120.8M
18	Ascendant Asset Adv. (JLD Gl. Comm)	33.81%	3.01	9.55%	Jun-08	120%	41%	1.3M
19	Wallwood Consultants (Abs. Return)	33.51%	2.69	3.97%	Oct-06	35%	14%	1.5M
20	White Indian Trading (STAIRS)	33.11%	1.47	17.23%	Oct-08	43%	43%	1.1M

\*NOTE: Performance statistics, except for 2009 YTD Return, are based upon the past 5 years performance or the CTA's entire history, whichever is shorter.

NOTE: Past results are not necessarily indicative of future results. Trading in commodity futures and options is speculative in nature and involves the risk of loss of one's entire investment or more. Prior to investing with any CTA, please read carefully the CTA's disclosure document.

# Top 10 - Convertible Arbitrage - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Waterstone Mrkt Ntrl Master Ltd	19.89%	1.14	-0.02	Aug-03	51%	18%	945.9M
2 Whitebox Concentrated Conv Arb LP	15.65%	0.58	0.64	Jan-01	56%	42%	106.0M
3 Castle Creek Arb LLC	14.77%	1.62	0.36	Jan-02	30%	12%	617.0M
4 Whitebox Convertible Arb Fund LP	12.70%	0.46	0.63	Jan-01	44%	42%	n.a.
5 Inflective Convertible Opp Ltd	10.66%	0.67	0.20	Jul-04	28%	20%	178.9M
6 Symphony Rhapsody Fund LP	9.90%	0.63	0.58	Dec-98	35%	20%	216.7M
7 Steelhead Pathfinder Fund	9.86%	0.97	0.47	Nov-05	25%	12%	148.6M
8 Mohican VCA Fund LP	9.03%	0.66	0.53	Oct-02	28%	20%	7.4M
9 Whitebox Div. Conv. Arb Fund LP	8.69%	0.39	0.59	Jan-04	36%	31%	53.6M
10 Wolverine Conv Arb Trading Fund Ltd	6.24%	0.32	0.48	Sep-01	20%	26%	748.0M

# Top 10 - Distressed Securities - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 King Street Capital Ltd	14.44%	2.28	0.02	Jan-97	20%	4%	12000.0M
2 MKP Credit Fund Ltd	13.59%	1.32	-0.02	Mar-99	19%	8%	1301.0M
3 York Credit Opportunities LP (A)	12.69%	1.21	0.53	Feb-01	15%	16%	3300.0M
4 Wexford Offs. Credit Opportunities Ltd	10.13%	0.79	0.53	Feb-03	27%	13%	109.6M
5 Brownstone Ptnrs Catalyst Fund LLC	9.42%	2.03	-0.22	Jul-04	7%	2%	112.0M
6 OCP Debt Opp Intl Ltd	7.92%	0.49	0.63	Jan-06	29%	24%	222.6M
7 PENN Distressed Fund LP	6.53%	0.19	0.79	Apr-02	39%	44%	13.7M
8 HSBC Distressed Opp Fund USD	6.50%	0.31	0.63	Mar-06	21%	28%	76.9M
9 Southpaw Credit Opp FTE Ltd	6.17%	0.67	0.31	Jul-05	7%	9%	466.1M
10 Restoration Offshore Fund Ltd	5.73%	0.63	-0.63	Dec-01	-3%	7%	255.0M

# Top 10 - Emerging Mkts. Asia - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Dragon Billion China Fund	37.58%	2.07	0.31	Jan-04	24%	9%	528.0M
2 Pinpoint China Fund	35.68%	1.21	0.57	Jun-05	44%	42%	n.a.
3 Maoming Fund	33.55%	1.13	0.20	Mar-06	23%	16%	32.0M
4 China Convergence Fund	21.49%	0.61	0.68	Jul-00	48%	58%	183.6M
5 Real Return Asian GBP	20.37%	1.59	0.49	Oct-04	33%	14%	220.8M
6 Quam Greater China Seg Port.	19.71%	0.74	0.31	Aug-06	16%	33%	48.4M
7 EIP Overlay Fund	18.17%	1.85	0.06	Jun-02	10%	6%	22.4M
8 iVim Asia Opportunities Fund	18.13%	0.41	0.74	Nov-00	75%	66%	20.0M
9 LH Asian Arbitrage Fund	17.91%	1.59	0.50	Nov-02	32%	18%	n.a.
10 Chinese Mainland Focus Fund	17.56%	0.50	0.67	Dec-03	44%	55%	109.9M

# Top 10 - Emerging Mkts. E. Europe - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Hudson River Russia Fund Ltd	23.96%	1.00	0.46	Apr-06	-22%	37%	47.5M
2 Northglen Aggressive Fund SP	21.69%	0.91	0.58	Jun-06	24%	35%	11.1M
3 Nevsky Limited - A USD	16.62%	0.90	0.64	Oct-00	20%	22%	2102.7M
4 OCCO Eastern European Fund	15.75%	1.27	0.46	Jan-02	36%	21%	69.4M
5 Kazimir Russia Growth Fund	12.28%	0.33	0.62	Aug-96	7%	55%	53.6M
6 East Capital Turkish Fund	11.05%	0.19	0.64	Mar-06	37%	61%	38.5M
7 Russian Opportunities Fund Ltd	9.18%	0.16	0.57	Oct-96	27%	66%	94.2M
8 BlackRock Eurasian Frontiers Ltd (I)	6.23%	0.38	0.35	Aug-06	7%	21%	42.0M
9 Eastern European USD	3.07%	0.02	0.80	Oct-00	11%	71%	199.2M
10 Prosperity Cub Fund	2.35%	0.00	0.67	Jun-98	15%	76%	101.0M

