

C A M B R I D G E   A S S O C I A T E S   L L C

# TRENDS IN THE HEDGE FUND INDUSTRY

2006

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**ABSTRACT**

1. While we still believe select managers possess competitive advantages that will enable them to generate attractive risk-adjusted net returns for limited partners, many hedge fund strategies have become significantly less attractive as the industry has matured. Investors who are committed to building marketable alternative programs must spend a tremendous amount of time identifying talented managers, determining whether talented managers have charged away their competitive advantages, convincing managers who are both talented *and* reasonably priced to grant them access, and monitoring managers closely to insure that they hew to their business plans. This litany of tasks represents a formidable obstacle, but one that can be surmounted if investors are willing to devote sufficient time, capital resources, and human resources.
2. The hedge fund industry has been growing at a blistering pace for more than a decade. While estimates about the size and growth rate of the industry vary widely, one leading data provider suggests that hedge fund assets under management have mushroomed from \$38 billion in 1990 to \$186 billion at the beginning of 1996 and more than \$1,100 billion today. This surge in assets under management has been accompanied by a similarly startling increase in the number of managers, with 610 partnerships operating in 1990 versus 2,383 in 1996 and 8,664 today.
3. Intensifying competition in the hedge fund industry has led to a gradual degradation of returns in many strategies, particularly strategies that are characterized by easily definable opportunity sets (e.g., merger arbitrage, distressed securities, convertible arbitrage, capital structure arbitrage, and event-driven equities). While these strategies remain viable, we believe that their normative returns on invested capital, or the range of returns that strategies can be expected to generate across cycles, will be markedly lower than they have been in the past.
4. While one would expect fees in the hedge fund industry to be highly correlated with expected returns, the two have swiftly decoupled. Five years ago, we decried fees as egregious and cautioned investors that few managers would be able to generate sufficient alpha to justify those fees. Since that time, the standard hedge fund fee schedule has escalated from 1%+20% to 2%+20%, even as the quality of the average manager has declined due to falling barriers to entry.
5. Hedge fund industry margins continue to compress, and investors are being asked to pay higher fees for lower prospective returns. The big question is whether total costs in the industry will be elastic if returns continue to degrade (as one would hope) or inelastic (as was the case in the venture capital and leveraged buyout industries following the burst of the stock market bubble).
6. Most large, multi-strategy managers spent the better part of the year trumpeting the arrival of a wonderful new profit opportunity at the intersection of hedge fund investing and private equity investing, and most shifted significant amounts of capital into private or quasi-private investment strategies. While it remains to be seen if there will be a traffic accident at the intersection of private equity and hedge fund investing, one thing is clear: multi-strategy hedge funds are racing for the

intersection at breakneck speed. While a handful of firms may be able to establish reputations as responsible providers of capital and advice to corporate America, others may find themselves dangerously outside their circle of competence.

7. Hedge fund activism received a great deal of attention in 2005. The pages of the *The Wall Street Journal* were lined with stories about activists agitating for reform in corporate America, with companies such as McDonald's, Time Warner, Wendy's, Deutsche Bourse, and Calpine targeted by various hedge funds. While there are different strains of corporate activism, running the gamut from collaborative to hostile, all activists share a common goal: to force sleepy management teams to focus on shareholder value creation. Critics respond that hedge fund activists are more concerned with short-term stock prices than long-term value creation, prompting them to recommend leveraged recapitalizations that will hamstring companies in the future. We believe that talented investment professionals can generate a tremendous amount of value for investors by working collaboratively with management teams to effect their own catalysts, but generally prefer to avoid managers who are openly and aggressively hostile.
8. Another trend that has important implications for the hedge fund industry is the exponential growth of the global credit default swap (CDS) market. While we believe that the maturation of the CDS market has provided hedge fund managers with an invaluable tool for managing credit risk and leveraging proprietary credit research, we caution that CDS create significant amounts of off balance sheet leverage that cannot easily be monitored by investors.
9. We have historically recommended that investors structure marketable alternative programs that incorporate both single-strategy managers and multi-strategy hedge fund managers. Heightened competition and diminished liquidity seem to favor the multi-strategy model over the single-strategy model, as flexibility and adaptivity become increasingly important in a world where investment opportunities are fleeting.
10. While all of the aforementioned trends (e.g., product proliferation, escalating fees, stricter liquidity provisions, intensifying competition, strategy commoditization, rising correlations) have eroded the traditional value proposition of hedge funds and made it more difficult to construct marketable alternative programs, they have had a particularly negative impact on the hedge funds-of-funds (FOF) industry. When one considers that most FOF are having a much tougher time identifying talented managers, securing capacity with talented managers, and adding value by rotating capital among strategies, prevailing FOF fees seem unreasonably excessive.
11. While equity returns are the primary driver of returns from long/short equity investing, *equity correlation* and *equity volatility* are also critically important. The correlation among U.S. equities has increased in recent years, with good and bad businesses accorded similar valuation multiples. This compression of multiples has dampened returns for hedged equity managers by reducing the payoff from proprietary fundamental research, but should enhance prospective returns as investors begin to differentiate between good and bad businesses.

