

HENNESSEE

HEDGE FUND REVIEW®

NOVEMBER 2008
VOLUME 10 ISSUE 11

OCT

YTD

<p>MARKET SUMMARY 1</p> <p>HEDGE FUND PERFORMANCE SUMMARY</p> <p>STYLE PERFORMANCE SUMMARIES</p> <p> Long/Short Equity 6</p> <p> Arbitrage/Event Driven 8</p> <p> Global/Macro 13</p> <p>MONTHLY FEATURES</p> <p>FEATURE SECTION:</p> <p>Inflation Crisis on the Horizon? 5</p> <p>Hennessee Hedge Fund Style Definitions 10</p> <p>Hennessee Hedge Hog Corner 18</p> <p>Hennessee Hedge Fund Rankings 19</p> <p>Hennessee Hedge Fund Indices® 20</p>	<p>HENNESSEE HEDGE FUND INDEX -5.52% -15.30%</p> <p>S&P 500 -16.94% -34.02%</p> <p>LONG/SHORT EQUITY -5.49% -14.31%</p> <p>ARBITRAGE/EVENT DRIVEN -4.70% -13.45%</p> <p>GLOBAL/MACRO -5.48% -17.68%</p> <p>PERCENTAGE OF HEDGE FUNDS MANAGERS OUTPERFORMING THE:</p> <p> S&P 500 90% 91%</p> <p>TOP (3) PERFORMING:</p> <table border="0"> <thead> <tr> <th></th> <th><u>Oct</u></th> <th></th> <th><u>YTD</u></th> </tr> </thead> <tbody> <tr> <td>Short Biased</td> <td>+10.57%</td> <td>Short Biased</td> <td>+23.24%</td> </tr> <tr> <td>Fixed Income</td> <td>+3.54%</td> <td>Merger Arbitrage</td> <td>-0.86%</td> </tr> <tr> <td>Macro</td> <td>+0.61%</td> <td>Fixed Income</td> <td>-0.60%</td> </tr> </tbody> </table> <p>BOTTOM (3) PERFORMING:</p> <table border="0"> <thead> <tr> <th></th> <th><u>Oct</u></th> <th></th> <th><u>YTD</u></th> </tr> </thead> <tbody> <tr> <td>Emerging Markets</td> <td>-11.64%</td> <td>Emerging Markets</td> <td>-28.16%</td> </tr> <tr> <td>Convertible Arbitrage</td> <td>-10.38%</td> <td>Convertible Arbitrage</td> <td>-21.34%</td> </tr> <tr> <td>Value</td> <td>-8.74%</td> <td>Event Driven</td> <td>-21.14%</td> </tr> </tbody> </table>		<u>Oct</u>		<u>YTD</u>	Short Biased	+10.57%	Short Biased	+23.24%	Fixed Income	+3.54%	Merger Arbitrage	-0.86%	Macro	+0.61%	Fixed Income	-0.60%		<u>Oct</u>		<u>YTD</u>	Emerging Markets	-11.64%	Emerging Markets	-28.16%	Convertible Arbitrage	-10.38%	Convertible Arbitrage	-21.34%	Value	-8.74%	Event Driven	-21.14%
	<u>Oct</u>		<u>YTD</u>																														
Short Biased	+10.57%	Short Biased	+23.24%																														
Fixed Income	+3.54%	Merger Arbitrage	-0.86%																														
Macro	+0.61%	Fixed Income	-0.60%																														
	<u>Oct</u>		<u>YTD</u>																														
Emerging Markets	-11.64%	Emerging Markets	-28.16%																														
Convertible Arbitrage	-10.38%	Convertible Arbitrage	-21.34%																														
Value	-8.74%	Event Driven	-21.14%																														

MARKET SUMMARY - OCTOBER 2008

Despite efforts by the Fed and Treasury to restore confidence in the markets through the passing of the Troubled Asset Relief Program, the establishment of the Commercial Paper Funding Facility, and the reduction of the Fed Funds rate to 1% during the month of October, investors continued their flight from risk assets. **Negative news regarding the deteriorating economic conditions and ongoing credit crisis weighed on the markets throughout the month of October and led to an extreme sell-off across all asset classes.**


The S&P 500 Index fell -16.94% during the month of October, leaving the index off -34.02% for the year. The Russell 2000 Index (small cap stocks) lost -20.8% (-29.0% YTD). International stocks were particularly hurt during the month of October as the MSCI EAFE Index fell -20.2% (-43.5% YTD) and the MSCI Emerging Markets Index lost -27.4% (-53.2% YTD). Bonds also suffered losses during the month as the Lehman Aggregate Bond Index fell -2.36% (-1.73% YTD).

Commodities sold off strongly during the month with the CRB Index losing -21.8% (-25.2% YTD). Crude oil (WTI) declined -32.6% in October to \$67.81 a barrel and has lost -29.3% year-to-date. Gold also experienced declines over the month, losing -17.8% to \$718.20, down -14.0%, year-to-date.

The Hennessee Hedge Fund Index declined -5.52% during the month of October, leaving the index off -15.30% for the year. While from an absolute return perspective hedge funds did not fare well, on a relative basis, they have strongly outperformed their traditional counterparts by remaining defensively postured with low exposures to the general markets.

The economy is beginning to show clear signs of weakness as the initial estimate for gross domestic product (GDP) indicated the economy shrank by -0.3% during the third quarter. The drop in growth was due in large part to a cutback in spending by consumers. Consumer spending declined -3.1% during the quarter, the largest cut in spending since the second quarter of 1980, when the country was in a recession. **Economists believe growth will continue to slow well into 2009** and most certainly meet the technical definition for a recession (two consecutive quarters of negative GDP growth).

The employment situation continues to deteriorate. **The unemployment rate rose to 6.5% in October, up from the 6.1% rate the previous month and to the highest level in 14 years.** Employers eliminated 240,000 jobs in October, higher than the 180,000 jobs analysts had anticipated being cut.



HEDGE FUND ADVISORY

YOUR STRATEGIC PARTNER
IN HEDGE FUND INVESTING

H E N N E S S E E
HEDGE FUND REVIEW®

WWW.HENNESSEEGROUP.COM

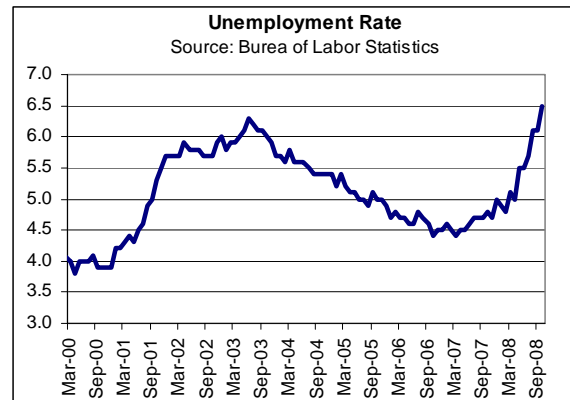
E. Lee Hennessee
Managing Principal

Charles J. Gradante
Managing Principal

Hennessee Hedge Fund Review® is published
twelve times a year from:
Hennessee Group LLC
500 Fifth Avenue, 47th fl.
New York, N.Y. 10110

To subscribe, please contact us by
Phone: 212.857.4400 or by
Fax: 212.768.8190 or visit our
Website: www.hennesseegroup.com
Annual Subscription rate: \$500

Hennessee Hedge Fund Review® is a general publication circulated monthly. The information in this publication has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is not a guarantee of future performance. No statement in this issue is to be construed as a recommendation to buy or sell securities or to provide investment advice. ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written consent of the publisher.



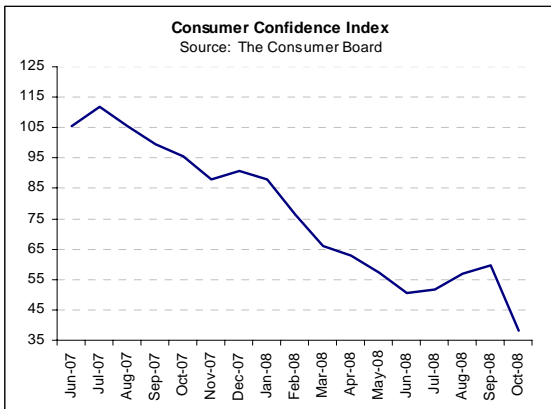
The Institute for Supply Management's manufacturing index (ISM Index), a diffusion index measuring national manufacturing conditions by surveying 300 firms on employment, production, new orders, supplier deliveries and inventories, fell to 38.9 in October, down from 43.5 in September (readings below 50 indicate a contracting factory sector), and the lowest reading for index since September of 1982. **Economists have indicated the current reading is a strong signal the economy is already in a recession.**

On the housing front, the Standard & Poor's/Case-Shiller U.S. National Home Price Index, which tracks changes in the value of the residential real estate market in 20 metropolitan regions across the United States, continued its downward decline. **The index fell**

-16.6% in August from a year earlier, the 15th consecutive monthly decline. In additional housing news, construction of new homes plunged by a larger-than-expected amount in September. The Commerce Department reported construction of new homes and apartments dropped by -6.3% last month, a larger decline than the -1.6% decrease that had been expected. On an annualized basis, the 817,000 units is the slowest pace since January 1991.