# Top 10 - Emerging Mkts. Global - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Tantallon Emerging Markets Fund	22.52%	0.76	0.77	Apr-06	59%	40%	16.7M
2 Discovery Global Opportunity Fund	21.50%	0.94	0.31	Aug-99	37%	33%	1419.0M
3 Horseman Emerging Market Opp Ltd	19.51%	0.92	-0.34	Oct-06	-14%	27%	235.0M
4 Pharo Arbitrage Fund Ltd	18.09%	1.18	0.20	Dec-00	55%	13%	300.0M
5 Pharo Macro Fund Ltd	17.93%	1.66	0.38	May-05	31%	10%	1600.0M
6 Montpelier Fund	16.25%	0.65	0.76	May-06	30%	41%	915.3M
7 Finisterre Global Opportunity Fund	16.18%	1.33	0.54	Jun-06	27%	18%	373.0M
8 Global Em. Mkts GBP (Dbn)	15.88%	0.50	0.82	Apr-03	37%	42%	370.4M
9 JB Emerging Markets EUR	14.43%	1.51	0.42	Nov-04	23%	7%	17.5M
10 Covepoint Emerging Mkts Macro Ltd	13.70%	0.41	0.53	Feb-05	7%	36%	377.0M

# Top 10 - Equity Long/Short - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 SYW LP	83.85%	1.63	-0.25	Sep-06	80%	44%	22.2M
2 OEI Mac Inc USD	49.99%	1.72	0.50	Mar-94	71%	23%	354.0M
3 Hartzell Long/Short LLC	41.77%	1.15	-0.12	Jan-06	20%	15%	21.0M
4 Odey European Inc EUR	37.65%	1.85	0.53	Jun-92	56%	11%	1316.8M
5 Singleton Fund Ltd	33.32%	1.25	0.36	Apr-06	5%	29%	54.3M
6 Magic Capital Fund Ltd	31.60%	1.01	0.33	Jul-05	7%	31%	30.6M
7 Strategos Fund LP	31.10%	1.27	-0.18	Jul-04	41%	23%	185.5M
8 Abundance Partners LP	28.90%	0.99	-0.27	Jul-03	22%	15%	11.0M
9 EMA GARP Fund	27.18%	0.99	-0.07	Jan-06	58%	29%	35.0M
10 Manalapan Oracle Eagle Fund LP	25.72%	3.19	-0.02	May-01	32%	3%	73.1M

# Top 10 - Equity Long Biased - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Horizon Growth Fund N.V.	31.50%	1.12	0.74	Jan-00	48%	41%	24.0M
2 Passport II LP - Global	30.59%	0.63	0.29	Oct-03	-36%	53%	555.0M
3 Ajia Lighthouse China Growth Fund	29.77%	1.01	0.51	Jan-06	48%	43%	81.5M
4 Pentagonam Equity Fund LP	27.27%	1.65	0.14	Mar-00	18%	9%	38.5M
5 Lansdowne UK Equity Fund Ltd GBP	22.26%	1.44	0.42	Aug-01	21%	15%	n.a.
6 Parus Fund PLC (C) USD	21.84%	1.39	0.59	Dec-02	33%	12%	84.0M
7 Zweig-DiMenna Partners LP	21.83%	1.17	0.01	Feb-84	-4%	21%	n.a.
8 QAM Global Equities Fund Ltd	20.81%	0.81	0.23	Apr-04	23%	22%	111.0M
9 QAM Asian Equities Fund Ltd	19.63%	0.62	0.54	Apr-04	12%	44%	35.0M
10 Ack Asset Partners LP	18.91%	1.62	0.88	Nov-05	19%	16%	44.0M

# Top 10 - Equity Long Only - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Daedalus Alpha	30.06%	0.75	0.70	Jul-05	52%	55%	3.0M
2 Tarpon All Equities LLC	27.43%	0.73	0.75	Oct-06	48%	55%	970.0M
3 Gartmore Issue UK Small Cap (A GBP)	18.90%	0.62	0.66	Aug-03	31%	42%	62.4M
4 Victoire Selection Brazil Equity SP	18.82%	0.36	0.76	May-06	47%	69%	35.4M
5 Bliss Fund (The)	15.49%	1.07	0.58	Aug-03	26%	19%	23.6M
6 Dynamic Power Hedge Fund - F	11.94%	0.18	0.74	Jun-02	6%	79%	335.4M
7 Front Street Sp. Opportunity CAD	11.77%	0.30	0.62	Sep-99	38%	57%	237.2M
8 Broken Leg Investments LLC	10.31%	0.21	0.82	Feb-06	13%	58%	6.7M
9 J. Zechner Assoc. Special Equity	9.31%	0.20	0.73	Apr-00	31%	59%	9.9M
10 McD US Equity Fund Ltd	9.18%	0.31	0.73	Jan-90	44%	35%	1.0M

