

# HENNESSEE

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## HEDGE FUND REVIEW®

**JANUARY 2006**  
**VOLUME 8 ISSUE 1**

**DEC**

**YTD**

<b>MARKET SUMMARY</b>	<b>1</b>	<b>HENNESSEE HEDGE FUND INDEX</b>	+1.80%	+8.03%
<b>HEDGE FUND PERFORMANCE SUMMARY</b>	<b>3</b>	<b>S&amp;P 500 (DRI)</b>	+0.04%	+4.90%
<b>STYLE PERFORMANCE SUMMARIES</b>	<b>3</b>	<b>LONG/SHORT EQUITY*</b>	+1.51%	+6.98%
<b>Long/Short Equity</b>	<b>3</b>	<b>ARBITRAGE/EVENT DRIVEN**</b>	+1.33%	+5.30%
<b>Arbitrage/Event Driven</b>	<b>6</b>	<b>GLOBAL/MACRO</b>	+3.04%	+14.27%
<b>Global/Macro</b>	<b>12</b>	<b>PERCENTAGE OF LONG/SHORT EQUITY*</b>		
		<b>MANAGERS OUTPERFORMING THE:</b>		
		S&P 500 (DRI)	85%	49%
		<b>TOP (3) PERFORMING:</b>	<b><u>DEC</u></b>	<b><u>YTD</u></b>
		Asia - Pacific	+5.44%	Asia - Pacific +19.94%
		Europe	+3.72%	Latin America +19.72%
		Distressed	+2.27%	Europe +16.23%
		<b>BOTTOM (3) PERFORMING:</b>	<b><u>DEC</u></b>	<b><u>YTD</u></b>
		Short Biased	+0.01%	Convertible Arbitrage -2.20%
		Technology	+0.13%	Healthcare and Biotech +2.71%
		Market Neutral	+0.39%	Financial Equities +3.54%
		* PREVIOUSLY NAMED CORRELATED		
		** PREVIOUSLY NAMED NON-CORRELATED		
<b>MONTHLY FEATURES</b>		<b>MARKET SUMMARY - DECEMBER 2005</b>		
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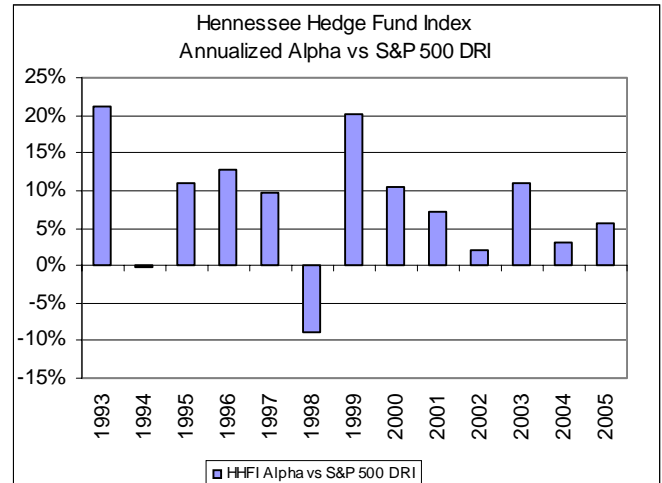
U.S. equity markets posted small returns in 2005, as the effects of higher interest rates and oil prices offset the benefits of strong economic growth and solid corporate earnings. While the S&P 500 DRI advanced +4.9% for the year, the Dow Jones Industrial Average declined -0.6%. International stocks posted better returns, with the Nikkei 225 advancing +40.2% and the Dow Jones Euro Stoxx 50 advancing +20.7% in

U.S. dollar terms. Bonds also posted small returns although yields did not rise as much as the consensus expected, as the Lehman Aggregate Bond Index advanced +2.4%.

**Hedge funds outperformed the U.S. equity markets, as the Hennessee Hedge Fund Index advanced +1.80% for December and +8.03% for the year.** Hedge funds were maligned for

much of the year for not providing returns as they once have. However, a closer look at the numbers is fairly revealing. Given the relative lack of market exposure by most funds, the Hennessee Hedge Fund Index generated annualized alpha of +5.7% in 2005. While this measure is lower than in previous years, annualized alpha of 5.7% is certainly respectable.

Most of the profits in 2005 were generated in long portfolios. While most managers were able to outperform the market on the short side (shorts generally went up less than the market), most still posted slight losses. **Low corporate bond yields and high levels of liquidity in the debt and private equity markets have provided a safety net for many struggling companies and a difficult market for short sellers.**



However, most managers have elected to stay the course on the short side, recognizing that once the excess amount of liquidity is removed, they are likely to be paid well on the shorts.

**The “goldilocks” economy continued through most of the year, as economic growth remained robust in 2005 with relatively tame inflation.** GDP growth averaged 3.0% to 4.0% for each of the four quarters, while the employment situation continued to improve, with the exception of a small drop in employment during September as a result of Hurricanes Katrina and Rita. For all of 2005, the economy added approximately 2 million jobs, a solid amount and about the same amount as last year, while the unemployment rate fell to 4.9%. Core inflation remained relatively tame for most of the year, although it did tick up as a result of high oil and commodity prices. Oil reached an all time high above \$70 per barrel in August.

A recent survey conducted by the Wall Street Journal of 56 economists indicated that the consensus is for GDP growth of 3.5% in the first half of 2006 and 3.1% in the second half of 2006. While this would still be respectable and represent a continuation of the “goldilocks” economy, it would also represent a slowdown relative to the last 3 years. Should economists end up being correct, the Fed would likely have succeeded in engineering its desired “soft landing.”

**The Federal Reserve raised its target for the Federal Funds rate at each of its FOMC meetings in 2005, intending to obtain a “neutral” monetary policy.** As such, Fed Funds increased from 2.25% to 4.25%. Longer term Treasuries failed to follow suit,

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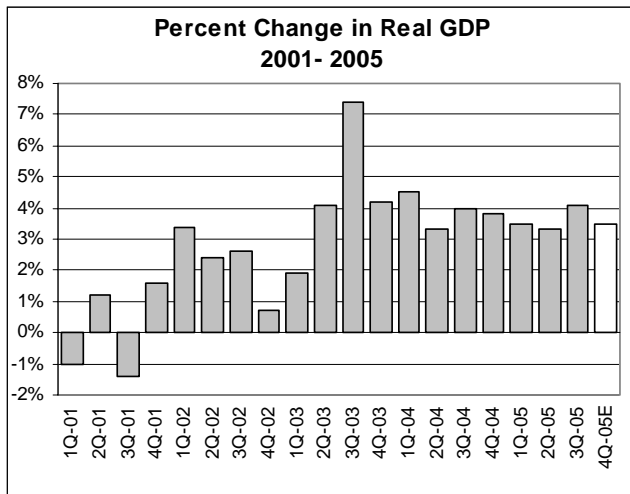
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*Hennessee Hedge Fund Review*® is published  
twelve times a year from:  
Hennessee Group LLC  
500 Fifth Avenue, 47th fl.  
New York, N.Y. 10110

To subscribe, please contact us by  
Phone: 212.857.4400 or by  
Fax: 212.768.8190  
Annual Subscription rate: \$500  
(\$600 International)

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and the yield curve (spread between 2 Year Treasuries and 10 Year Treasuries) subsequently inverted during December. Many are disputing the claim that an inverted yield curve is an indicator of a coming recession, contending that long term yields are artificially low because of purchases by yield starved Asian central banks and global pension plans. Going forward, the market is expecting rates to increase by 25 basis points at the next FOMC meeting on January 31 and another 25 basis point later in the year, bringing the Fed Funds rate to 4.75%. Still, most expect Bernanke to err on the side of being hawkish in an attempt to gain the respect of the market once he takes over for Greenspan in February.