Inflation has remained in check due to easing energy costs and a slowing economy. The Consumer Price Index (CPI) was flat during the month of September. The CPI dipped to +4.9% over the 12 month period ended September 30th, down from +5.4% in August. The energy component of the CPI dropped -1.9% in September. Oil continues to fall in price due to rising concerns of a slowing global economy and drop in demand. Oil has fallen from \$115.50 in late August to under \$60 a barrel by mid-November. **Despite inflation remaining subdued in recent months, there is increasing concern that recent monetary actions will lead to rising inflation over the longer term once the economy regains strength.**

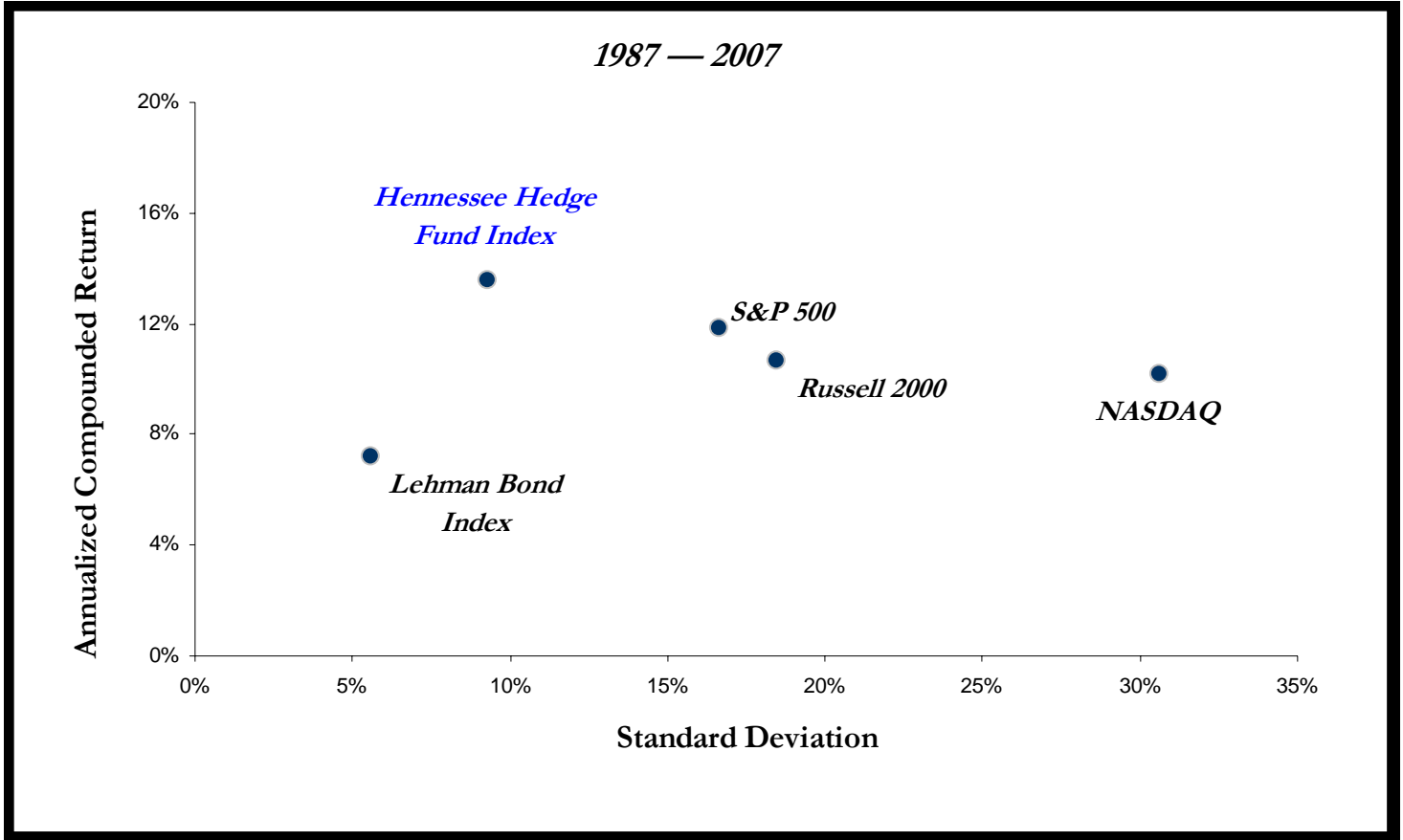
The slowing economy, most notably the increasing unemployment figures, appear to be having a negative effect on consumer sentiment. **The consumer confidence index fell to its lowest level in history during the month of October. The index declined to 38.0 in October, down from 59.8 in September and well off its high in July of last year at 112.0.** Further evidence the consumer is concerned with the weakening economy is the plunge in retail sales during the month of September. The most recent report indicated sales dropped -1.2%, nearly double the -0.7% drop analysts had expected.



According to the Wall Street Journal, **third quarter earnings for companies in the S&P 500 Index are on track to fall approximately -14% from one year ago (80% of companies have reported), the fifth straight quarterly decline in earnings.** Financials have been the primary drag on earnings during the quarter. In fact, without incorporating financial companies, earnings would be up approximately +10%. Conversely, energy companies have buoyed corporate earnings during the most recent quarter, despite a drop in oil prices. Excluding energy companies, overall earnings would be down nearly -27% for the quarter. As for the outlook, the average S&P earnings forecast currently calls for a +13% rise in 2009. Based on that 2009 earnings estimate of \$70, the market is trading at 13x, lower than both the 1990-91 and 2001-02 recessions. **However, many experts believe this is a very aggressive estimate, with a -13% decline in earnings serving as a more realistic estimate.**

In response to the weakening economic data and ongoing credit crisis, the Fed acted aggressively during the month of October. In addition to the coordinated global rate cut of 50 basis points in early October, the Fed cut rates an additional 50 basis points to 1% at their October 29th FOMC meeting. **At the meeting they stated, “The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures...In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate in coming quarters to levels consistent with price stability.” Given their emphasis on the weakening economic data and belief inflation remains under control, there is speculation that the Fed left the door open for further fiscal and monetary actions in the coming months.**

October was yet another difficult month for hedge funds as they continued to struggle with high levels of volatility and strong selling pressure. Most funds believe the remainder of 2008 could very well remain challenging for both the economy and financial markets, and will therefore remain defensively positioned. That said, policy makers have acted aggressively in recent months to restore confidence in the markets and spur growth in the economy. There are some initial signs that these actions are beginning to have an impact, specifically with regards to the easing of the cur-



You Wouldn't Use a Stock Index to Benchmark Your Bond Portfolio

So Why Use One to Benchmark Your Hedge Funds?

Hennessee Hedge Fund Indices®

Hennessee Group recognized the need for the creation of specific 'benchmarks' to measure a hedge fund manager's success. From this original concept, the blueprints of the Hennessee Hedge Fund Indices® evolved into what we know today.

The Hennessee Hedge Fund Indices® have been used as a hedge fund benchmark since 1987. Created real-time, the Hennessee Hedge Fund Indices® are an equally weighted average of a diversified group of hedge funds consisting of 23 different investment styles.

For more information on the Hennessee Hedge Fund Indices®, please visit us at www.hennesseegroup.com or lookup us up on Bloomberg under the symbol "HHFD".

The Hennessee Hedge Fund Indices® are calculated from performance data supplied by a diversified group of hedge funds monitored by the Hennessee Hedge Fund Advisory Group. The Hennessee Hedge Fund Index is an equally-weighted average of the funds in the Hennessee Hedge Fund Indices®. The funds in the Hennessee Hedge Fund Index is net of fees and unaudited. The hedge fund performance data has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is no guarantee of future returns. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund. ALL RIGHTS RESERVED.

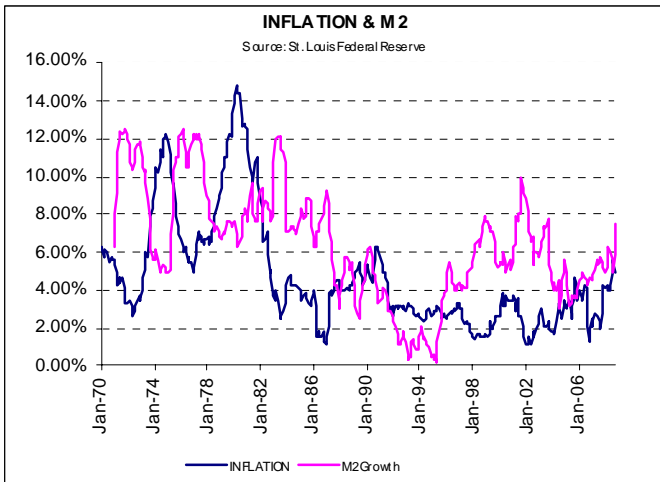


**Your Strategic Partner In
Hedge Fund Investing**

rent credit crisis. The three month Libor fell from a high of 4.87% on October 10th to 3.19% at the end of October. **It is widely believed it's not a question as to if, but rather when, the massive dislocations that have been created in the past year will be recognized by investors and set the stage for strong recovery, especially as the current crisis continues to abate.**

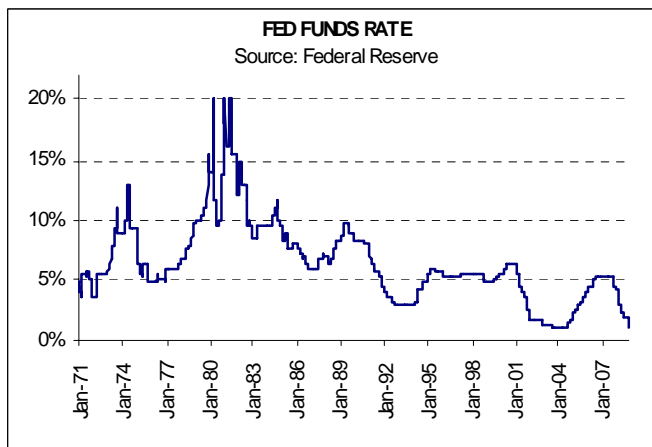
**FEATURE SECTION:
CRISIS OF INFLATION ON HORIZON? MONEY SUPPLY GROWTH REMINISCENT OF THE 1970'S**

Hennessee Group LLC, an adviser to hedge fund investors, is consulting its clients on actions to take in the next five years for asset classes including hedge funds, bonds and precious metals. The Hennessee Group believes that while the Fed and Treasury are taking the necessary actions to remedy the current credit crisis and mitigate the risk of the worst recession in history, these actions have longer term collateral consequences. **The stage is being set for a high inflationary period beginning the next three years.** Charles Gradante, Co-Founder of the Hennessee Group, stated “a hyperinflationary period could be the next crisis on the horizon beginning in 2010 or 2011.” He further stated, “If the money supply continues to grow at its current pace, we could see inflationary levels similar to those experienced in the 1970's once the current credit crisis begins to subside.” Specifically, Gradante believes money supply growth (M2) will exceed 12% in 2009, rivaling money supply growth of the 1970's.