# Top 10 - Equity Market Neutral - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Fox Run Alpha Fund LP	24.40%	1.90	-0.18	Dec-97	10%	11%	16.2M
2 Nantahala Capital Ptrns LP	17.91%	1.86	0.09	Aug-04	26%	5%	63.0M
3 Artorius Partners II LP	17.13%	4.74	0.16	May-03	24%	0%	84.6M
4 Tradeworx UltraSelect	14.70%	2.21	-0.10	Jun-05	21%	5%	314.2M
5 Rosemont Offshore Fund Ltd	14.55%	2.49	0.50	May-06	9%	4%	188.8M
6 AFC N. American Fund	13.43%	0.92	0.11	Nov-05	12%	17%	87.0M
7 Gladwyne Capital LP	12.11%	2.81	0.55	Apr-01	10%	3%	219.2M
8 O'Connor Gl Fund L/S LLC (A1)	11.50%	2.36	-0.01	Sep-03	7%	2%	2706.7M
9 Bryn Mawr Capital LP	10.57%	3.00	0.56	Jan-92	10%	2%	82.0M
10 Intercept Capital Fund	8.95%	0.97	-0.08	Apr-04	1%	6%	11.1M

## Top 10 - Event Driven - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Owl Creek Overseas Fund Ltd	16.74%	0.96	0.01	Feb-02	18%	20%	3183.0M
2 Andromeda Global Credit Fund	16.47%	0.63	0.61	Sep-99	62%	41%	59.0M
3 Ahab Aggressive Equity	16.28%	0.60	0.61	Jan-06	11%	29%	5.0M
4 Galbraith Gl Strat Offshr Ltd	13.48%	1.80	0.20	Sep-06	6%	2%	29.0M
5 ECF Value Fund LP	12.56%	0.36	0.74	Jun-96	36%	43%	230.8M
6 G10 Rosseau Sp Sit	12.29%	0.25	0.58	Jan-06	53%	55%	35.0M
7 Twin Securities LP	12.10%	1.17	0.39	Jan-95	15%	11%	110.0M
8 Yakira Partners LP	10.89%	2.17	0.38	Mar-97	22%	2%	37.0M
9 Moab Partners Ltd	10.62%	0.83	0.78	Apr-06	13%	17%	41.1M
10 Austral Equity Fund	10.56%	1.74	0.44	Sep-97	14%	5%	15.2M

## Top 10 - Fixed Income - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Providence Yield Plus Fund LP	41.88%	3.03	0.11	Oct-06	46%	7%	67.0M
2 Providence MBS Offshore	34.90%	2.77	0.22	Mar-04	54%	7%	178.1M
3 Structured Servicing Holdings LP	32.86%	1.34	0.29	Feb-98	72%	30%	918.0M
4 Parallax Capital Partners LP	26.62%	1.06	-0.15	Jan-01	47%	23%	5.9M
5 GS Gamma Investments Ltd	22.82%	4.23	0.38	Aug-05	31%	2%	483.1M
6 Midway Market Neutral Fund	20.07%	1.15	0.38	Jun-01	41%	25%	171.0M
7 Singletery Mortgage Fund (A)	19.33%	1.33	0.26	Jan-96	42%	15%	4.2M
8 Lynx Fund I (Master Fund) LP	17.51%	4.73	0.04	Jul-97	27%	0%	225.0M
9 Centurion Credit Group LLC	16.62%	6.55	-0.43	Oct-05	15%	1%	149.9M
10 Nektar Fund	16.44%	1.29	0.38	Jan-98	30%	13%	1266.6M

## Top 10 - Fixed Income Arbitrage - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Element Capital Fund Ltd	44.65%	3.36	-0.04	Apr-05	96%	8%	1048.7M
2 Symphony Andante Fund LP	22.34%	1.60	0.28	Oct-99	66%	5%	64.7M
3 Symphony Adagio Fund	20.05%	1.55	-0.12	Jul-00	51%	6%	49.2M
4 EMF Fixed Income Fund Ltd	16.75%	0.66	0.02	Nov-01	26%	22%	267.0M
5 Coast Value Fund I Ltd	16.15%	1.26	0.11	Jan-99	14%	9%	76.0M
6 Capula Global RV Fund Ltd	14.13%	1.73	0.04	Oct-05	14%	7%	3312.5M
7 Concordia (N), 2X Lev. (C)	13.89%	0.53	0.10	Feb-04	26%	20%	85.0M
8 Barnegat Fund Ltd (B)	12.16%	0.28	0.57	Jan-01	64%	56%	458.8M
9 BlueMountain Credit Alternatives Ltd	11.76%	1.08	0.43	Nov-03	15%	12%	2332.0M
10 CURA Fixed Income Arb Master	10.38%	0.57	0.26	Dec-04	6%	16%	282.7M

# Top 10 - Fixed Income High Yield - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Perella Weinberg Prtnrs Xerion Ltd	23.86%	1.52	0.29	Mar-04	13%	19%	1169.0M
2 Centaur Credit Select Fund LLC	16.46%	1.73	0.45	Aug-05	34%	10%	4.8M
3 Ascent Credit Opportunities Fund	14.75%	1.57	0.56	Aug-05	27%	9%	n.a.
4 Liontrust Credit Fund Ltd (USD)	13.26%	1.32	0.44	Jul-03	29%	6%	48.1M
5 Doric Focus Fund	11.37%	0.70	0.72	Apr-99	12%	22%	62.9M
6 JLP Credit Opportunity Fund LP	10.42%	0.31	0.73	Sep-03	68%	52%	147.7M
7 Catpricorn Fund	9.61%	2.06	0.54	Oct-03	5%	5%	115.0M
8 Verity Investment Partners LP	7.37%	0.43	0.72	Sep-00	20%	28%	19.0M
9 Horizon Fund	6.76%	1.55	0.44	Jul-99	3%	3%	301.8M
10 RAB European Credit Opp D USD	6.53%	0.23	0.60	Jul-01	13%	36%	43.0M