12. An increasing number of long/short equity managers are using exchange traded funds rather than stock shorts to maintain short exposure. We strongly discourage investors from making commitments to managers utilizing this strategy, as they cannot (by definition) generate alpha on the short side of their equity portfolios if they invest in index-linked securities.
13. The spread in performance between U.S. stocks and non-U.S. stocks drove home the benefits of having a long/short equity program that is diversified geographically, both through global long/short equity managers and regionally focused managers. Investors in global equities benefit from a wider opportunity set and greater diversification, as regional economic growth is not perfectly synchronized. In addition, exposure to global currencies provides an additional measure of diversification.
14. While many distressed security managers are off to a surprisingly strong start in 2006—thanks primarily to a further tightening of corporate credit spreads and a pronounced rally in post Chapter 11 equities—we do not expect this strong performance to continue throughout the year. Furthermore, we believe that distressed security managers will not be able to generate the same kind of returns during the next round of corporate defaults as they did during the 2003-04 period.
15. Convertible arbitrageurs failed to generate positive returns in the face of blistering macroeconomic headwinds during 2005, resulting in a median return of -0.94% for our manager universe. Managers do not believe that returns from convertible arbitrage will improve until the opportunity set begins to expand again, as new issues are the lifeblood of the strategy. Our view is that returns from convertible arbitrage should improve modestly in 2006, especially if equity volatility and bond issuance were to increase.
16. We believe that normative returns on invested capital from merger arbitrage, or the range of returns that the strategy can be expected to generate across cycles, will be markedly lower than in the past. Whereas merger arbitrage once promised to deliver 10%-16% returns to investors, with actual returns dependent on levels of deal activity, short-term interest rates, and market risk premia, we now believe that merger arbitrage promises to deliver returns in the 4%-10% range. To put recent returns in historical perspective, median *unleveraged* returns from merger arbitrage averaged 13.2% during the 1995-2000 period, but only 3.7% during the 2001-05 period.
17. Like many of the marketable alternative strategies we have discussed in this report, capital structure arbitrage has become increasingly competitive in recent years. Nevertheless, we continue to believe that dedicated capital structure arbitrageurs with reasonable assets under management can play important roles within diversified marketable alternative programs, as capital structure arbitrage returns are not highly correlated with returns from other strategies.

## **SUMMARY**



## Introduction

The rapid growth and maturation of the hedge fund industry has sparked a debate about the role of marketable alternative investments in institutional portfolios. The purpose of this report is (1) to examine whether the growth and maturation of the industry has made marketable alternative investments less compelling, (2) to explore other trends that are transforming the competitive landscape in the industry, and (3) to provide direction on the implications of these trends. This report also contains a performance review of several core marketable alternative strategies, including long/short equities, distressed securities, convertible arbitrage, merger arbitrage, and capital structure arbitrage.

## The Rationale for Hedge Fund Investing

When asked to articulate our rationale for recommending marketable alternative investments, we generally reply as follows: “*Talented investment professionals who are provided with proper incentives and empowered to pursue strategies beyond the purview of conventional asset managers have demonstrated an ability to generate attractive risk-adjusted returns for limited partners. Returns generated by hedge fund managers have low correlations with public equity and debt markets, making them powerful diversifiers for institutional investment portfolios.*” This rationale is predicated on four basic arguments, which we call the “Talent of Professionals,” “Flexibility of Mandate,” “Incentive Structure,” and “Low Correlation” arguments. In this section, we explore these arguments and discuss how the maturation of the hedge fund industry has affected the attractiveness of marketable alternative investments.

- (1) **Talent of Professionals:** Hedge fund managers represent the most talented investment professionals in the asset management industry, as high barriers to entry preclude unqualified professionals from launching new products and raising capital.

*Observation:* The lucrative fee structure and flexible format of hedge funds have always attracted talented investment professionals, but falling barriers to entry have made it possible for unqualified managers to launch their own firms. The proliferation of hedge fund products has made it increasingly difficult to identify talented managers, and talented managers have been capturing the economic rents associated with their businesses by raising fees and instituting restrictive liquidity provisions.