THE 1970's AND INFLATION

Milton Friedman (a Nobel Prize Laureate in Economics) stated, “Inflation is always and everywhere a monetary phenomenon.” Inflation peaked at 12% in 1974 and 13% in 1979. Some attribute the inflation in the 1970's largely to price shocks in oil (oil rose from \$3 in 1970 to \$40 in 1980) and the budget deficit of the Vietnam War era. Nonetheless, the Hennessee Group believes that the Fed's easy money and credit policies served as the primary drivers for igniting inflation. Money supply growth peaked at an annualized rate of 12% in both 1972 and 1977 due in large part to an administration that was more concerned with maintaining low levels of unemployment rather than keeping inflation in check. The monetary policies of the 1970's led to extremely high levels of inflation, forcing the Fed to quickly raise interest rates in order to reduce growth in money supply and reduce inflation. Ultimately, the Fed raised rates to 20% in 1980 which contributed to the 1981-82 recession with unemployment reaching 11%. The monetary policies in the 1970's first led the U.S. into an environment of hyperinflation and then one of stagflation (a scenario whereby the economy experiences both rising price levels and slowing growth).



The investment environment during the 1970's proved to be a great success or failure depending upon ones views. From an equity perspective, stocks suffered one of their worst bear markets in history with the Dow Jones Industrial Average losing nearly 50% of its value from 1973 to 1974. The most notable hedge against inflation in the 1970's was gold, which rose from \$106 in 1976 to \$850 by 1980 (over \$2,000 in 2008 on an inflation adjusted basis). Other precious metals, including platinum (\$90 in 1970 to over \$1000

in 1980) and silver (\$2 in 1970 to \$50 in 1980) rose strongly throughout the inflationary period as well. Non-precious metals such as copper rose from 53 cents in 1970 to 89 cents in 1980, after having risen to \$1.06 in 1979. Agricultural commodities also experienced increases with wheat tripling in price.

1970's ALL OVER AGAIN?

The Hennessee Group is concerned that the U.S. could end up in a similar scenario with the Fed and Treasury making it clear they will do whatever it takes to avoid further fallout from the credit crisis. "The Hennessee Group strongly agrees with former Federal Reserve Chairman Paul Volcker", says Charles Gradante. Paul Volcker, whom ironically is credited for battling the double-digit inflation in the 1970s, recently made the following comments about the current economic situation, "The first priority is to stabilize the financial system. It is necessary even though the cost involved is heavy government intrusion in markets that should be private." Volcker added, "It's not going to be a problem in the short run. Inflation doesn't flourish in the face of recession," he said. "It's something we have to worry about when we get out of this recession."

While there has been a recent pullback in the price of oil and other commodities, as well as inflation in general, the Hennessee Group believes this is a short term correction in a longer term upward trend in inflation. A trend that could be exacerbated by the recent aggressive fiscal and monetary actions. The Fed has aggressively lowered interest rates in recent months and has injected a tremendous amount of liquidity into the market place, two notable actions being the \$700 billion Troubled Asset Relief Program (TARP) and the recent Commercial Paper Funding Facility. As a result of these actions and others, the money supply has been growing at an increasing rate in recent months.

In total, the U.S. has lent out nearly \$1 trillion in bailout money and some estimate this number could reach \$2 trillion before the credit crisis comes to an end. Based on these estimates, the Hennessee Group believes the money supply could reach \$8.6 trillion between June and August of 2009. Assuming M2 does reach \$8.6 trillion between June and August of next year, the money supply would be growing on a year-over-year basis of approximately 13% (M2 in June of 2008 was \$7.6 trillion). "Such a scenario could ultimately force the Fed to reverse course in

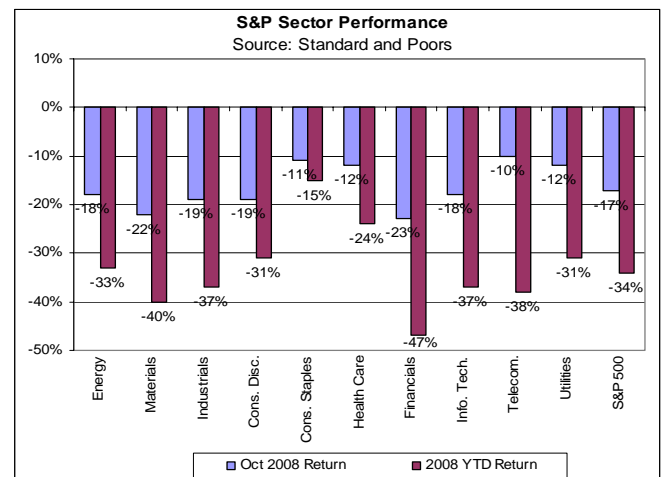
monetary policy as they did in the late 1970's by aggressively raising rates and removing liquidity from the market place.", stated Charles Gradante. "As a possible consequence of these actions the U.S. could experience the worst of all economic conditions... stagflation", added Charles Gradante.

Given this backdrop, the Hennessee Group believes commodities, namely gold and other precious metals, could serve as good hedges against inflation going forward, as they did in the hyperinflationary and subsequent stagflation days of the 1970's. The Hennessee Group plans to analyze the hyperinflation and subsequent stagflation days of the 1970's in further detail, specifically the effects the inflationary environment had on different asset classes and publish their research results in the coming weeks.

Long/Short Equity

(YTD: -14.31% / October: -5.49%)

The equity markets continued their free fall during the month of October, highlighted by the worst monthly loss for the S&P 500 Index since the stock market crash in October of 1987. Investors continued to flee stocks due to concerns of the deteriorating economy, declining corporate profitability, and ongoing credit crisis. The sell off in equities was broad based, effecting all market capitalizations, sectors, styles and regions. **The S&P 500 Index fell -16.9% (-34.0% YTD) in October, with most sectors experiencing double digit declines.** The Russell 2000 Index (small cap stocks) fell -20.9% (-29.8% YTD). The NASDAQ Index (technology stocks) declined -17.7% (-35.1% YTD).



The Hennessee Long/Short Equity Index fell -5.49% in October and is now off -14.31%, year-to-date. While most hedge funds benefited from low exposures to the general markets, the volatility and extreme selling pressure made it difficult for most managers to make money in October. The deleveraging process witnessed in prior months has not subsided; **high quality, liquid positions are being sold off, irrespective of fundamentals, which is greatly affecting the long books of hedge fund portfolios.** Conversely, many funds have been hurt on the short side of their book through short squeezes, which occur when investors scramble to cover short positions for technical reasons and exacerbate a price run up in companies with weak fundamentals.

One of the most historic short squeezes of all time occurred in October when Porsche significantly raised their stake in Volkswagen, a heavily shorted stock. The transaction drove up Volkswagen share prices at an unprecedented rate due to short covering and hurt the performance of many well know long/short equity funds in October. **Given this volatility on the long and short sides of portfolios, managers have been very cautious with respect to exposures and will remain cautious until the markets start responding to fundamentals.**

The consumer staples sector continued to benefit from a flight to safety trade as the sector is widely viewed as a defensive play during recessions. While performance was certainly not strong on an absolute basis, stocks within the consumer staples sector held up well on a relative basis. Consumer staples stocks within the S&P 500 Index, declined -11.1% in October, the second best performing sector behind telecommunications. Year-to-date, the sector is down -15.3%, the only sector to have not experienced losses greater than -20%. Blue chip consumer staple companies that continued to hold up well in October included Wrigley (+0.7%), Campbell Soup (-1.1%) and General Mills (-0.8%). We expect to see funds begin scaling back their exposure to consumer staples as valuations on a relative basis become less attractive.

The Hennessee Healthcare and Biotech Index lost -3.5% in October and is down -12.5% for the year. The healthcare sector, as a whole, has historically served as a good investment during recessionary periods and is currently an overweight exposure

for many hedge funds. Healthcare stocks are currently considered cheap relative to free cash flows and have the potential for margin expansion going forward through stable to declining input costs and stable to rising pricing trends. Two popular holdings among hedge funds that fit this description include United-Health (-6.5% MTD) and WellPoint (-16.9%).

The biotech subsector is also a favored exposure among hedge funds due to its low sensitivity to economic downturns and recent M&A activity. Positive reports during the month out of Amgen (+1.1% MTD) and Celgene (+1.6% MTD) contributed to the strong relative performance for the biotech sector. Amgen reported strong third quarter earnings and provided a positive outlook for the remainder of the year. Celgene reported record third quarter product sales and operating profits. **After dramatic sell-offs in recent months, many hedge funds are also finding the medical technology and pharmaceutical subsectors intriguing from a valuation perspective and are looking to increase exposure going forward, as well as to the healthcare sector as a whole.** One particular headwind for the healthcare sector in the short term is the Obama presidency and uncertainty surrounding actual policy initiatives.