# Top 10 - FofFs Greater than \$250M - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Gems Perennial SP 3 YR USD	24.83%	1.01	0.16	Jan-02	-5%	27%	716.0M
2 GLC Diversified Fund Ltd (USD)	20.99%	1.59	-0.36	Jul-93	18%	9%	318.2M
3 AllBlue Fund Ltd	15.05%	2.40	0.05	Sep-05	24%	5%	1880.4M
4 Trading Capital Holdings USD	12.23%	1.24	0.13	Jul-03	3%	12%	601.3M
5 Pinnacle Natural Resources LP	12.16%	0.83	-0.21	Oct-03	22%	16%	1418.0M
6 SSARIS Multi-Mngr. Abs. Ret. Fund	11.20%	1.77	0.23	Jan-02	10%	3%	420.5M
7 Brummer Multi-Strategy	10.92%	1.66	0.13	Apr-02	12%	4%	2120.7M
8 LCF Prifund Alpha Traders A - USD	8.88%	0.76	0.41	May-03	2%	18%	438.6M
9 LCF Prifund Alpha Uncorrelated A - USD	8.72%	0.82	0.62	Jun-01	4%	13%	763.7M
10 Gems Recovery Portfolio USD	8.47%	0.59	0.43	Jan-02	-6%	23%	734.0M

# Top 10 - FofFs Less than \$250M - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Pentium Real Asset Master	73.71%	2.00	0.45	Jan-05	93%	28%	146.3M
2 SHK Corporate Arbitrage (A)	45.18%	2.29	-0.17	May-04	21%	3%	n.a.
3 Pentium Quant Fund	26.69%	1.93	0.30	Jan-03	32%	9%	146.3M
4 Balestra Spectrum Partners LLC	25.60%	1.67	-0.34	Feb-98	2%	7%	95.0M
5 Rasmala MENA Eq Opp Ltd A	22.06%	0.37	0.52	Aug-06	63%	46%	37.4M
6 Double Eagle Capl Ace Ltd (A)	21.42%	2.04	0.33	Aug-05	18%	9%	140.0M
7 Rasmala GI Equity Opp Ltd B	18.93%	1.48	0.23	Apr-06	34%	9%	17.4M
8 Culross H Fund USD	17.57%	1.49	0.33	Sep-05	12%	13%	72.0M
9 Merriwell Fund LP	17.35%	1.33	0.46	Aug-96	11%	16%	130.0M
10 Culross Global Fund GBP	16.89%	2.20	0.21	Jan-00	8%	4%	200.0M

## Top 10 - Macro - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Sparta Ciclico Fund Multimercado	98.28%	1.80	-0.02	Nov-05	-9%	28%	78.2M
2 Sparta Anti-Ciclico Fund Multimercado	64.58%	1.21	-0.04	Nov-05	19%	39%	17.4M
3 Balestra Capital Partners LP	63.00%	2.21	-0.37	Jan-99	21%	9%	875.0M
4 Forum Global Opportunities Fund	41.90%	1.83	-0.39	Aug-05	28%	8%	39.5M
5 Pentagram Fund LP	38.97%	1.61	-0.31	Feb-02	21%	15%	35.9M
6 Blue Sky World LP	35.14%	1.24	0.21	Feb-06	37%	26%	65.2M
7 Prana Ltd	27.47%	1.05	0.66	Jan-05	41%	36%	109.6M
8 Friedberg Global-Macro Ltd	27.08%	1.15	0.04	Dec-01	28%	13%	612.0M
9 Sirocco Fund LLC	26.27%	1.03	0.21	Jan-99	40%	21%	18.6M
10 Crescat GI Macro Fund LP	25.26%	0.76	0.12	Jan-06	7%	44%	29.5M

## Top 10 - Merger Arbitrage - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Highland Capital Mgmt LP	15.84%	4.38	0.18	Apr-00	10%	0%	27.4M
2 MMCAP Fund Inc.	14.08%	0.49	0.66	Jul-02	24%	42%	111.0M
3 Glazer Capital Management LP	10.53%	1.96	0.40	Jan-99	15%	3%	28.0M
4 Shorewater International Ltd	10.19%	2.90	0.30	May-99	12%	1%	23.0M
5 Tiedemann Arbitrage Associates	7.57%	0.99	0.60	Jan-03	13%	5%	489.3M
6 Coastview Equity Ptnrs LP	7.16%	1.99	0.28	Mar-04	6%	2%	6.2M
7 KDC Merger Arbitrage Fund, LP (A)	6.60%	0.91	0.65	Jan-89	6%	5%	119.6M
8 McD Merger Arbitrage Fund Ltd	5.01%	0.37	0.59	Dec-83	11%	6%	4.0M
9 Merger Fund Ltd	4.89%	0.35	0.56	Jan-96	12%	10%	80.2M
10 Gabelli Associates Limited	4.02%	0.34	0.78	Sep-89	7%	7%	52.7M