Should earnings meet expectations for the fourth quarter, earnings for companies in the S&P 500 will have advanced 13.2% in 2005. After two years of P/E multiple contraction, the S&P 500 is currently trading at 14 times 2006 operating profits. While it shouldn't surprise many that earnings contracted over the past two years due to 13 consecutive interest rate hikes, many are predicting a period of multiple expansion once the Fed ends its interest rate campaign. Currently, analysts expect earnings at S&P 500 companies to grow 11.4% in 2006, according to Standard & Poor's. That's down from an estimated 13.2% in 2005 and 20.2% in 2004, but another year of double-digit earnings growth would break the previous record of 13 consecutive quarters. Since 1950, there have been only two other instances of at least 10 consecutive quarters of double-digit growth: between 1972 and 1974 and between 1992 and 1995. **With stocks trading at 14 times 2006 earnings, many hedge fund managers are predicting a good equity**

market should earnings meet or exceed expectations.

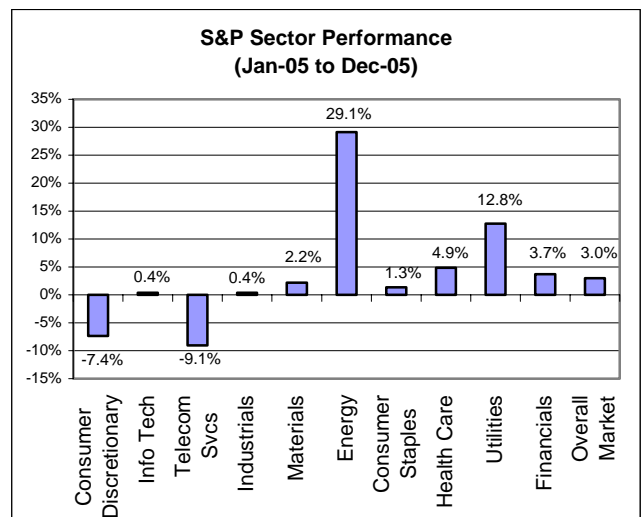
## HEDGE FUND PERFORMANCE SUMMARY – DECEMBER

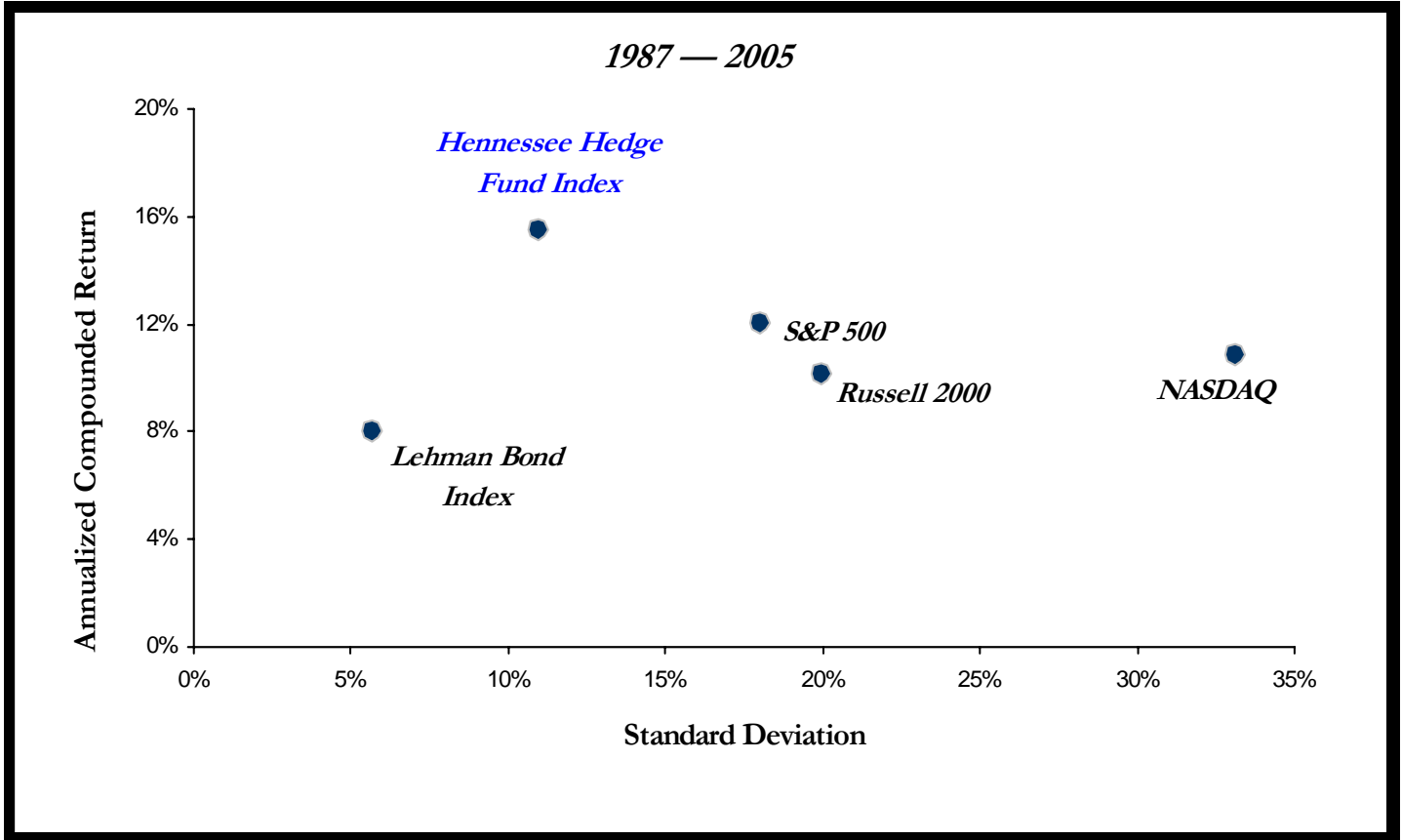
### Long/Short Equity

(YTD: +6.98% / DEC: +1.51%)

Long/short equity managers outperformed the broad equity markets in December, as the S&P 500 DRI advanced +0.04%. Hedge fund managers finished the year strong while the equity markets stalled, allowing managers to generate additional alpha. For the year, hedge fund managers have outperformed the indices on both an absolute and risk-adjusted basis, as the S&P 500 was up +4.90%, the NASDAQ was up +1.38% and the Dow Jones Industrial Average was down -0.63%, its first negative year since 2002.

Long/short managers produced solid returns on a risk-adjusted basis in 2005. **Many managers capitalized on energy and international bets to generate outsized gains.** Manager's superior performance is also attributable to superior stock selection, allowing managers to outperform while maintaining hedges and reduced exposures. Managers were able to make profits despite most sectors remaining within trading ranges for the majority of the year. **Similar to last year, managers were able to generate profits in the long portfolio, while the short portfolio detracted slightly from overall performance.**





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

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For more information on the Hennessee Hedge Fund Indices®, please visit us at [www.hennesseegroup.com](http://www.hennesseegroup.com) or lookup us up on Bloomberg under the symbol "HHFD".



Managers entered December expecting the traditional “December rally”. However, the major indices declined in the final weeks of 2005, muting annual gains for the broad indices. **Managers increased short exposure during the month and were able to weather the choppy market.** Due to superior stock picks, the average manager finished the year with a profitable month, while the markets tailed off.