Financial stocks were the worst performing sector within the S&P 500 Index during the month of October, losing approximately -22.7% (-46.7% YTD). **Numerous financial companies reported disappointing earnings during the month which once again highlighted the troubles within the sector.** Notable reports included, Citigroup announcing its fourth straight quarterly loss, Merrill Lynch announcing a loss in the third quarter along with \$12 billion in charges and write-downs, and Wachovia reporting a staggering \$24 billion loss. Exacerbating the sell-off in financials was the end to the SEC's ban on the short-selling. Despite the weak performance of financial stocks, the Hennessee Financials Index held up well on a relative basis. The Hennessee Financials Index lost -3.8% in October and is now off -16.1% for the year. **Most hedge funds have maintained a negative outlook on financials, and with the end to the short sale ban they were once again able to express that opinion through the shorting of financial stocks.** That said, financials are trading at incredibly low multiples and many hedge funds have started to scale back their short exposure to the sector.

The energy and materials sectors – popular themes for hedge funds in recent years – continued to come under pressure during the month of October. Increasing concerns regarding the slowing global economy and declining demand for commodities led to the strong sell-off. The energy and materials sectors within the S&P 500 Index lost -18.0% and -22.2%, respectively, in October. Year-to-date, the energy sector is now off -33.5%, while materials are off -39.9%. Many funds were anticipating further sell-offs in the energy and materials sectors and therefore had reduced exposures in recent months to mitigate the downside risk. **Most believe the longer term supply/demand story remains intact for the sectors and will therefore rebuild exposures once the recession is fully priced into stocks.** Notable decliners during the month included Schlumberger (-38% MTD), Halliburton (-39%), Chesapeake Energy (-39%), Massey Energy (-35%) and Transocean (-25%).

While the monetary and fiscal policies in recent months are expected to bring some stability to the markets over the next six to twelve months, most hedge funds plan to remain defensively postured in the short term with low gross exposures to equities. **In addition, most funds believe actively trading around positions will serve as the more profitable strategy in the near term as the deleveraging process continues to unfold.** That said, the markets are looking increasingly attractive from a valuation perspective. Many managers have stated they are seeing “once in a life time opportunities”, and are opportunistically adding to core positions which they believe will greatly reward patient investors over the long term. In addition, **managers believe 2009 could provide a great opportunity to generate alpha on the both the long and short side of their books as sector dispersion, from a performance perspective, once again returns to markets.**

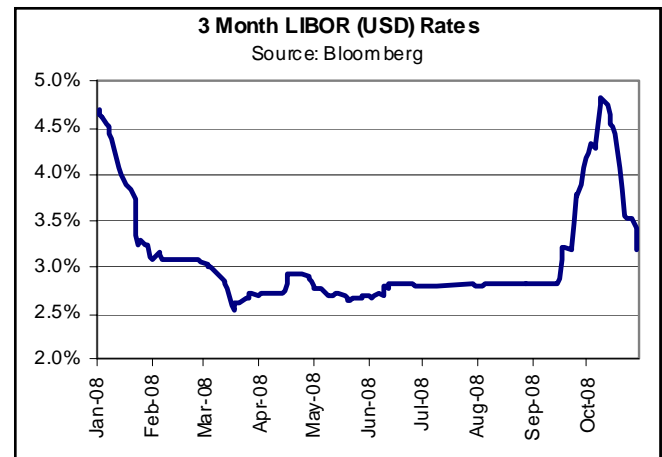
Arbitrage/Event Driven
(YTD: -13.45% / OCT: -4.70%)

The Hennessee Arbitrage/Event Driven Index declined -4.70% in October (-13.45% YTD). Liquidity-driven selling continued in October, resulting in dramatic sell offs and “the worst month in history” for many risk assets. **While most funds were defensively posi-**

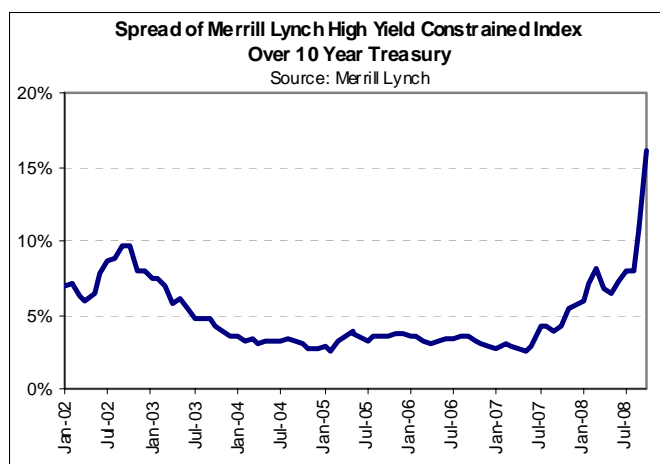
tioned, they were not able to escape the broad-based deleveraging and price declines across the capital markets.

October was an extremely challenging month for arbitrage/event driven hedge funds and the industry in general. Almost all of the Hennessee Hedge Fund Indices are on pace for the worst performance year in history. Thus far this year, the hedge fund industry has seen significant redemptions and liquidations in 2008, which is expected to continue throughout the remainder of the year. **Hedge fund investors should focus on quality managers who can generate real returns without the use of excessive leverage.** Given severe dislocations in many asset classes, there are many attractive opportunities for hedge fund managers with a long-term perspective to take advantage.

In the credit markets, the 2-year Treasury yield fell from 1.98% to 1.56% during the month, while the 10-year Treasury yield increased from 3.83% to 4.01%, reflecting new supply and the late month rebound in stocks. The Federal Reserve cut its Fed Funds target rate 50 basis points to 1%, a low previously reached in 2003-04. In addition, the Fed’s global counterparts also cut rates and increased liquidity dramatically. The Fed also initiated the Commercial Paper Funding Facility in an effort to revive the commercial paper market. **There were some signs that the credit crisis has started to thaw. Three month Libor fell from a high of 4.87% on October 10th to 3.19% at the end of October.** In addition, spreads on credit default swaps tightened, especially in high yield, following the rally in equities during the last week of the month.



However, while the outlook for the credit crisis may have improved, October proved to be one of the worst months in history. The Merrill Lynch High Yield Master Index declined -16.3%, representing a 7.6x sigma move. **Spread on the Merrill Lynch High Yield Index versus the 10 year Treasury widened from 1096 bps to 1617 during the month, hitting an all time high of 1681 bps.** Leveraged loans also sold off sharply as the S&P/LCD index dropped -14.4%, representing a 8.8x sigma move.



The Hennessee Distressed Index declined -5.48% in October (-17.70% YTD), despite a generally defensive posture on credit. There were a few managers that generated profits due to a net short position on credit. Despite the massive global fiscal coordination, forced selling by investors, market volatility and risk aversion drove prices lower. **However, managers report that extreme selling in the high yield and bank loan markets has created tremendous opportunities.**

Dislocations can be seen within the leveraged loan sector, which has experienced an unprecedented decline. **High quality bank loans are being sold in the secondary market for 60% to 70% of face value, down from 80% in September.** In some cases they have fallen below the levels of unsecured bonds. Given the seniority of secured loans within corporate balance sheets, their relative value is compelling. **Valuations have reached such cheap levels that some long/short equity funds are starting to purchase the debt, certainly a new trend for these funds.**

Long term, managers believe there will be attractive opportunities in distressed corporate debt. Year-to date through the third quarter, there were 53 companies in the US who defaulted for a total of \$24.3 billion, significantly more than the \$12.7 billion in combined defaults for 2006 and 2007. With consumer spending coming under pressure and actually declining in the third quarter, managers expect that the sectors most dependent on discretionary spending are likely to be hit the hardest in the early part of the distressed cycle. In early November, this was evident as Circuit City, a retailer, filed for bankruptcy protection. **Managers are looking to opportunistically invest in distressed corporate credits and bank loans, and to eventually participate in bankruptcy proceedings and corporate restructurings.**

The Hennessee Merger Arbitrage Index declined -0.18% in October (-0.86% YTD). Merger arbitrage firms were one of the best performing strategies as they suffered minimal losses. Most managers have aggressively reduced exposure in recent weeks and are focusing on a few core strategic deals. Given the backdrop of volatility, illiquidity and frozen credit markets in October, confidence in mergers disappeared and deal spreads widened substantially, particularly on anything requiring financing.

One of the most widely held positions is Anheuser Busch, which has agreed to be acquired by InBev for \$70 per share in cash. InBev received an investment grade rating for the bank debt that it will issue in the merger. However, Anheuser Busch shares sold off in October, reaching a low of \$54.35 mid-month, before ending October at \$62 a share, representing an annualized rate of return of greater than +30% (assuming a year end close). Another popular position is Rohm and Haas, which is being acquired by Dow Chemical for \$78 per share with expected close in February 2009, but ended October at \$69 a share (after hitting a low of \$58 per share mid month).

Financials, which has been one of the most active areas for M&A in recent months, continue to be a very active sector for deal activity. Banco Santander agreed to acquire Sovereign Bancorp and NC Financial Services Group made a bid to purchase National City.