## Top 10 - Multi - Strategy - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Phalanx Japan AustralAsia MS Fund	38.35%	1.97	-0.16	Apr-05	70%	25%	50.0M
2 Chinook Fund LLC	36.97%	1.18	-0.29	Feb-95	32%	20%	14.6M
3 Platinum Partners Value Arb (USA) LP	26.42%	3.45	0.40	Jan-03	18%	4%	483.0M
4 UG Greater China Multi-Strategy Fund	23.24%	0.89	0.50	Jun-03	42%	42%	384.8M
5 CMT Global Fund Ltd	23.10%	4.19	-0.21	Dec-05	18%	1%	135.0M
6 Nisswa Fund Ltd	20.42%	1.00	0.52	Jun-02	59%	29%	588.3M
7 Stratus Ltd - Double Lev - C	18.98%	1.21	0.08	Dec-03	56%	17%	261.8M
8 BlueCrest Capital Int Fund Ltd	18.82%	2.61	0.33	Dec-00	38%	2%	3629.5M
9 North Pole Capital USD	17.19%	1.58	0.40	Jan-02	38%	13%	119.5M
10 Hudson Bay Fund LP	15.91%	2.08	-0.13	Jan-06	32%	4%	125.5M

# Top 10 - Sector Energy - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Cumulus Energy Fund	25.16%	0.73	-0.32	Oct-06	82%	41%	44.0M
2 BTR Global Energy	24.64%	0.65	0.59	Jan-06	100%	57%	30.0M
3 ARI Energy Fund LP	21.83%	0.91	0.57	Apr-05	21%	26%	166.4M
4 Passport II LP - Rig	13.59%	0.34	0.17	Apr-06	5%	51%	14.0M
5 Creststreet Energy Opp Fund	11.55%	0.27	0.37	May-05	-21%	63%	23.8M
6 Dorset Energy Fund Ltd	10.21%	0.28	0.66	Nov-00	2%	50%	266.2M
7 Hite Hedge LP	10.00%	0.46	0.08	Jan-04	40%	25%	20.0M
8 Swank MLP Convergence Fund LP	9.93%	0.43	0.46	Nov-05	-7%	34%	137.0M
9 Caritas Royalty Fund LLC	9.48%	1.19	-0.14	Jul-04	-4%	15%	13.2M
10 Wexford Catalyst Fund LP	7.92%	0.48	0.71	Dec-04	4%	23%	282.3M

# Top 10 - Sector Other - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Boston Provident Partners LP	35.54%	1.64	0.01	Jul-92	36%	11%	129.9M
2 CPIM GI Financials Fund - A	30.15%	0.95	-0.63	Jul-05	3%	28%	30.0M
3 Passport Materials Fund LP	27.19%	0.75	0.39	Mar-06	-28%	50%	156.0M
4 TT Financials L/S Ltd EUR	22.48%	1.74	-0.27	Mar-06	27%	10%	241.5M
5 Tano GI Hard Assets LP	18.20%	0.71	0.44	Apr-06	9%	35%	31.5M
6 Financial Stocks LP	16.11%	0.74	0.47	Jul-95	67%	17%	128.7M
7 Turner Global Consumer LP	15.34%	1.16	0.41	Jan-05	11%	12%	568.6M
8 Ginga Service Sector Fund	15.25%	1.58	0.29	Jun-06	14%	5%	53.2M
9 Oceanic Hedge Fund	14.90%	1.46	-0.01	Aug-02	19%	7%	994.4M
10 Hovde Financial Institution Ptnrs LP	14.19%	0.63	-0.57	Aug-02	-15%	32%	287.0M

# Top 10 - Sector Technology - Past Three Years

For the period from 10/1/2006 to 9/30/2009

FUND NAME	3-YR COMP. ANNUAL RETURN	SHARPE RATIO	CORR. VS.- S&P 500	STARTING DATE	LAST 12-MO. PERIOD	LARGEST DRAW DOWN	ASSETS UNDER MGMT. (\$)
1 Hepplewhite Fund LP	26.05%	1.68	0.65	Jan-98	40%	11%	4.0M
2 Phineus Voyager LP	18.81%	0.73	0.75	Jun-02	38%	30%	77.0M
3 Westerly Partners L.P.	18.14%	1.32	0.79	Jun-06	32%	13%	33.0M
4 Harvest Technology Ptnrs	16.51%	1.55	0.05	Jan-06	20%	5%	20.7M
5 Lanexa Global Management LP	15.13%	0.71	0.78	May-06	21%	28%	86.7M
6 Seligman Tech Spectrum Fund LLC	12.03%	0.81	0.65	Jul-01	18%	20%	457.0M
7 Manticore Fund	11.58%	0.90	0.65	Jan-01	23%	8%	301.8M
8 Polaris Prime Technology LP	10.94%	1.24	-0.08	Oct-96	8%	7%	29.5M
9 Exane Archimedes Fund	10.58%	1.48	-0.01	Oct-06	16%	3%	329.1M
10 Jefferies Tech Fund LLC	9.58%	0.90	-0.66	Sep-06	8%	9%	43.0M

# Cambridge Strategy (Asset Management) Limited – Extended Markets Alpha Programme



Peter Henricks, CEO

The Cambridge Strategy is a boutique asset management company which offers both active currency and emerging market equity programs. After establishing the company in the early part of 2003 and spending significant time on refining processes, it began managing live client assets in 2004.

From its genesis managing a single currency alpha program, the firm has grown to offering three actively managed currency programs, trading across developed and developing markets. In addition, the company offers active currency overlay programs and has recently expanded to offer active emerging markets equities programs.

The owners of the firm have over 70 years of experience in the investment management industry. The three principals have an equal share of ownership. They are: Edward Baker, former CIO of Emerging Markets at AllianceBernstein and a 17-year veteran of the risk management firm Barra; Russell Thompson, former head trader of Asian markets at

AIG Trading; and Peter Henricks, former CEO of Alliance Capital, Asia.