**The most profitable sector for managers for the year was clearly energy. Managers betting on the sector were able to produce significant gains, particularly in oil and gas exploration and production.**

The sector was boosted by crude oil’s jump to a record price of \$70.85 a barrel after Hurricane Katrina in August. Since the summer, crude oil has fallen 15% off the highs of \$70. High energy prices allowed companies to generate record earnings. Energy companies added almost \$400 billion in equity value during the year. Valero, a top performer and hedge fund pick, was up +127.1% for the year. Several managers state that energy is still a good investment in 2006 as the sector should see continued consolidation, and stock prices of most exploration and production companies reflect oil prices in the high \$30’s.

**Within the energy sector, natural gas was profit driver in 2005.** Gas prices reached record levels in December, before pulling back during the second half of the month. The prices remain historically high and have driven strong stock performance. Managers posted strong gains in EOG Resources (+128.0% YTD), Burlington Resources (+98.3% YTD), Williams (+53.0% YTD), and Noble Energy (+43.8% YTD).

Utilities were positive for year, up more than +12% according to the S&P Utilities Sector, after a +27% gain in 2004. Gains this year were driven in large part by improving power market fundamentals as well as completion of back to basics strategies implemented by a number of management teams in the post Enron/Western Power Crisis era. Companies with leverage to rising commodity prices saw the greatest gains, including TXU (+59.3% YTD), Edison International (+36.9% YTD) and Allegheny Energy (+60.6% YTD).

**For the second year in a row, growth managers continued to favor Google and Apple Computer.** Google’s earnings and growth prospects continue to exceed investor expectations as the stock increased

+115.2% for the year. Apple Computer continues to increase market share and introduce new products, which helped the stock price rise +123.3% for the year. In addition, managers made gains in Hewlett Packard (+48.0% YTD) as investors responded positively to the company’s cost restructuring plan. There were several losers in the sector, as Dell, IBM and Cisco all disappointed.

Travelzoo, last year’s top performing stock, up almost 1000% in 2004, was one of 2005’s worst performing stock as it fell -74.8% during the year. The stock was clearly overvalued at the beginning of the year and managers who were able to get a short position on the company generated nice profits on the trade. Other profitable short positions included eCost, which fell -92.7% during the year. Managers also shorted General Motors, which struggled with labor costs and high energy prices, resulting in a -48.4% stock decline during the year.

**As emerging markets continue to be robust, companies with ties to emerging markets performed well.** Specifically, managers investing in emerging market themes, such as wireless telecom and banking, were able to generate profits. Wireless telecom was a top performer, as America Movil and NII Holding were up +71.9% and +84.1% respectively for the year.

**Managers state that they are bullish on technology for 2006 because of several major product cycles and strong corporate spending from big businesses that are flush with cash.** In addition, some managers predict that telecom will benefit from restructuring efforts in the sector.

The financial sector did modestly well in 2005. Managers made money on brokerage firms as many sector leaders posted record earnings and confirmed guidance. Concerns of rising interest rates and a housing bubble did hurt mortgage related companies. **Managers are bullish on financials and believe that once the Fed signals an end to interest rate hikes, the sector may post a significant rally.**

Homebuilders, a profit driver for managers in 2004, were up modestly in 2005. While talk of a housing bubble contained performance, many managers stated that there was no such bubble in homebuilder stocks as companies trade at reasonable valuations. Companies

do have negative headwinds as inventory has increased, new starts have decreased and price increases have slowed. Managers state that these are cracks in the bubble, however, they are optimistic the bubble will slowly deflate, rather than seeing a sharp correction in prices.

The worst performing sectors for 2005 included consumer discretionary. **Managers continue to be short consumer discretionary and retail companies due to several significant negative factors, including rising interest rates, high energy costs, and a slowing in housing values.** As a result, managers have increased short positions in the sector.

**Several managers were able to generate gains in healthcare, particularly managed care companies, which performed extremely well.** Unitedhealth was a big winner for managers, up +41.2%. Most biotech managers took losses early in 2005, specifically in Elan, which was a popular long position, but were able to recoup the majority of losses on a strong rally in the second half of the year. Pharmaceutical companies performed poorly due to patent and litigation concerns. As an example, Pfizer was down -10.6% for the year. 2006 brings a new Medicare program, which should create interesting opportunities for managers.

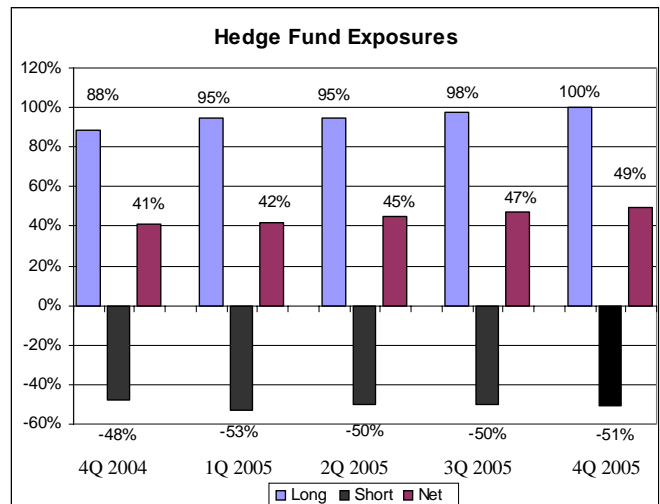
Small cap stocks again outperformed large caps, defying consensus. Small and micro caps have now had above-average gains for the last five years, and the Russell 2000 sits at an all time high. Managers still state that large cap stocks remain attractive with compelling valuations and believe there will be a shift back to large cap for market leadership. **Despite the fact that pundits have been forecasting this for years, managers state that this year looks promising because profit growth outlook is slowing, as well as rising real interest rates, which should favor large caps.**

Last year, managers stated dividend paying stocks would perform well and were proven correct. In 2005, companies in the S&P paid \$200 billion in dividends, a record level. **Managers believe that dividend paying stocks should continue to perform well in 2006.**

**Managers also predict a shift from value to growth and growth at a reasonable price.** While managers are able to find value opportunities, more managers

are seeing more potential in growth and GARP names.

Managers are bullish for 2006 and the first week of trading is certainly an optimistic sign. **Several positive factors include interest rate hikes coming to an end, high levels of free cash flow, private equity firms flush with cash, and fair stock valuations.** However, the market will have to overcome several challenges, including inflation, a flat yield curve, energy prices and the Congressional elections.



**Hedge fund exposures to equities have increased modestly since last quarter and since last year, as seen in the graph above (based on a sample of 50 long/short hedge fund managers).** Managers have modestly increased overall gross exposure and are more invested in the market, a bullish sign. However, managers' net exposures have remained relatively flat, a cautious sign. **Similar to this year, managers believe that 2006 will be a stock pickers market.** Managers start the year optimistic and hopeful, but well hedged.