**HENNESSEE HEDGE FUND
STYLE DEFINITIONS**

STYLE	DEFINITION
ASIA - PACIFIC	<i>Funds typically have long and short equity positions in companies located in the Pacific Basin region (i.e. Japan, China, Hong Kong, Taiwan, Korea, Singapore, Thailand, Malaysia, India, Australia, New Zealand, and other countries in Asia.)</i>
CONVERTIBLE ARBITRAGE	<i>This type of arbitrage involves the simultaneous purchase of a convertible bond and the short sale of the underlying stock. Interest rate and credit risk may or may not be hedged.</i>
DISTRESSED	<i>Primary investment focus involves securities of companies that have declared bankruptcy and/or may be undergoing reorganization. Investment holdings range from senior secured debt (uppermost tier of a company's capital structure) to the common stock of the company (lower tier of the capital structure).</i>
EMERGING MARKETS	<i>This strategy focuses on investing in lesser-developed, non-G7 countries whose financial markets provide exploitable pricing inefficiencies. Popular geographic regions include Latin America, Eastern Europe, Asia - Pacific, and Africa. Asset classes range from equities and bonds to local currencies.</i>
EUROPE	<i>Funds typically have long and short equity positions in European companies located in the United Kingdom, Western Europe, and Eastern Europe.</i>
EVENT DRIVEN	<i>This strategy can include merger arbitrage, distressed, liquidations, and spin-offs in addition to value driven special situation equity investing. Investments are usually dependent on an "event" as the catalyst to release the position's intrinsic value.</i>
FINANCIAL EQUITIES	<i>Funds typically have long and short equity positions within the financial sector (banks, thrifts, brokerage, insurance, etc.)</i>
FIXED INCOME	<i>Funds typically employ a variety of fixed income related strategies ranging from relative value based trades (basis, TEDs, yield curve, etc.) to directional bets on interest rate shifts. Style also includes credit related arbitrage, which typically involves the purchasing (or selling) of corporate issues and the simultaneous selling (or purchasing) of government issues.</i>
GROWTH	<i>Funds typically have long and short equity positions in companies that exhibit an acceleration (or deceleration) of earnings growth, revenues, and market share.</i>
HEALTHCARE/ BIOTECH	<i>Funds typically have long and short equity positions in medical related stocks, which include biotechnology, pharmaceuticals, HMO's, medical devices, etc.</i>
HIGH YIELD	<i>Funds typically have long and short equity positions in non-investment grade corporate bonds, which offer attractive coupon yields. Interest rate risk may or may not be hedged.</i>
INTERNATIONAL	<i>Funds typically have long and short equity positions in the stocks of international companies. Positions can be either growth or value and, in addition to global investments, funds typically have exposure to U.S. companies.</i>
LATIN AMERICA	<i>Funds typically have long and short equity and/or debt positions in companies located in Latin American countries such as Chile, Mexico, Venezuela, Argentina, Brazil, and Ecuador.</i>

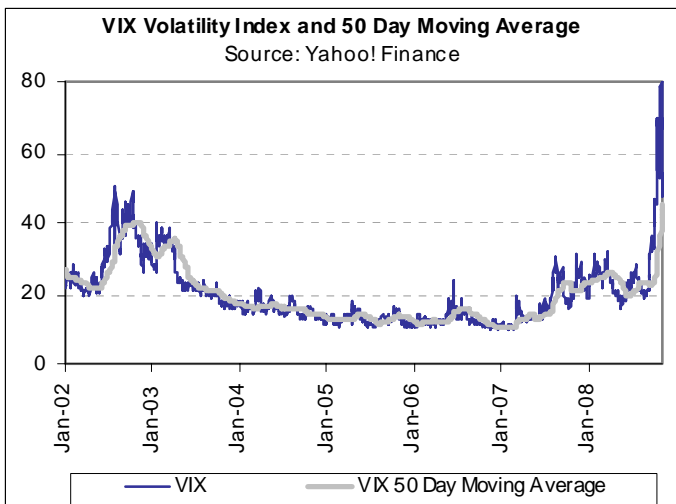
HENNESSEE HEDGE FUND STYLE DEFINITIONS

STYLE	DEFINITION
MACRO	<i>Dominant investment theme is to capitalize on changes in the global macroeconomic environment through participation in the various capital markets. A top-down methodology allows managers of this strategy to utilize all asset classes (equities, bonds, currencies, derivatives) available in the global capital markets.</i>
MARKET NEUTRAL	<i>Funds typically have long and short equity positions with approximately zero net dollar exposure. In addition, some funds will attempt to be beta, sector, and market cap neutral to further reduce equity market risk. Funds within this style utilize a range of methods from quantitative modeling to fundamental pairs trading.</i>
MERGER ARBITRAGE	<i>Style typically involves the simultaneous purchase of stock in a company being acquired and the short sale of stock in the respective acquirer. Many merger arbitrage managers attempt to mitigate deal risk by engaging only in strategic takeovers after they have been announced.</i>
MULTIPLE ARBITRAGE	<i>Style includes funds that employ more than one arbitrage strategy. The portfolio manager opportunistically allocates capital among the various strategies in an attempt to create the best risk/reward profile for the overall fund. Common strategies include merger arbitrage, convertible arbitrage, fixed income arbitrage, long/short equity pairs trading, quantitative equity trading, volatility arbitrage, and distressed investments.</i>
OPPORTUNISTIC	<i>Funds typically have long and short equity positions while maintaining a flexible net exposure to reflect the changing dynamics of the market on a minute-to-minute or day-to-day basis. Investments can be initiated from technical and/or fundamental analysis and portfolio turnover is typically high as managers have a short term investment time horizon.</i>
PIPES/ PRIVATE FINANCING	<i>PIPEs (private investments in public entities) are transactions by which publicly traded companies access new capital through the sale of stock directly to private investors. PIPEs can be transacted with a number of financial instruments, including the issuance of common stock, convertible securities, or warrants. Private financing includes asset based lending/acquisitions and direct loan investing such as mezzanine financing, bridge loans, and debtor in possession financing.</i>
SHORT BIAS	<i>Funds typically have long and short equity positions with an overall net short exposure to the market. Investments can be fundamental, technical, or event driven. This style can be used as a hedge against long-only portfolios and by investors who feel the market is approaching or in a bearish cycle.</i>
TECHNOLOGY	<i>Funds typically have long and short equity positions in technology-related sectors such as semiconductors, hardware, software, networking devices, etc.</i>
TELECOM/ MEDIA	<i>Funds typically have long and short equity positions in the telecommunication and media sectors such as telecommunication services, fiber optics, cable services, publishing, entertainment, programming, broadcasting, etc.</i>
VALUE	<i>Funds typically have long and short equity positions in undervalued companies which trade below their intrinsic value. Undervalued securities may be defined as, but not limited to, equities with low price-to-earnings ratios or low price-to-book value ratios. Managers also focus on companies that generate substantial free cash flow and utilize cash for debt retirement, share repurchase programs, and other methods utilized to realize shareholder value.</i>

Given concerns about the ability of companies to finance deals, the majority of managers have reduced risk in merger arbitrage portfolios. **In addition, managers are devoting a lot of time and effort performing in-depth credit analysis of merging companies. Managers are focusing on deals where the financing risk is minimal because of short timelines and involve well capitalized acquirers,** including General Electric acquiring Vital Sign and Medtronic acquiring Cryocath. Managers are cautious and will closely monitor markets in coming weeks as several large financing packages come to market.

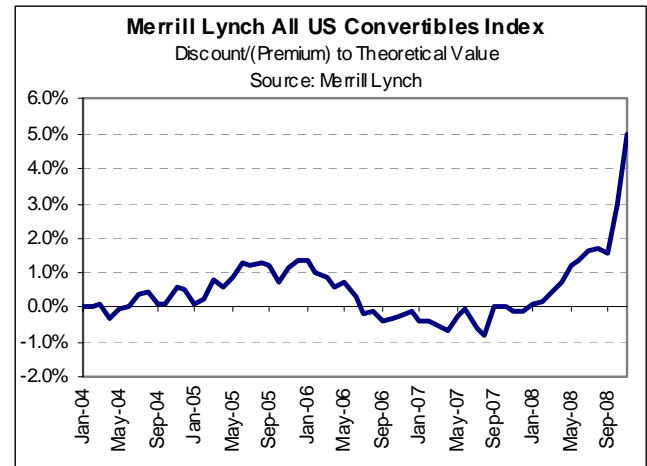
The Hennessee Convertible Arbitrage Index declined -10.38% (-21.34% YTD). Convertible funds faced their second double-digit monthly decline in a row and are experiencing their worst consecutive loss in history. In October, sharply widening credit spreads and secondary market cheapening made negative contributions, while volatility and interest rates positively contributed. **In addition, managers faced higher funding costs, restrictive margin requirements, forced selling, and continued deleveraging.**

Credit sensitive names came under considerable stress due to concerns about economic conditions both domestically and globally, and fear that the credit markets would remain frozen for companies that have near-term cash needs. Spread on the Merrill Lynch High Yield Index widened from 1096 bps to 1617 during the month.



Volatility continued to increase, as measured by the VIX, which increased from 39.39 to 59.89, hit-

ting 80 in late October, a historical high. All measures of volatility spiked as 90-day average equity volatility spiked from 65.9% to 93.4% in October. Implied volatility currently trades at a sizable discount to realized volatility.



The average discount to theoretical for the All US Convertibles Index rose sharply from 2.97% cheap to 5.00% cheap in October and hit a high of 6.38% in the third week of October.

In 2005, a year that experienced a severe dislocation in the convertible bond market, U.S. investment grade convertible bonds were trading at a discount of 5 volatility points versus listed options and historical realized volatility. In the following year, the Hennessee Convertible Arbitrage Index was up more than +12%, its best performance in 6 years. According to managers, **the current dislocation is substantially greater. Currently, U.S. investment grade convertible bonds trading at discounts of 25 to 40 volatility points versus listed options and historical realized stock volatility.** Many expect that once markets stabilize we could see another year of outperformance.