This depth and diversity of experience and backgrounds was central to the firm's establishment. The co-founders identified a clear market space for a currency management firm that combined the best of alpha generation from a proprietary trading background with the best of risk management from a fund's management perspective.

With this deliberate personnel strategy in mind, the firm has grown staff to over 20 people; with recruitment in the portfolio management team being skewed toward experienced proprietary traders from firms such as UBS O'Connor, HSBC, and JP Morgan amongst others. Risk and business management are being strengthened with senior hires from Russell Investments, Balyasny Asset Management, and academic institutions such as UC Berkeley.

### Investment Philosophy

At first glance, the beliefs that anchor the Cambridge Strategy are in line with market orthodoxy, that currency markets have inherent inefficiencies that can be exploited to capture alpha and are best exploited using systematic tools.

When delving further into the firm's focus on risk management, the unconditional belief that risk control is absolutely central to achieving long run success is refreshing.

Commenting on this, Mr Thompson (CIO) says, "The firm's philosophy and process differs from general investment theory in one key respect; that investors view risk symmetrically. We believe that this is incorrect and that investors will view downside risk very differently from upside risk (i.e. incremental losses are viewed differently from incremental gains)."

### At a Glance:

#### Extended Markets Alpha Programme

Strategy Assets:	\$700 million
Firm Assets:	\$1.0 billion
No. of Employees:	21

#### Account Information

Minimum Investment:	\$10,000,000
Management Fee:	2.0%
Incentive Fee:	20%

#### Performance Analysis

Start Date:	April 2004
Total Return:	97.70%
Compound Annual Return:	13.20%
Worst Drawdown:	2.44%
Sharpe Ratio:	1.50
% of Winning Months:	75.76%
Average gain:	1.58%
% of Losing Months:	24.24%
Average loss:	-0.56%

#### Correlations

Barclay CTA Index:	+0.22
S&P 500:	+0.00
U.S. T-Bonds:	-0.16
World Bonds:	-0.17
EAFE:	+0.07

#### Annual Returns Past 5 Years

2005	13.46%
2006	5.74%
2007	9.54%
2008	4.56%
2009 (thru 3 <sup>rd</sup> Qtr)	4.43%

Past results are not necessarily indicative of future performance.

"To that end, our risk management techniques focus on tail risk and in particular downside risk management. This focus greatly reduces the volatility inherent in the approaches taken by other market participants. We employ an extremely disciplined system whereby each trade is allocated an identical amount of risk capital. Risk assigned is a function of an Omega Function methodology that proactively adjusts the risk capital based on how the model is per-

forming on a risk adjusted basis. For our clients, the benefits of this approach can be evidenced in our historical distribution of returns which is highly skewed to the right with much less downside risk than a normal distribution.”

Commenting further on the investment philosophy, Mr Thompson notes, “Given the short term nature of our systematic technical strategy, we believe that price action and the information asymmetries inherent in currency markets do result in short term mispricings. On a longer term basis, our Systematic Fundamental Strategy captures relative valuation movement caused by the relative attractiveness of individual currencies to foreign direct investment flows.”

Another aspect that makes the Cambridge Strategy distinct within the active currency management space is its dedicated focus on developing markets. It has had an allocation to these markets in its Extended Markets Alpha Program since 2006.

The rationale for inclusion of these markets is that these regions offer significant opportunities for alpha generation relative to the G-10 markets, primarily due to the lack of crowding from other profit maximising market participants such as currency managers. That said, the firm is extremely cognizant of the specialist skills required to be active in these markets. As an example, Mr. Thompson’s background includes more than 20 years’ experience successfully trading these regions through various market conditions.

Furthermore, the firm has expended significant resources in building a market leading risk management platform to mitigate downside risk associated with these markets and only trades liquid primary and secondary markets in developing regions.

### **Trading Edge**

Returning to the importance of risk management within the firm, Mr. Henricks (CEO) observes, “Within the firm, we have a win/loss ratio on individual trades of about 54% winning

trades to 46% losing trades, so we have a slight edge in our alpha generation. But what is more important is that if you look at our payoff ratio, we generate a positive return on the winners which is double the return of the losses on losing trades.”

“We believe that this is a critical differentiator as a lot of people spend the bulk of their time trying to get that ratio from say 55% to 60% but spend very little time on working out how to manage the trade. Our view is that it needs to be a much more balanced allocation of resources, such that you can turn a slight edge in the market into something quite attractive and interesting, providing you’re utilising good trade and risk management processes.”

From an investment perspective, the Cambridge Strategy employs two distinct investment strategies, the Systematic Fundamental Strategy and the Systematic Technical Strategy. The Systematic Technical Strategy is expected to work best in high and rising volatility environments, and the Systematic Fundamental Strategy is expected to work best in low volatility and stable environments.

The Systematic Technical Strategy uses a series of proprietary trading algorithms operating over eight timeframes ranging from four-hourly timings to weekly, and these algorithms combine trend continuation and trend reversal signals. The Systematic Fundamental Strategy reflects a predetermined set of positions designed to reflect “market” views on the relative attractiveness of currencies versus the US dollar. Assets are allocated to the Systematic Fundamental Strategy based on a proprietary measure of volatility in the global currency markets. In highly volatile markets the allocation is reduced, and when volatility is low the allocation is increased.