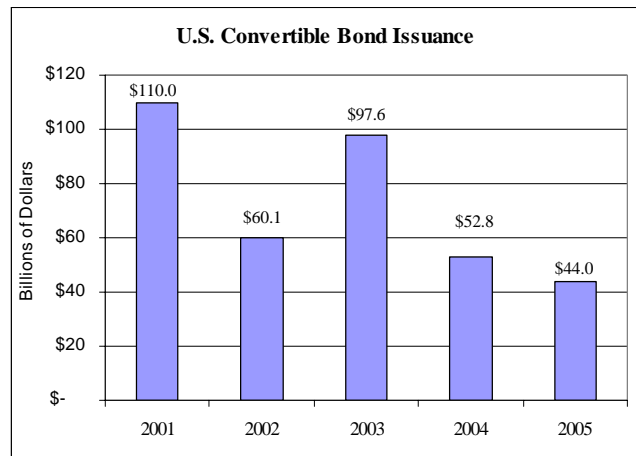
**Arbitrage/Event Driven**

**(YTD: +5.30% / DEC: +1.33%)**

Arbitrage and event driven managers provided modest returns in 2005 as credit oriented and event driven strategies were positive, while convertible arbitrage posted losses. **Arbitrage strategies continue to reflect an environment with low interest rates and high levels of liquidity in the debt and private equity markets, which has caused risk premiums to**

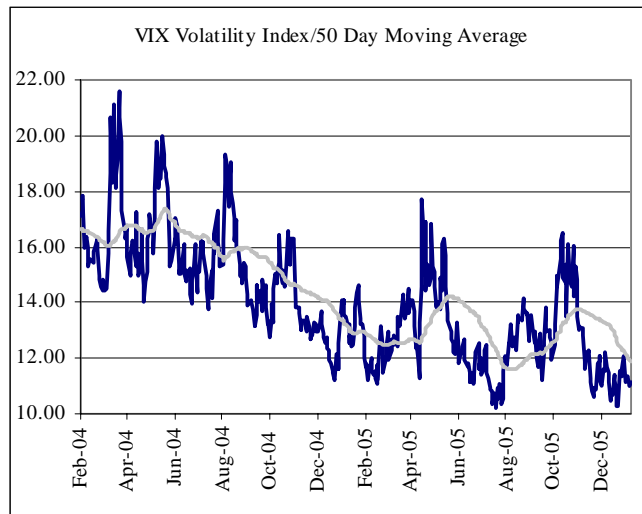
**continue to contract.** As such, implied volatility continued to decline in 2005, corporate bond yields remained tight, and corporate merger and acquisition activity remained high.

**Convertible arbitrage was the worst performing hedge fund strategy in 2005, posting its first loss since 1994. The Hennessee Convertible Arbitrage Index declined -2.20% for the year.** The entirety of losses were sustained in the January to May period, when the strategy underwent a perfect storm that led to a crisis of confidence. Early in the year, volatility continued to decline, while credit spreads widened surrounding the downgrade of General Motors debt. Following the deterioration of fundamentals, investors lost confidence in the strategy, leading to significant redemptions at the June 30 redemption window. Due to the redemptions, many convertible dedicated managers were forced sellers, causing pricing to deteriorate further. As convertibles cheapened, managers with buying power, notably multi-strategy funds, were able to pick up convertible product at relatively good discounts.



Whereas convertibles provided excellent returns based upon their carry or static returns in the 1990's, the confluence of increased valuations, declining volatility, and low interest rates have changed the game considerably. Over the last several years, static returns on convertible bonds have been relatively non-existent. As a result, convertible bonds are being purchased by arbitrageurs only based upon the value of the bond's relative implied volatility or credit – in essence, the arbitrage has closed. However, as convertibles cheapened and interest rates rose in 2005, several managers noted that they have been able to purchase convertible

bonds with reasonable carries. Furthermore, many managers have noted that buying convertible bonds is once again a cheap alternative to purchasing volatility.



**Credit oriented strategies experienced yet another good year, as the Hennessee Distressed Index advanced +9.89% and the Hennessee High Yield Index advanced +6.75%.**

The credit markets remained rather resilient throughout the year, weathering another eight interest rate hikes and the downgrades of General Motors and Ford to sub-investment grade status. While high yield credit spreads widened from 2.8% to 3.8% over Treasuries, spreads still remain unusually tight in comparison to the five year average of 6.2%. Credit oriented hedge funds were able to outperform their long only benchmarks, as the Merrill Lynch High Yield Index returned +2.7%. Profits for credit strategies were generated in bonds of power generation companies, airline bonds, which rallied in the fourth quarter, and several capital structure arbitrage trades.

A number of bankruptcies were announced in 2005, including Refco, Delta Airlines, Delphi, and Northwest Airlines. These four bankruptcies represent \$86 billion in assets currently operating out of Chapter 11. While not overly optimistic at the current time, most credit oriented managers recognize that these bonds should represent excellent material for future investments. They also anticipate more defaults in 2006, again providing good opportunities for future returns.

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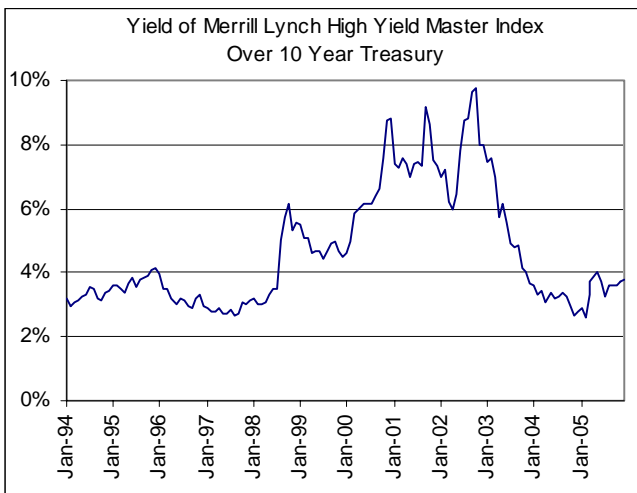
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**By far the biggest event in the credit markets in 2005 was the downgrade of General Motors to “junk” or sub-investment grade status in May.** Prior to the downgrade, the credit markets experienced a large amount of volatility, as traders attempted to anticipate the restructuring of high yield bond portfolios following the downgrade. The credit default swap and CDO market were also volatile, as rumors surfaced about a hedge fund or several hedge funds that

were in trouble due to a CDO tranche correlation trade. Even by the end of the year, traders still speculate that GM may be forced to file for bankruptcy, which could cause havoc in the \$12 trillion credit default swap market which insures investors against a potential default.

**The merchant energy and power generation sector was a common area for credit managers throughout the year.** Profits were generated in Mirant, which filed a plan for reorganization in December with plans to convert bonds into equity and emerge from bankruptcy. Capital structure arbitrage trades (long senior debt versus subordinated debt or equity) in Calpine were also profitable, although several managers reported that it was difficult to obtain borrow on the stock. Likewise, managers reported gains in Drax, the owner of the largest UK based coal fired power plant, which floated shares in December after receiving several bids from private equity buyers.

**Despite being weak for the first quarter of the year, airline bonds posted strong gains in the fourth quarter.** Many managers and analysts have begun to speculate that the U.S. airline industry appears to be

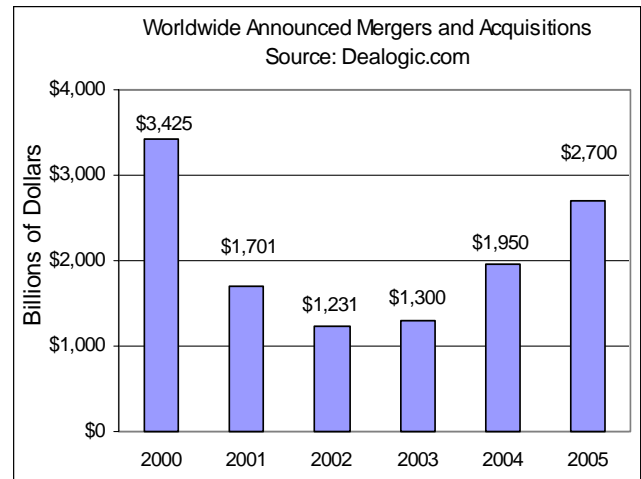
on the verge of a recovery, as fuel prices come off their peaks, labor costs decline and excess capacity finally begins to shrink. Of note, US Airways, which merged with America West and emerged from bankruptcy protection in late August with drastically reduced costs, saw its stock appreciate substantially. Others currently in bankruptcy, such as AMR, Delta, United, and Northwest, saw substantial gains in their bonds as well during the fourth quarter.