Managers state that valuations are extremely attractive and should be realized as capital returns and markets stabilize. Some managers are targeting short-dated, first-out paper, which continues to be well bid, as a growing number of companies have bought back bonds or are considering it. **As a result of the attractive opportunities in the convertible market, managers are beginning to see non-traditional buyers entering the market and purchasing convertibles.** Several managers state that a number of large fixed

income funds, distressed buyers and traditional equity funds are investing in this asset class as they see attractive yields, cheap stock-options, and signs the market has stabilized.

Several managers report that the Asian convertible bond market also looks attractive as it has experienced its worst period ever, due largely in part to hedge fund liquidations and selling. This has led to massive cheapening in Asian convertibles without material changes to issuers' fundamentals.

The last couple months have been extremely challenging for convertible portfolios. It is possible that the strategy will continue to see forced selling pressure as many funds struggle to remain in business. **However, for funds that are able to weather these challenging environments, there should be incredible opportunity.** Currently, funds are managing leverage in a conservative and defensive manner until visibility improves.

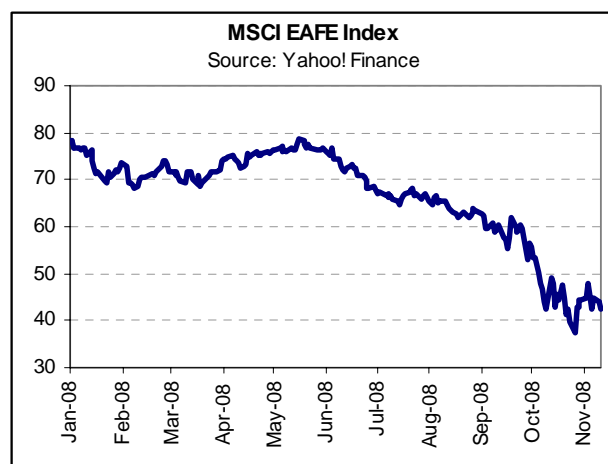
Managers continue to remind investors that financial panics are painful to live through, but create incredible investment opportunities. It is important for investors to evaluate as to whether losses are realized or unrealized. Managers are forced to mark-to-market losses, but should be able to retrace quickly as redemption-based selling comes to an end and markets stabilize.

In addition, providers of liquidity in times of crisis can reap out-sized gains in the following years. However, managers must remain solvent to maintain a long term investment horizon. **We believe that there is tremendous long-term opportunity for hedge funds who have been sitting on the sidelines to get back in the game and expect 2009 to be a good year for many strategies.**

Global/Macro

(YTD: -17.68% / Oct: -5.48%)

The Hennessee Global Macro Index declined -5.48% in October (YTD: -17.68%). International managers suffered losses as global markets plunged in October, devastating long portfolios. Macro managers suffered losses in global equity positions, but they were more than offset by gains in fixed income and currency themes.



In the U.S., the S&P experienced its largest monthly loss in over 20 years. **International markets fared even worse, with the MSCI EAFE falling by -20.24% (YTD: -45.02%).** Inter-month volatility was extreme, with several days where returns moved more than 4% in either direction. Equities crashed as frozen credit markets and heavy selling due to deleveraging and a flight to quality took their toll. The TED spread, the difference between the three-month T-bill and the three-month LIBOR, a measure of severe risk aversion, hit a record high of 464 basis points on October 10. Emerging and commodity-linked markets dropped considerably in reaction to falling commodity prices and increasing risk from slowing global growth. **Hedge funds held up relatively well, as they were down only -4.27% (YTD: -19.79%), according to the Hennessee International Index, outperforming benchmarks by a wide margin.** In an effort to calm the global financial panic, central banks across the globe participated in the largest and most coordinated monetary policy move in history with simultaneous interest rate cuts, injections of liquidity, and economic stimulus packages.

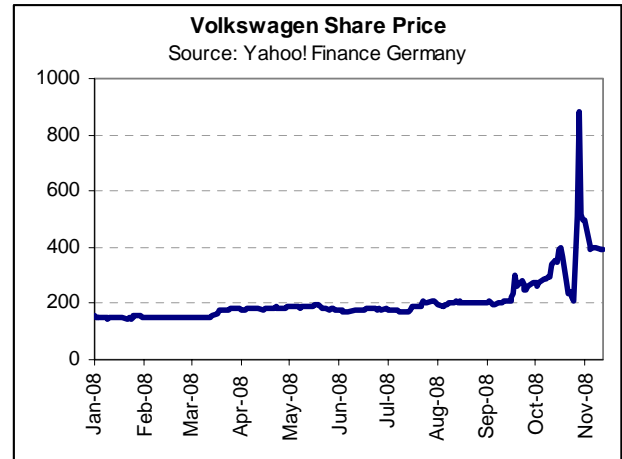
Global Interest Rates September 30 to Current (As of 11/06/08)			
	Rate Cuts (bps)	September Rate	Current Rates
US	-100	2.00%	1.00%
ECB	-100	4.25%	3.25%
BOE	-200	5.00%	3.00%
China	-54	7.20%	6.66%
Japan	-20	0.50%	0.30%
Taiwan	-25	3.50%	3.25%
Australia	-125	6.00%	5.25%
Canada	-75	3.00%	2.25%
Switzerland	-100	3.00%	2.00%
Hong Kong	-150	3.50%	2.00%

*September rates are taken as of 9/30/08

European markets suffered a sharp sell-off as MSCI Europe was down -21.32% (-45.02% YTD). Germany's DAX lost -22.6%, France's CAC lost -21.7% and the UK's FTSE lost -18.9% while Greece, Austria and Belgium experienced declines greater than -36%. Results were exacerbated by strength in the dollar, which appreciated nearly 11% vs. the euro. Hedge funds were down significantly as the Hennessee Europe Index as down -7.90% (-15.81% YTD). Managers have been concerned that the ECB's reluctance to lower interest rates because of fear of inflation would ultimately choke off economic growth. The ECB and Bank of England finally woke up and took some key steps in lowering rates in October, but many are concerned that it might be too late. Several managers are concerned with a possible sell off of the British pound given the -200 basis point rate cut in October. Positions in Eastern Europe were especially hurt as emerging markets declined sharply as investors shifted from a focus on inflation to a focus on slowing growth. Falling commodity prices have negatively affected trade for several countries, notably Russia where the equity market fell 32%. Several managers state that valuations are compelling; however, they remain cautiously positioned given the negative headwinds confronting the real economy and the heightened market volatility. In addition, deleveraging and liquidity pressures have overwhelmed fundamentals. Short term, most are focusing on managing an active short book to offset losses in long portfolios.

During the month, several hedge fund managers experienced significant losses on short positions in Volkswagen, a popular hedge fund short. Volkswagen's stock price surged after Porsche unveiled its increased ownership of stock and options, which totaled over 70% of the company, triggering a massive

short squeeze as managers rushed to cover positions. The stock price surged +500% in a matter of days. Managers had shorted the stock as Volkswagen's valuation multiples were extremely high, with the P/E multiples of 50x and a market capitalization of almost €300bn. At one point Volkswagen's market cap exceeded the combined market caps of the other 29 DAX members. Volkswagen's weight within the DAX increased significantly to represent up to 25% of the index, triggering another wave of buys, this time from long-only funds tracking the index. While Volkswagen stock has retraced a significant portion of its gains, the short squeeze, which is possibly one of the largest in history, resulted in significant losses for hedge funds.



Asian markets suffered losses as slowing global growth and declining commodity prices caused investors to flee to safer assets. The MSCI Asia Ex Japan returned -24.17% (YTD: -55.04%) with weekly returns ranging from -2% to -17%, showing dramatic volatility. China and Hong Kong were down over -22%. Hedge funds declined as well, with the Hennessee Asia-Pacific Index down -5.23% (-20.95% YTD), significantly less than equity markets.

Japan's Nikkei finished down over -24%, and hit a 26 year low mid-month. The Bank of Japan has lowered its interest rate from .5% to .3% and announced a \$51 billion stimulus package, the second stimulus package in two months. Managers saw declines as growth rate estimates for the current fiscal year were cut to .1%, down from the earlier estimate of 1.2% and 2009's projected growth rate was cut from 1.2%

to .6%. The surging yen caused a decrease in exports and an increase in prices, leading to decreased spending in the country. The retail sector was most hurt, with large companies seeing significant declines, including Honda Motor, Panasonic and Toyota Motor Corp, which had a fall in sales of 23%. However, managers are somewhat optimistic on Japan as the country looks to be one of the least affected by the credit freeze.

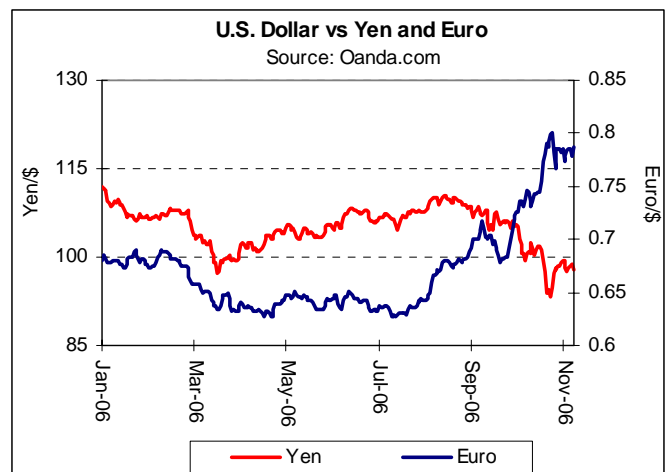
The MSCI Emerging Markets index lost -27.4% (-54.20%) in dollar terms, led by Hungary and Argentina, down over -42% each and Russia, down -35%. Hedge funds had the worst performance of the month, finishing down -11.64% (YTD: -28.16%). Lower global growth expectations and declining commodity prices as well as deleveraging and a massive flight to quality caused significant downside pressure. Emerging markets currencies plunged as investors fled into U.S. dollars. While managers are concerned about the outlook for global growth, valuations of emerging markets have cheapened significantly over the last 12 months and many believe current prices are discounting a significant global recession.