Commenting on this, Mr. Thompson notes, “If you recall the last three and one-half years, 2006 and first half of 2007 were pretty low volatility markets, and if you look at our attribution, you will

see that the vast bulk of the returns come from the Systematic Fundamental Strategy. From mid 2007 to the present, there was a much more elevated volatility environment, and you can see from attribution that the returns were driven during this period from the Systematic Technical Strategy. Indeed, since November 2007 we haven’t had an allocation to the Systematic Fundamental Strategy except for a small allocation for a few weeks in the summer of 2008.”

Picking up this point, Mr. Henricks remarked, “Given the nature of the underlying strategies, it is not surprising that they are negatively correlated as they perform best in different volatility environments. At the end of the day, clients hire us because they prefer more money than less money, and our programs have historically generated steady consistent returns. The last thing we want to do is to surprise on the downside, but we have the ability to surprise on the upside.”

### **Risk Management**

The firm’s principals are big believers in risk management, not only to minimise losses, but also as an alpha generation tool. While the firm enforces a daily VAR limit at the aggregate portfolio, sub-strategy level, and geographic level, given the limitations of these VAR tools, they are primarily used as a secondary line of defense.

The primary risk management engine that the firm utilizes has been developed in house, in conjunction with external academics, to objectively allocate risk to each individual trade. At its most basic level, the risk system is a self-correcting mechanism that proactively and dynamically adjusts risk within the portfolio, utilizing a family of non-normally distributed analytics (Omega Functions). The output of the risk management tools allocates a trade size based on an expected maximum loss and implements profit targets and stop losses prior to a trade being executed.

Remarking on the tools, Mr. Thompson notes "The beauty of the system is that it takes the emotion out of the equation. Each portfolio manager knows prior to executing a trade what the gains and losses are going to be, and once those are hit, the position is closed out and they move on. In my experience, the key issue for currency managers has not been idea generation, but the sizing of positions and knowing when to close them out."

### Peer Group Comparison

With an aim of trying to determine if the combination of Cambridge's investment philosophy with its approach to risk management has yielded an appreciable benefit to its investors, we've run a comparison of its standard deviation and risk-adjusted returns relative to the averages generated by its peer group. *Figure 1* compares the rolling 12-month risk-adjusted returns for Cambridge's Extended Markets Alpha Programme with the average values for a universe of 59 currency trading programs. The time period under consideration was from April 2004 through September 2009. Risk-adjusted returns are calculated by dividing the 12-month rolling average of the monthly returns by the 12-month rolling average of the standard deviation.

During this period, Cambridge has consistently outperformed the risk-adjusted return averages for its relevant subgroup in 54 out of 55 rolling 12-month time-periods. The one period of underperformance was during the 12 months ending September 2008.

Examination of the rolling standard deviation data in *Figure 2* is instructive as well. In 54 of the 55 rolling 12-month periods, Cambridge's standard deviation has been lower than the average for its subgroup, oftentimes by very significant margins.

### Future Plans

In relation to future plans, the principals freely acknowledge that what they are doing today is not going to be cutting edge in a couple of years. To that

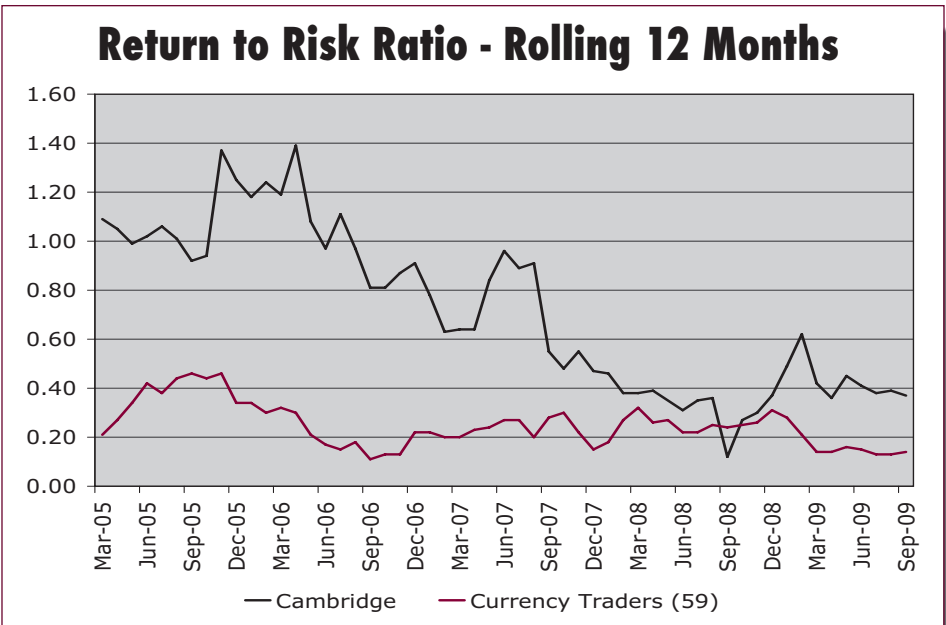


Figure 1.