Autos and auto parts suppliers were also common areas of interest for credit managers in 2005. Several auto parts suppliers filed for bankruptcy, including Collins & Aikman and Delphi. Several hedge funds and private equity funds have positioned themselves to participate in the restructuring of these companies, believing that they can lower costs via negotiations with unions. Trades were also popular in the auto manufacturers such as GM and Ford, although mostly via capital structure arbitrage trades.

**On the negative side, bonds of Adelphia Communications were weak throughout the year, partly as a result of declining valuations in the cable industry.** The sale of Adelphia's assets to Comcast and Time Warner has taken longer than most expected, partly due to a dispute between creditors. Adelphia's senior unsecured bonds, such as the 10¼% due in 2011, trade around 65 cents on the dollar versus 100 at the start of 2005. This has been problematic for distressed debt hedge funds that own the majority of Adelphia's bonds.

**The Hennessee Merger Arbitrage Index advanced +5.25% for the year.** As the chart below indicates, worldwide merger and acquisition activity increased 38% to \$2.7 trillion in 2005. Both Europe and Asia showed the most progress, with the amount of deals consummated outside of the U.S. exceeding the amount of deals within the U.S.

Merger activity reflected an environment where corporations are holding record amounts of cash and have several options with which to use it. While some companies have elected to return cash to shareholders via buybacks or dividends, others have elected to spend their cash on capital expenditures or acquisitions. Private equity buyers were also active, as their acquisition activity increased by 50%, representing approximately 15% of total M&A volume, greatly sur-



passing the levels from prior years. **As a result of companies being flush with cash and private equity buyers being active, the majority of deals were cash deals, as all stock deals comprised only 11% of total volume.**

Seven deals topped \$25 billion, including the following:

Gillette/ Proctor & Gamble	\$55 bil	US
EFJ / Mitsubishi Tokyo	\$41 bil	Japan
MBNA/ Bank of America	\$36 bil	US
Burlington Resources/ Conoco	\$35 bil	US
02/ Telefonica	\$32 bil	UK/Spain
Endesa/ Gas Natural SDG	\$28 bil	Spain
Guidant/ Boston Scientific	\$25 bil	US

**Despite higher interest rates and higher levels of deal flow, the average merger spread is still yielding approximately 7-8%.** Returns declined below the 7-8% level because of the typical number of deals which cost arbitrageurs. Problematic deals for arbitrageurs this year included Guidant, whose bid from Johnson & Johnson was subsequently lowered as a result of product problems at Guidant (Boston Scientific later offered a higher price). Furthermore, several smaller transactions were derailed by the hurricanes in August and September, which caused a number of deals to fall apart as a result of a number of material adverse change (MAC) clauses.

**HENNESSEE HEDGE FUND  
STYLE DEFINITIONS**

<b>STYLE</b>	<b>DEFINITION</b>
<b>ASIA - PACIFIC</b>	<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>
<b>CONVERTIBLE ARBITRAGE</b>	<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>
<b>DISTRESSED</b>	<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>
<b>EMERGING MARKETS</b>	<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>
<b>EUROPE</b>	<i>Funds typically have long and short equity positions in European companies located in the United Kingdom, Western Europe, and Eastern Europe.</i>
<b>EVENT DRIVEN</b>	<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>
<b>FINANCIAL EQUITIES</b>	<i>Funds typically have long and short equity positions within the financial sector (banks, thrifts, brokerage, insurance, etc.)</i>
<b>FIXED INCOME</b>	<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>
<b>GROWTH</b>	<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>
<b>HEALTHCARE/ BIOTECH</b>	<i>Funds typically have long and short equity positions in medical related stocks, which include biotechnology, pharmaceuticals, HMO's, medical devices, etc.</i>
<b>HIGH YIELD</b>	<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>
<b>INTERNATIONAL</b>	<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>
<b>LATIN AMERICA</b>	<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**

<b>STYLE</b>	<b>DEFINITION</b>
<b>MACRO</b>	<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>
<b>MARKET NEUTRAL</b>	<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>
<b>MERGER ARBITRAGE</b>	<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>
<b>MULTIPLE ARBITRAGE</b>	<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>
<b>OPPORTUNISTIC</b>	<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>
<b>PIPES/ PRIVATE FINANCING</b>	<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>
<b>SHORT BIAS</b>	<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>
<b>TECHNOLOGY</b>	<i>Funds typically have long and short equity positions in technology-related sectors such as semiconductors, hardware, software, networking devices, etc.</i>
<b>TELECOM/ MEDIA</b>	<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>
<b>VALUE</b>	<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>

This year also saw many arbitrage managers engage in strategies such as PIPES and private financing transactions. **The Hennessee PIPES/Private Financing Index advanced +10.08% for the year.** Unlike the syndicated loan market, managers noted that opportunities in the middle-market structured finance space remained attractive throughout they year. However, several managers commented that by year end deals were being offered at yields much lower than they thought they were worth, potentially because the amount of money able to be directed to these transactions had increased substantially.

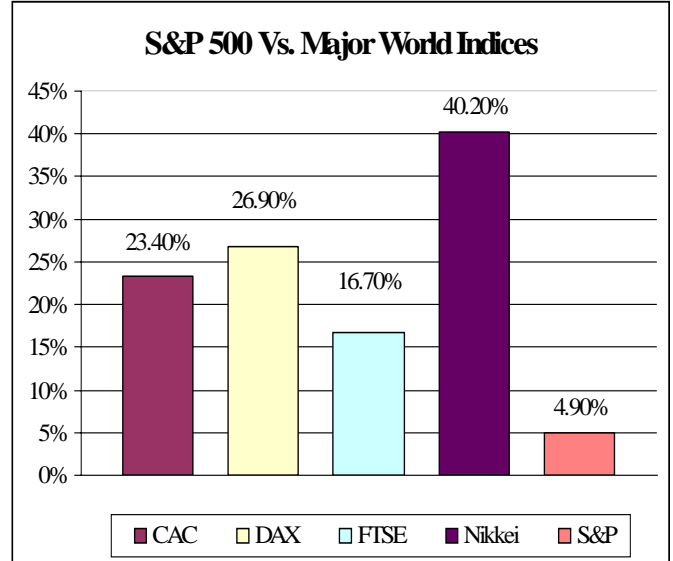
Going forward, most arbitrage and event driven managers believe that the environment of low risk premiums will not last forever. As a result, they believe volatility will expand, credit spreads will widen, and defaults will increase. Furthermore, most managers are looking forward to an environment with higher interest rates, as the negative real yields of the last four years has been difficult on arbitrage strategies.

**Global/Macro**  
**(YTD: +14.27% / DEC: +3.04%)**

The Hennessee Europe Index posted a strong gain of +3.72% (+16.23% YTD). In conjunction, the FTSE 100 rallied +2.4% (+16.7% YTD), the CAC 40 moved +1.7% (23.4% YTD), and the DAX rose +2.7% (+26.9% YTD). It was a strong year for the European equity indices, far outperforming the U.S. equity markets, despite weak investor sentiment. Europe saw weak employment figures and company revenue growth, but the markets still managed to rally about +20% on a weaker euro and an accommodative central bank.

**Managers believe the European economy will begin to strengthen on the back of strong equity markets.** Unemployment is falling in Germany as manufacturing increases its pace and the EC is already beginning to increase GDP growth forecasts upwards from 1.3% in 2005 to 1.9% in 2006. **As companies strengthen their balance sheets, managers believe the merger and acquisition environment will increase and will provide a stable base for growth.** This will be strengthened by the large differential in U.S. and European interest rates, which will entice U.S. buyout

firms to Europe. Furthermore, European corporations are currently experiencing their highest ever return on equity and managers expect that to continue.