Recent economic data suggest that much of the developed world is in recession. Many managers expect that Q4 and early Q1 will show many economic data points at all-time lows. The slowing growth and recent declines in commodity prices should result in sharply lower inflation over the coming months. **Managers have quickly shifted focus from concerns about inflation to concerns about growth.**

Most expect that next quarters will be extremely challenging for the real economy and likely last until the end of Q1 2009 at the earliest. How protracted the slowdown will be determined by the effectiveness of fiscal and monetary measures. Positive steps include global rate cuts, guarantees of bank debt, direct Fed purchase of commercial paper and Treasury preferred equity investment in banks. In addition, China announced a major fiscal stimulus package. **Given the very significant challenges to the global economy and extremely volatile equity markets, managers are maintaining low gross and net exposures.**

The Hennessee Macro Index advanced +0.61% in October (YTD -0.29%), and was one of the best performing strategies as managers were able to offset losses in equities with gains in currencies and fixed income themes.

The dollar had its largest rally against the euro since 1999, increasing +11%, and increased relative to all countries but Japan. The dollar strengthened from 1.4449 to 1.30550 dollars per euro. Emerging market currencies, such as Indonesia, India and Korea were especially hurt as foreign ownership significantly diminished. The Mexican peso hit an all-time low against the dollar. Most managers made money in currencies, which came primarily from short positions in New Zealand Dollar and Euro against long positions in Japanese Yen and the US dollar.



The dollar fell -7% against the yen and hit multi-month highs against the dollar and euro as investors unwound carry trades. The dollar weakened from 105.904 to 98.226 yen per dollar, but it continued to be well bid versus other Asian currencies, which have been sold across the board. Investors sold higher-yielding currencies (like the New Zealand Dollar) and bought back the yen. While managers have been bullish on the yen and the dollar, several state that the dramatic moves in October may have gotten ahead of themselves and expect a possible retracement in coming months. Thus, many have reduced position sizes.

Several managers state that efforts to strengthen the U.S. dollar earlier this year have overshot their purpose. Inflation risk has subsided, however, now

H E N N E S S E E

HEDGE FUND REVIEW®

Informed.

The hedge fund industry's only research based publication, featuring the Hennessee Hedge Fund Indices®, one of the oldest and most widely sourced hedge fund benchmarks since 1987.

SUBSCRIPTION INVOICE

NAME: _____

ADDRESS: _____

CITY: _____ STATE: _____ ZIP: _____

EMAIL ADDRESS: _____

QUANTITY	PRICE	DESCRIPTION	TOTAL
	\$500 USD \$400 USD (20% Discount)	1 YEAR SUBSCRIPTION: 12 ISSUES	\$
	\$1,000 USD \$700 USD (30% Discount)	2 YEAR SUBSCRIPTION: 24 ISSUES	\$

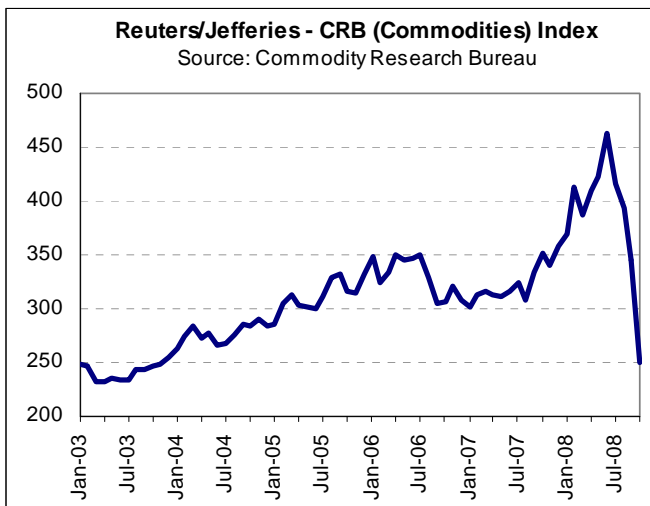
PLEASE MAKE CHECKS PAYABLE TO:

HENNESSEE GROUP LLC
500 Fifth Avenue, 47th Floor,
New York, NY 10110

emerging markets have to deal with lower commodity prices and a stronger dollar. The higher dollar will have a negative effect on U.S. exports at the same time as a decline in domestic demand. **Several managers think that there is a case for weaker dollar due to low interest rates in the US and rapidly growing money supply.** Some managers are looking to short the U.S. dollar.

Managers also posted a positive return in fixed income. **One of the key themes has been betting on a decline in short term European interest rates through EUR 2/10 “curve steepeners”.** Managers continue to believe that interest rate curves across the developed world will steepen and are maintaining their positions in EUR 2/10s swap curve.

Commodities continued their sharp sell off as the Goldman Sachs Commodity Index lost -27.8% for the month, with every component posting losses. Oil dropped -32.6% for the month, bottoming below \$70 for the first time since June 2007 and turning in its worst month since oil futures began trading in 1983. Oil actually broke below \$60 per barrel, a dramatic difference from the \$140 per barrel of not too long ago. Natural gas continued to fall, declining -8.8%. Gold fell -17.8% to finish the month at \$718. Copper was down -36.1%, and platinum fell -18.1%. Agricultural commodities all fell, as corn and cocoa declined -17.6% and -19.7% during the month, respectively.



Most investors are concerned that the weakening economic outlook will cause demand destruction. Most managers had negligible performance contribution in commodities (small gains or losses) as most have reduced their exposure in recent weeks. **Several managers are growing more bullish on the long-term outlook for commodities.** The reflation process, due to the influx of liquidity, should lead to higher commodity prices. Managers remain cautious and are waiting for further fundamental improvement before investing. **However, some have started to build commodity positions, most notably in gold, as prices are attractive, and because reflation and a negative supply response should eventually turn even the cyclical commodities around.**

A new macro theme for some managers is a long position in US investment grade debt. Deleveraging has taken its toll on credit. Some managers believe that valuations are compelling, as debt is yielding 6%, which is adequate level of risk for a decent nominal return. Many macro managers still have a “global recession trade” in recent weeks. They are short equities and credit, while long duration bonds.

Macro managers are essentially flat for the year, despite the pervasive damage across global asset classes. Macro managers have done well relative to benchmarks as they have been able to find some compelling themes, including “curve steepeners” and currency plays that have offset losses in global equities. **Many remain cautious but feel optimistic in their ability to find trades that will generate profits.**

HENNESSEE HEDGE HOG CORNER

The following are extracts from research related to hedge fund managers we monitor and do not necessarily represent the views of the Hennessee Group LLC:

We are maintaining our **smallest gross exposure** in the history of our firm as markets remain volatile and unpredictable.

We are **long duration bonds and short equities and credits** as we expect a global recession.

We think the **convertible arbitrage market is offering the most compelling valuations** in history. Forced selling has created an incredible dislocation.

We expect to shift our portfolio from short credit to **long distressed** over the next six months.

We think the large rally at the end of October was just a **bear market rally** and we expect the markets to retest lows in November.

We feel that valuations in **emerging markets are extremely compelling**, but realize the flight to quality may continue.

We are seeing really attractive **opportunities across the board**. We are sitting on a lot of cash and doing work on positions we like. Once markets start reacting to fundamentals, we will be putting a lot of money to work.

We feel that this crisis, which began as a result of housing, will continue until we see some **stability in housing**.

We are **starting to put our cash to work in special situations** and are spending time looking at different issues in the capital structure.

We **like stocks** because they have not been this cheap since the 1970s when 15% inflation was plaguing the world, unemployment in the U.S. was 10%, and the ten year Treasury bond yielded almost 16%.

We are **buying gold** as we believe that all the money that central banks are injecting into the system is going to have to go somewhere.

Over the next two years, we believe **the highest return opportunities will be in the distressed area**. We estimate that the supply of distressed debt will simply overwhelm the amount of capital in the area.

We believe that investors will now look for the **counter-cyclical "Safe-spaces"**.

We are **looking at dividend paying stocks** as a record percent of S&P 500 companies (ex financials) now have a dividend yield in excess of the 10-year T-bond yield.

We are **buying senior secured bank debt** as there is great security and attractive yields, due to selling by levered investors.

We are a long/short equity fund by we are **buying some convertible shares** as we get an attractive yield and option on the stock.

We are looking to **invest in hedge fund managers** that have demonstrated the ability to preserve capital in an extremely challenging year and that have historically been able to generate real returns without the use of excessive leverage.

We believe that **2009 will be a great year for hedge funds**. While the economy will likely struggle, there should be good opportunities for both long and shorts, which is a great environment for alpha generation.

We are using every sell off to **add to our core positions** are more attractive prices.

We are **staying market neutral** as we are not confident in the ability of the government to restore confidence in the markets.

We are **net short** as we expect the deleveraging process to last another 12 to 18 months.

We are **buying assets at fire sale prices** as there is a plethora of desperate sellers out there.