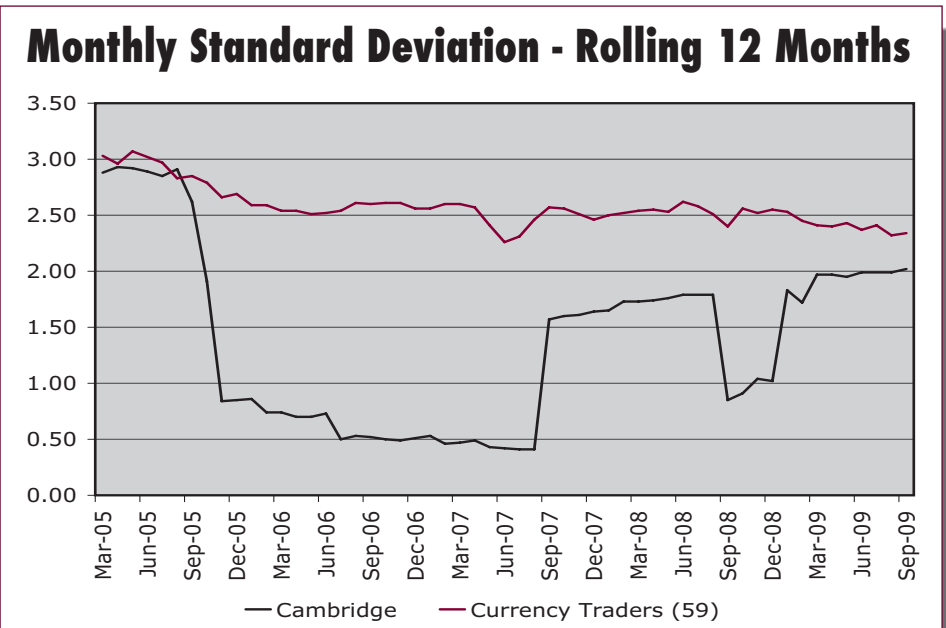


Figure 2.

end, the firm has a research committee, chaired by the third principal, Mr. Baker, who among other things is tasked with pushing the firm's capabilities forward.

Commenting on Mr. Baker, Mr. Henricks noted, "Ed has been very instrumental in building the firm's risk management system, and given his experience at Barra and the broader academic community, he is uniquely placed to gather academic input to ensure that we remain ahead of the curve."

On a broader level, the firm will look to expand its investment capabilities into other asset classes where the risk management capabilities add value for clients. They have already started the first phase of this process by recruiting an experienced emerging markets equities team which launched its first product in September this year. ♦

Continued from pg. 5

struggling to replace their reserves as they are used.

Prime beneficiaries are Russia, Kazakhstan (lifting costs of only \$5 to \$6 barrel per barrel for onshore oil) Venezuela, Brazil, Colombia, Argentina, and the Middle East. China with its large population, diversified economy, and large accumulated FX reserves is strongest of the net commodity importers.

**Q: The appetite for emerging market debt appears to be increasing among traditional and alternative fund managers. How has the liquidity profile in these markets changed over the past few years? What is the general risk-reward comparison between sovereign, corporate, distressed, and asset-based lending opportunities across the emerging markets? What are the most liquid and mature markets for credit default swaps, collateralized debt obligations, and other fixed income derivatives?**

**Jani:** Liquidity in emerging market sovereign credit has improved considerably in the past 15 years, but continues to evolve away from the underlying bonds and into CDS. This was temporarily reversed during the crisis of 2008 but has reverted back to trend so far in 2009. It is much easier to get credit exposure in most sovereign assets via CDS rather than the underlying bonds. In corporate credit this is not yet the case and has a much higher hurdle to overcome. During crisis periods, liquidity disappears first

from the corporate market, and using sovereign CDS to hedge a corporate exposure is at best imperfect and often dangerous. A recent example during 2008 was in Kazakhstan where those with exposure to Kazakh bank bonds rushed to buy default protection on the sovereign to hedge their positions. Lost on many market participants was the fact that Kazakhstan didn't have any foreign currency bonds outstanding that were referenced in the default protection contracts, and thus there was nothing to default on. After a brief panic induced spike, sovereign CDS spreads are back to the levels seen in early 2008 while many Kazakhstani bank bonds are in default and down 65 points or more during the same time frame.

CDX-EM, which tracks a basket of emerging market sovereign CDS, is by far the most liquid credit instrument. It is a good proxy to hedge a diversified credit portfolio with tight bid/offer spreads and multiple dealers providing liquidity in a standardized contract. In single name contracts, Brazil is the most liquid name in Latin America. In EMEA, Russia, and Turkey are both equally liquid high beta names, while Poland offers high liquidity for a lower beta name. Finally in Asia, China and South Korea are both good alternatives for investors seeking to hedge regional exposure. South Korea, Mexico, South Africa, and Brazil also have very liquid local interest rate derivative markets. We have generally been wary of asset-based lending because of the extremely poor liquidity and idiosyn-

cratic credit risks which often cannot be hedged. In addition, assets seem to be less secure just when the collateral is needed, and we feel there are many opportunities with much better risk/return and liquidity characteristics within the emerging markets space.

**Joubert:** We hold only equity in our emerging market funds.

**McCall:** In line with the rollout of emerging markets' increasing economic strength and importance to the global economy has been a broadening of the universe of investors buying emerging market debt. This has been accompanied by a growth in the total volume of debt outstanding for investors to hold, counting both external and local debt.

Allocations by strategic and retail investors to emerging market debt rose from \$23.4 billion in 2005 to \$34.1 billion in 2007. The emerging market debt universe has expanded, and liquidity has improved. Sovereign assets and increasingly Tier 1 corporates offer liquid investment opportunities in both local and external markets. Tier 2, Tier 3 and distressed situations offer the prospect of very good returns for dedicated, research-driven emerging market investors. Post the Lehman collapse any esoteric asset saw its liquidity evaporate, a situation that is only recently starting to reverse. ♦

*The organization of this roundtable was assisted by Jeffrey F. Kuchta, CFA, a consultant with Strategic Capital Investment Advisors.*

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