The Hennessee Asia-Pacific Index posted a +5.44% (+19.94% YTD) return in December and finished the year as the top performing index in 2005. In Asia, the MSCI Far East Index rose +7.91% (+22.38% YTD) but, more notably, KOSPI gained +54% and the Nikkei 225 finished the year up +40.2%, closing at 16,111.43. Other Asian markets did not fare as well with the Hang Seng only gaining +4.5% for the year.

Japan was the story of the year as it emerged from a seemingly endless environment of 0% interest rates, poor housing rates, and low demand. Real estate prices increased for the first time in years. The economy is starting to rely not so much on exporting, but on domestic demand to fuel the supply chain. Banks saw an increase in loans and a drop in non-performing loans through a series of banking reforms and most recognized that the country has successfully ended deflation. **Corporate capital expenditure increased and was the main driver of earnings and economic growth, supported by increased domestic consumption. Managers are positive on this trend and expect it to continue going forwards, further helping the Japanese economy to flourish.**

The revaluation of the yuan was set to be the biggest story of 2005, but turned out to be nothing more than a ripple. It was widely expected to create a basket of currencies which would float more freely, but the re-

valuation was minimal and only had a brief positive effect on Asian currencies.

**Going forward, managers deem the second potential yuan revaluation could help a rally in the yen and other Asian currencies.** However, most believe that it will not exceed the Australian dollar, which will continue its strong run, particularly against the euro and yen as they continue to export their extensive resources of commodities and high-yielding bonds. **Managers believe the Nikkei will continue its rise as it has a long way to go before risk premiums start to become a factor.** Additionally, large shareholders, such as the Bank of Japan, are restricted from selling their shares until 2007, which many believe will increase equity prices further. Finally, most believe China will continue to dominate world demand for energy and food. A strengthening infrastructure, spurred by the new 5 Year Plan, both in urban areas and the countryside, will create a more efficient supply and demand chain.

The Hennessee Latin America Index was up +0.39% for December and finished as the second top hedge fund strategy in 2005, up +19.72%. In comparison, the

MSCI Emerging Market Latin America index was up +0.66% in December (+44.92% YTD). Strong outperformance of emerging market equities was mainly due to investors shifting capital overseas in an effort to increase returns. Both Brazil and Argentina saw a strengthening of their political climates, while Venezuela saw a weakening, which was reflected economically.

**Managers believe that 2006 will see more asset flows into emerging market areas as they are seeing higher growth and lower multiples than developed nations. Russia and Brazil are two countries considered the most undervalued as we enter 2006.** One key element of growth is the large amount of capital being raised by private equity firms and their growing interest in emerging markets. Another is the continued rise in the price of oil, particularly for Venezuela and Russia. Managers see ever increasing demand for oil from both China and, to a lesser extent, the U.S. However, some managers will be closely monitoring the political environment in the weeks leading up to pending elections.

In 2005 the U.S. dollar rose approximately +12.7% against the euro and +15.2% against the yen. At year end, the euro was trading at \$1.17 and the dollar was at ¥119.72. The dollar was also up 10.6% against the pound. The U.S. dollar is struggling to maintain its recent rally as the large U.S. current account deficit creates an almost impossible situation for further growth. **In order to lower the outstanding balance, managers believe the U.S. economy needs to slow down, or the dollar must depreciate while the world's interest rates increase.**

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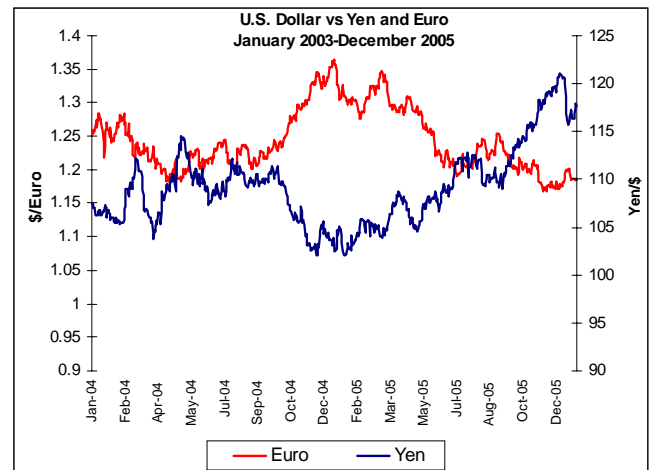
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The strength in the dollar was likely influenced by the higher yields on U.S. bonds relative to Japanese and European bonds. As U.S. Fed Funds increased against their overseas counterparts, the dollar has prospered. However, managers do not believe this can continue into 2006. **Some managers believe the U.S. dollar will begin a backward slide as the net foreign purchases of U.S. securities will diminish, increasing a negative effect on the dollar and causing investors greater concern over the current account deficit.**

In commodities, gold markets rose during 2005 amid high volatility, reaching a milestone as gold closed above \$500 per ounce on November 29, its highest price in 18 years. Though gold went on to surpass \$530 per ounce, it pulled back and closed just below \$519 an ounce, up +18% for the year. Copper, silver, gasoline NY unleaded, and heating oil also had strong performances, up +42%, +36%, +53%, and +48%, respectively.

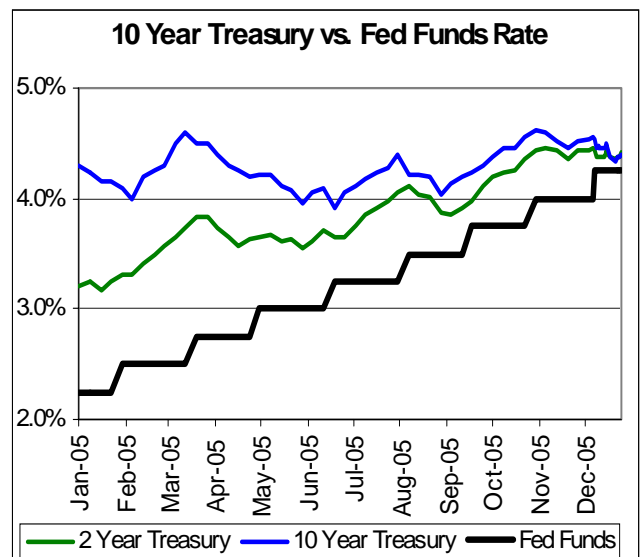
**Managers believe that gold's rise will continue into 2006,** recognizing that prospering economies will see an increase in the materialistic demand for gold in the form of jewelry. Likewise, investors and central banks may see it as a good diversification away from the declining dollar.

2005 started with oil at approximately \$45 per barrel. During the year, it moved up to \$60 per barrel, after reaching a high of just over \$70 per barrel in August 30 intraday trading. Crude oil finished up approximately +45%, its strongest year ever.

December was a volatile month for the price of light sweet crude. Russia followed through with a threat to cut off gas supplies to Ukraine pipelines, which feed into and are a major source of energy for the rest of Europe, including Germany, France, Italy, and Great Britain. **Though this situation was soon resolved, it illustrates the fragile nature of Europe's dependence on gas from the East and, furthermore, spooked the West as it reminded them of their reliance on other countries for their energy needs.** This was feeling was compounded as Venezuela nationalized some 32 oil fields in December, a move that can only deter further foreign investment in the country. **Furthermore, the amount of spare capacity has fallen from 6 million bpd (barrels per day) in mid-2002 to less than 1 million bpd in 2005.** In a

world that consumes over 80 million bpd, this creates a very inelastic price for oil and increased exposure to any sudden shocks. Managers believe this has not been appropriately priced into the price of oil and further upward influences come from China's increasing demand and concerns over peak oil production.