MONTHLY RANK 2008 (Net)	YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	20	22	8	20	11	22	23	17	21	8	15		
CONVERTIBLE ARBITRAGE INDEX	22	3	20	14	18	17	10	10	13	22	22		
DISTRESSED INDEX	17	13	18	6	14	9	15	21	16	15	16		
EMERGING MARKETS INDEX	23	16	3	19	8	13	17	23	23	21	23		
EUROPE INDEX	14	17	4	10	9	6	12	19	10	12	20		
EVENT DRIVEN INDEX	21	14	15	12	16	10	16	20	3	23	19		
FINANCIAL EQUITIES INDEX	15	5	14	23	22	20	21	2	1	19	9		
FIXED INCOME INDEX	3	4	23	5	15	18	7	4	6	4	2		
GROWTH INDEX	16	21	17	17	4	1	9	18	18	13	17		
HEALTHCARE AND BIOTECH INDEX	12	20	19	22	6	7	6	1	14	16	8		
HIGH YIELD INDEX	5	7	21	7	12	11	8	7	11	5	3		
INTERNATIONAL INDEX	18	18	5	21	5	12	19	22	15	20	13		
LATIN AMERICA INDEX	9	11	1	18	3	4	14	8	22	14	11		
MACRO INDEX	2	2	6	13	10	15	3	13	20	3	4		
MARKET NEUTRAL INDEX	7	9	9	9	21	19	2	14	12	11	6		
MERGER ARBITRAGE INDEX	4	8	10	3	13	14	13	3	2	6	5		
MULTIPLE ARBITRAGE INDEX	13	6	12	11	19	8	5	11	9	18	18		
OPPORTUNISTIC INDEX	8	12	7	8	17	2	4	16	17	10	12		
PIPES/PRIVATE FINANCING INDEX	6	10	11	4	20	21	11	12	8	2	7		
SHORT BIASED INDEX	1	1	2	1	23	23	1	6	19	1	1		
TECHNOLOGY INDEX	11	23	22	2	2	16	18	5	4	7	14		
TELECOM AND MEDIA INDEX	10	19	13	15	1	5	20	9	5	9	10		
VALUE INDEX	19	15	16	16	7	3	22	15	7	17	21		

The Hennessee Hedge Fund Indices® are calculated from performance data supplied by a diversified group of hedge funds monitored by the Hennessee Hedge Fund Advisory Group. The Hennessee Hedge Fund Index is an equally-weighted average of the funds in the Hennessee Hedge Fund Indices®. The funds in the Hennessee Hedge Fund Index are believed to be statistically representative of the larger Hennessee Universe of over 3,500 hedge funds and are not of fees and unaudited. The hedge fund performance data has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is no guarantee of future returns. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund. ALL RIGHTS RESERVED.

HENNESSEE HEDGE FUND INDICES®

HEDGE FUND ADVISORY

2008 (Net)	YTD	YTD RANK	% of mgrs. >S&P, ytd	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	-20.95%	20		-5.06%	1.32%	-3.23%	1.64%	0.55%	-4.03%	-2.35%	-2.61%	-3.92%	-5.23%		
CONVERTIBLE ARBITRAGE INDEX	-21.34%	22		0.44%	-0.25%	-2.36%	0.87%	1.28%	-0.30%	-1.43%	-0.64%	-10.06%	-10.38%		
DISTRESSED INDEX	-17.70%	17		-2.79%	0.04%	-1.31%	1.39%	1.83%	-1.71%	-3.08%	-1.34%	-6.53%	-5.48%		
EMERGING MARKETS INDEX	-28.16%	23		-3.73%	2.95%	-3.21%	1.86%	1.51%	-2.53%	-3.86%	-3.70%	-9.17%	-11.64%		
EUROPE INDEX	-15.81%	14		-3.91%	2.60%	-1.91%	1.78%	2.28%	-1.04%	-2.44%	-0.26%	-5.71%	-7.90%		
EVENT DRIVEN INDEX	-21.14%	21		-3.18%	0.51%	-2.10%	1.27%	1.60%	-2.25%	-2.72%	0.80%	-10.15%	-6.59%		
FINANCIAL EQUITIES INDEX	-16.09%	15		-0.75%	0.72%	-3.81%	-1.05%	0.83%	-3.65%	0.47%	2.00%	-7.91%	-3.81%		
FIXED INCOME INDEX	-0.60%	3		-0.66%	-2.80%	-1.26%	1.38%	1.03%	-0.04%	0.10%	0.49%	-2.24%	3.54%		
GROWTH INDEX	-16.18%	16		-4.74%	0.32%	-2.74%	2.75%	3.57%	-0.29%	-2.40%	-1.61%	-6.03%	-5.83%		
HEALTHCARE AND BIOTECH IN-	-12.48%	12		-4.52%	-0.09%	-3.55%	2.59%	1.91%	0.00%	2.58%	-1.23%	-6.93%	-3.51%		
HIGH YIELD INDEX	-2.41%	5		-1.31%	-0.39%	-1.33%	1.57%	1.53%	-0.14%	-0.74%	-0.36%	-2.56%	1.38%		
INTERNATIONAL INDEX	-19.79%	18		-3.97%	2.57%	-3.25%	2.67%	1.52%	-3.05%	-3.67%	-1.23%	-8.58%	-4.27%		
LATIN AMERICA INDEX	-10.77%	9		-1.98%	3.52%	-2.81%	3.52%	2.88%	-1.69%	-1.07%	-3.09%	-6.05%	-4.07%		
MACRO INDEX	-0.29%	2		1.16%	2.29%	-2.19%	1.66%	1.46%	0.99%	-1.64%	-2.28%	-2.21%	0.61%		
MARKET NEUTRAL INDEX	-7.49%	7		-1.71%	1.17%	-1.53%	-0.71%	1.03%	2.47%	-1.90%	-0.53%	-5.38%	-0.47%		
MERGER ARBITRAGE INDEX	-0.86%	4		-1.51%	1.07%	-0.71%	1.40%	1.49%	-1.07%	0.23%	1.19%	-2.68%	-0.18%		
MULTIPLE ARBITRAGE INDEX	-13.67%	13		-1.30%	0.89%	-1.93%	0.78%	1.90%	0.02%	-1.46%	-0.02%	-7.08%	-5.98%		
OPPORTUNISTIC INDEX	-10.69%	8		-2.62%	1.80%	-1.45%	1.14%	3.18%	0.18%	-2.06%	-1.56%	-5.33%	-4.19%		
PIPES/PRIVATE FINANCING INDEX	-6.21%	6		-1.94%	0.96%	-1.01%	0.49%	0.82%	-0.83%	-1.49%	0.30%	-1.04%	-2.57%		
SHORT BIASED INDEX	23.24%	1		4.71%	3.13%	1.27%	-3.20%	-1.48%	7.13%	-0.39%	-2.23%	2.43%	10.57%		
TECHNOLOGY INDEX	-12.16%	11		-6.19%	-0.52%	0.28%	3.75%	1.46%	-2.70%	-0.38%	0.62%	-3.60%	-5.17%		
TELECOM AND MEDIA INDEX	-11.62%	10		-4.42%	0.76%	-2.40%	5.48%	2.40%	-3.61%	-1.31%	0.55%	-5.23%	-3.95%		
VALUE INDEX	-19.93%	19		-3.68%	0.44%	-2.47%	2.57%	2.90%	-3.76%	-2.01%	0.48%	-7.02%	-8.74%		
HENNESSEE HEDGE FUND INDEX	-15.30%		91%	-2.89%	0.88%	-2.11%	1.74%	1.94%	-1.29%	-1.78%	-0.79%	-6.30%	-5.52%		
LONG/SHORT EQUITY	-14.31%			-3.52%	0.60%	-2.10%	1.96%	2.37%	-1.25%	-1.26%	-0.40%	-5.87%	-5.49%		
ARBITRAGE/EVENT DRIVEN	-13.45%			-1.61%	0.04%	-1.61%	1.15%	1.52%	-0.91%	-1.57%	-0.01%	-6.35%	-4.70%		
GLOBAL/MACRO	-17.68%			-3.35%	2.32%	-2.81%	1.99%	1.48%	-2.21%	-2.58%	-2.18%	-6.05%	-5.48%		
DJIA	-29.70%			-4.63%	-3.04%	-0.03%	4.54%	-1.42%	-10.19%	0.25%	1.45%	-6.00%	-14.06%		
LEHMAN AGGREGATE INDEX	-1.73%			1.68%	0.14%	0.34%	-0.21%	-0.73%	-0.08%	-0.08%	0.95%	-1.34%	-2.36%		
MSCI EAFE (USD) PRICE INDEX	-45.02%			-9.29%	1.27%	-1.52%	4.95%	0.28%	-8.31%	-3.28%	-4.29%	-14.71%	-20.24%		
NASDAQ	-35.11%			-9.89%	-4.95%	0.34%	5.87%	4.55%	-9.10%	1.42%	1.80%	-11.64%	-17.73%		
RUSSELL 2000	-29.83%			-6.88%	-3.80%	0.26%	4.10%	4.48%	-7.83%	3.61%	3.50%	-8.10%	-20.90%		
S&P 500	-34.02%			-6.12%	-3.48%	-0.60%	4.75%	1.07%	-8.60%	-0.99%	1.22%	-9.08%	-16.94%		

The Hennessee Hedge Fund Indices® are calculated from performance data reported to the Hennessee Hedge Fund Advisory Group by a diversified group of hedge funds. The Hennessee Hedge Fund Index is an equally-weighted average of the funds in the Hennessee Hedge Fund Indices®. The funds in the Hennessee Hedge Fund Index are believed to be statistically representative of the larger Hennessee Universe of over 3,500 hedge funds and are net of fees and unaudited. The hedge fund performance data has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is no guarantee of future returns. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund. ALL RIGHTS RESERVED.