The Federal Reserve kept a watchful eye on the economy as fears of inflation and an overheating economy gave voice to market bears. As the Fed gradually increased interest rates by a quarter point eight times in 2005 (13 times in a row since June 2004), the economy gradually absorbed the rising rates (finishing 2005 at 4.25%), and continued to prosper. The Treasury market saw a rising interest rate environment as the 2 Year Treasury climbed from just over 3% to finish the year at 4.41%. Interestingly, the 10 Year Treasury did not significantly move during this time period. **The fear of a pending recession was broadly brushed off by the belief that the increasing yield of the 2 Year Treasury was fueled by a Fed who wished to entice saving and suppress spending on interest rate sensitive items, such as houses and cars.** However, managers believe the stubbornness of the 10 Year indicates investor's belief that the economy on the whole is in good shape and investors have confidence in the long term investment horizon. Furthermore, the real rate of borrowing (interest rates less inflation) is around 2%. The Fed has 200 basis points to go before reaching the 4% real rate level, which has been surpassed each time the U.S. has seen a recession since 1973.





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In an interesting, and potentially foreboding event, the year finished with an inverted yield curve, with the 2 year closing at a yield of 4.41% and the 10 year closing with a yield of 4.39%. **This event is unique because it, in effect, assigns no risk premium to the passage of time in the bond market. While this typically indicates a forthcoming recession, most managers do not believe one is likely.** There is still strong foreign buying of U.S. debt, and the U.S. economy is not seeing signs of weakness as production and manufacturing is increasing, capital expenditure is increasing, and unemployment is falling.

Over the past five years, U.S. consumers have been able to free up their illiquid assets by re-financing their mortgage. This new liquid capital came from a rising housing market and households removing equity from their homes. By the end of the year, the higher consumption on a borrowed dollar meant investors ended up owning a lot more DVDs and cars, and a lot less of their own homes. **2005 marked the first time that consumer spending was greater than consumer income in almost 20 years. Managers feel the problems will begin to arise in 2006 when this “artificial” demand declines.** Managers believe this is one of the goals that the Fed has been trying to achieve with their program of interest rate hikes. However, given the historically low rate of savings in U.S.

households, some managers believe this may only be a relative shift.

**Domestically, the Fed is likely to increase rates to about 4.75%, which will slow the economy down in the first quarter, especially if housing rates continue to fall.** However, managers believe U.S. corporations will step in and balance out the relative loss. Their strong balance sheets, high free cash flow generation, and increasing capital expenditure will make up for shortfalls in consumer spending. Managers believe this may lead to a strong second half of 2006, but managers are wary of a potential recession indicated by a full inversion of the yield curve.

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

**We are short the U.S. dollar** as we see central banks diversifying their assets into non-dollar denominated assets.

**We believe 2006 will see increased volatility in the equity markets** due to increased LBO and shareholder activity.

**We are long Japanese equities** due to the lack of large sellers in the Japanese markets, particularly the Bank of Japan and Bank Shareholding Purchase Corp, who are restricted from selling their ¥1 trillion-plus holdings until 2007 and late 2006, respectively.

**We are short U.S. automotive companies and non-China steel production** as their Chinese competitors will outperform them in 2006.

**We are short consumer and technology stocks** as the equity markets begin their first quarter rally.

**We are long convertible bonds** as we see a bull market as we enter 2006 where volatility will increase.

**We are long advertising firms** as we see corporations putting a portion of their large cash balances to work in this field.

**We are long the high yield market** entering 2006 as we see strong credit fundamentals, increasing merger and acquisition activity, and the continued rise of the emerging markets.

**We are long crude oil** due to the extremely limited spare capacity in the market down from 6 million bpd in 2002 to less than 1 million bpd in 2005.

**We are short the housing market** as we see it continuing to cool through the first half of 2006.

**We are long technology** as corporations put the cash sitting on their balance sheets (currently 4.6% of total assets – the highest since the mid 1960s) to work by upgrading their technology infrastructure.

**We are short consumer equities** as a cooling housing market will slow mortgage equity withdrawals, which will lead to less spending in 2006.

**We are long non-residential construction** due to strong corporate spending and the passing of a new highway bill in Congress.

**We are long credit card companies** as the consumer remains optimistic as rates are still at moderate levels.

**We are long wireless technology** as we enter a new product cycle in North American sales and consumers are finally able to take advantage of 3G technology as more advanced cell phones hit the shelves.

**We are long Chinese consumer equities** as the new 5 Year plan will stress the importance of domestic demand. **We believe Chinese demand will continue to grow at around 9% annually.**

**We are long US airlines** as they emerge from bankruptcy with the same capacity, increased consumer demand, and lower labor costs, giving airlines pricing power.

**We are long the Australian dollar** as we feel it will continue to outperform its Pacific Rim counterparts.

**We are long gold** as investors look for options for diversifying their portfolios and the demand for jewelry increases in line with the economic recoveries of Europe and Japan.

**We are long the euro** as European companies recover on the back of strong equity markets.

**We are short international markets**, as they correct in 2006 when corporate earnings fall short of projections.

**We are long Australian and Canadian equities** as they avoid a correction and continue to perform impressively.

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MONTHLY RETURN 2005 (Net)	YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	1	3	3	16	9	16	11	11	5	2	9	3	1
CONVERTIBLE ARBITRAGE INDEX	23	19	22	18	22	22	15	16	13	14	4	22	16
DISTRESSED INDEX	7	7	13	3	7	20	14	14	10	15	6	13	5
EMERGING MARKETS INDEX	8	4	2	21	6	15	16	10	18	4	15	14	8
EUROPE INDEX	3	2	5	13	14	11	1	3	3	8	22	6	2
EVENT DRIVEN INDEX	13	13	9	8	17	12	9	7	6	13	20	9	13
FINANCIAL EQUITIES INDEX	21	17	21	20	16	4	7	8	23	23	10	5	17
FIXED INCOME INDEX	17	6	16	10	3	17	22	20	17	18	2	21	18
GROWTH INDEX	11	21	6	19	23	3	2	2	22	12	13	7	9
HEALTHCARE AND BIOTECH INDEX	22	22	23	23	4	6	8	1	20	19	19	11	6
HIGH YIELD INDEX	14	8	12	12	11	18	12	15	7	20	5	17	19
INTERNATIONAL INDEX	4	9	7	15	12	8	13	9	4	5	16	2	7
LATIN AMERICA INDEX	2	20	1	22	2	2	10	19	1	1	23	4	20
MACRO INDEX	9	14	11	6	8	10	19	21	14	3	11	16	12
MARKET NEUTRAL INDEX	19	5	19	5	5	19	20	22	19	17	3	18	21
MERGER ARBITRAGE INDEX	20	10	17	2	13	14	17	17	15	22	12	12	15
MULTIPLE ARBITRAGE INDEX	18	11	15	7	15	21	18	12	11	16	8	19	14
OPPORTUNISTIC INDEX	10	18	10	14	18	13	5	13	9	7	17	15	4
PIPES/PRIVATE FINANCING INDEX	6	15	18	4	20	9	4	5	16	9	7	10	10
SHORT BIASED INDEX	5	1	8	1	1	23	23	23	2	6	1	23	23
TECHNOLOGY INDEX	15	23	20	11	21	1	21	6	21	10	14	1	22
TELECOM AND MEDIA INDEX	16	12	14	9	10	5	6	18	8	21	21	20	3
VALUE INDEX	12	16	4	17	19	7	3	4	12	11	18	8	11

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2005 (Net)	YTD	YTD RANK	% of mgrs. >S&P, YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	19.94%	1	84%	1.08%	2.64%	-1.30%	-0.80%	0.60%	1.42%	2.06%	1.32%	4.15%	-0.76%	2.71%	5.44%
CONVERTIBLE ARBITRAGE INDEX	-2.20%	23	6%	-0.91%	-0.48%	-1.37%	-2.96%	-1.42%	1.07%	1.21%	0.73%	1.23%	-0.20%	-0.09%	1.06%
DISTRESSED INDEX	9.89%	7	70%	0.41%	1.32%	0.39%	-0.55%	-0.07%	1.14%	1.70%	1.04%	1.20%	-0.54%	1.21%	2.27%
EMERGING MARKETS INDEX	9.51%	8	71%	0.81%	2.72%	-2.01%	-0.53%	0.74%	0.92%	2.10%	0.30%	3.08%	-1.90%	1.20%	1.83%
EUROPE INDEX	16.23%	3	73%	1.77%	2.07%	-0.70%	-1.18%	1.06%	2.80%	2.79%	1.92%	2.14%	-3.19%	2.14%	3.72%
EVENT DRIVEN INDEX	7.07%	13	47%	-0.27%	1.68%	-0.27%	-1.80%	0.83%	1.71%	2.29%	1.23%	1.24%	-2.61%	1.66%	1.29%
FINANCIAL EQUITIES INDEX	3.54%	21	39%	-0.78%	0.11%	-1.49%	-1.56%	1.81%	1.90%	2.12%	-0.54%	-0.18%	-0.84%	2.19%	0.85%
FIXED INCOME INDEX	5.79%	17	33%	0.52%	0.91%	-0.36%	0.27%	0.54%	0.31%	0.80%	0.42%	0.67%	0.34%	0.41%	0.82%
GROWTH INDEX	8.11%	11	55%	-1.68%	2.07%	-1.49%	-3.70%	3.35%	2.50%	3.66%	-0.01%	1.43%	-1.55%	1.85%	1.69%
HEALTHCARE AND BIOTECH IN-	2.71%	22	32%	-1.97%	-1.77%	-2.60%	-0.02%	1.52%	1.88%	4.13%	0.09%	0.64%	-2.61%	1.49%	2.14%
HIGH YIELD INDEX	6.75%	14	47%	0.33%	1.50%	-0.68%	-0.94%	0.46%	1.38%	1.68%	1.17%	0.59%	-0.22%	0.76%	0.57%
INTERNATIONAL INDEX	12.41%	4	64%	0.18%	2.00%	-1.03%	-1.00%	1.19%	1.15%	2.11%	1.50%	2.93%	-1.94%	2.79%	2.01%
LATIN AMERICA INDEX	19.72%	2	86%	-1.08%	3.48%	-2.45%	1.43%	3.38%	1.62%	1.01%	2.44%	9.48%	-3.38%	2.42%	0.39%
MACRO INDEX	8.53%	9	48%	-0.28%	1.62%	-0.15%	-0.68%	1.08%	0.74%	0.75%	0.65%	3.29%	-1.29%	1.11%	1.44%
MARKET NEUTRAL INDEX	5.07%	19	29%	0.55%	0.74%	0.04%	-0.22%	0.43%	0.70%	0.45%	0.23%	0.86%	0.10%	0.70%	0.39%
MERGER ARBITRAGE INDEX	4.79%	20	25%	0.13%	0.91%	0.44%	-1.04%	0.76%	0.85%	1.20%	0.55%	0.03%	-1.48%	1.28%	1.10%
MULTIPLE ARBITRAGE INDEX	5.25%	18	30%	0.07%	0.95%	-0.17%	-1.38%	-0.29%	0.84%	2.01%	0.98%	0.96%	-0.61%	0.62%	1.19%
OPPORTUNISTIC INDEX	8.24%	10	50%	-0.89%	1.66%	-0.74%	-2.04%	0.77%	2.13%	2.01%	1.09%	2.56%	-1.95%	1.17%	2.33%
PIPES/PRIVATE FINANCING INDEX	10.08%	6	68%	-0.39%	0.88%	0.33%	-2.15%	1.13%	2.16%	2.68%	0.50%	1.94%	-0.57%	1.54%	1.69%
SHORT BIASED INDEX	11.10%	5	42%	4.33%	1.98%	1.91%	3.56%	-3.93%	-0.56%	-1.09%	2.09%	2.70%	2.24%	-2.32%	0.01%
TECHNOLOGY INDEX	6.31%	15	48%	-2.05%	0.43%	-0.52%	-2.57%	4.30%	0.62%	2.56%	0.01%	1.86%	-1.76%	3.37%	0.13%
TELECOM AND MEDIA INDEX	6.14%	16	43%	-0.10%	1.18%	-0.35%	-0.85%	1.57%	1.92%	1.01%	1.15%	0.18%	-2.79%	0.58%	2.59%
VALUE INDEX	7.94%	12	55%	-0.57%	2.08%	-1.37%	-2.13%	1.29%	2.19%	2.73%	0.84%	1.51%	-2.20%	1.83%	1.64%
<b>HENNESSEE HEDGE FUND INDEX</b>	<b>8.03%</b>		<b>49%</b>	<b>-0.36%</b>	<b>1.39%</b>	<b>-0.87%</b>	<b>-1.61%</b>	<b>1.16%</b>	<b>1.59%</b>	<b>2.26%</b>	<b>0.71%</b>	<b>1.71%</b>	<b>-1.44%</b>	<b>1.51%</b>	<b>1.80%</b>
LONG/SHORT EQUITY	6.98%		48%	-0.90%	1.27%	-1.16%	-1.96%	1.87%	1.87%	2.66%	0.39%	1.38%	-1.67%	1.67%	1.51%
ARBITRAGE/EVENT DRIVEN	5.30%		38%	-0.11%	0.89%	-0.27%	-1.51%	0.03%	1.19%	1.72%	0.87%	1.04%	-0.82%	0.86%	1.33%
GLOBAL/MACRO	14.27%		69%	0.59%	2.28%	-1.07%	-0.74%	1.03%	1.37%	1.89%	1.21%	3.57%	-1.75%	2.15%	3.04%
S&P 500 W/DIV	4.90%			-2.44%	2.10%	-1.77%	-1.90%	3.18%	0.14%	3.72%	-0.91%	0.81%	-1.67%	3.78%	0.04%
DJIA	-0.61%			-2.72%	2.63%	-2.44%	-2.96%	2.70%	-1.84%	3.56%	-1.50%	0.83%	-1.22%	3.50%	-0.82%
MSCI EAFE (USD) PRICE INDEX	10.85%			-1.88%	4.14%	-2.89%	-2.73%	-0.38%	1.12%	3.02%	2.26%	4.27%	-2.97%	2.25%	4.61%
RUSSELL 2000	4.56%			-4.17%	1.69%	-2.86%	-5.73%	6.55%	3.86%	6.34%	-1.85%	0.31%	-3.10%	4.85%	-0.46%
NASDAQ	1.38%			-5.20%	-0.52%	-2.56%	-3.88%	7.63%	-0.54%	6.22%	-1.50%	-0.02%	-1.46%	5.31%	-1.23%
LEHMAN BROS. INT. GOVT. CORP.	1.57%			0.19%	-0.55%	-0.52%	1.14%	0.90%	0.42%	-0.83%	1.17%	-0.85%	-0.55%	0.44%	0.63%

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 Index®. 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 unadjusted. 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.