- (2) **Flexibility of Mandate:** Hedge fund managers are uniquely positioned to capitalize on pricing inefficiencies in the capital markets, as they have the flexibility to run concentrated portfolios, utilize leverage, short sell securities, hold cash balances, and migrate throughout the capital structures of their portfolio companies.

*Observation:* Hedge fund managers still possess powerful competitive advantages over long-only managers who are required to operate within narrowly defined mandates, but the rapid proliferation of hedge funds has started to dilute these competitive advantages. Additionally, more and more

mutual funds are expanding their charters (to allow short selling and permit cash balances), and hedge fund legislation threatens to place more constraints on hedge fund managers in the future.

(3) **Incentive Structure:** Hedge fund managers have powerful incentives to generate consistent, absolute returns due to high water mark provisions and sizable levels of co-investment. This alignment of interests insures that managers will focus on compounding wealth rather than ramping assets under management.

*Observation:* While most hedge fund managers still make sizable investments in their partnerships, the sheer size of many partnerships has made management fees more meaningful over time. This is especially true in a world where the return backdrops in many strategies are degrading, as performance-based revenues as a percent of overall revenues decline as returns decline. Fee-based revenue is also more predictable than performance-based revenue, prompting some managers to focus on asset accumulation rather than maximizing performance.

(4) **Low Correlation:** Hedge fund managers generate returns that tend to have low correlations with returns in public equity and debt markets. Low correlations make marketable alternative products powerful diversifiers for institutional investment portfolios.

*Observation:* While many hedge funds display low correlations with public equity and debt markets, the correlation of marketable alternative programs to global equity markets has been steadily rising in recent years due to the migration of multi-strategy firms into equity-based strategies. The trailing five-year correlation of returns between the HFRI Hedge Fund Index and S&P 500 Index rose from 35% in February 2000 to 96% in February 2006.<sup>1</sup> Additionally, many market participants have become increasingly concerned about hedge fund correlation, that is, the tendency of hedge funds to crowd into similar positions at the same time.

### **Growth of the Industry**

The hedge fund industry has been growing at a blistering pace for more than a decade. While estimates about the size and growth rate of the industry vary widely, one leading data provider suggests that hedge fund assets under management have mushroomed from \$38 billion in 1990 to \$186 billion at the beginning of 1996 and more than \$1,100 billion today. This surge in assets under management has been accompanied by a similarly startling increase in the number of marketable alternative managers, with 610 partnerships operating in 1990 versus 2,383 in 1996 and 8,664 today.<sup>2</sup> More aggressive estimates place the total number of hedge funds operating globally in excess of 10,000.

While the surge in demand for hedge funds can be ascribed to a number of factors, the most plausible explanation is that the outsized performance of a handful of pioneering institutional investors in the 1990s prompted herds of me-too investors—most notably public and private pension plans—to establish allocations

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<sup>1</sup> Merrill Lynch, *U.S. Strategy Update*, March 27, 2006.

<sup>2</sup> Source: Chicago-based Hedge Fund Research Inc., Fourth Quarter 2005, [www.hedgefundresearch.com](http://www.hedgefundresearch.com).

to absolute return strategies. The resultant wave of demand has started eroding barriers to entry in the industry, paving the way for a flood of new managers. Regrettably, we do not expect the inflow of capital from U.S. pension plans to abate any time soon, as most pension plans still have negligible allocations to marketable alternative investments.<sup>3</sup>

Ten years ago, only professionals with superior pedigrees and track records could raise meaningful amounts of capital, build world-class investment organizations, and command performance fees. Today, relatively inexperienced analysts with limited track records are routinely able to raise hundreds of millions of dollars. These managers are shepherded from business plan to launch by cadres of service providers who have made it extremely easy to launch new hedge fund firms: prime brokers, offshore fund administrators, legal counsels, specialized auditors, and third-party marketing firms. These service providers have positioned themselves to capitalize on the rapid growth of the hedge fund industry by providing start-up advice to hedge funds.

### **Return Environment**

As one would expect, intensifying competition in the hedge fund industry has led to a gradual degradation of returns in many strategies, particularly strategies that are characterized by easily definable opportunity sets (e.g., merger arbitrage, distressed securities, convertible arbitrage, capital structure arbitrage, and event-driven equities).<sup>4</sup> While these strategies remain viable, we believe that their normative returns on invested capital, or the range of returns that strategies can be expected to generate across cycles, will be markedly lower than they have been in the past. As an example, merger arbitrage once promised to deliver 10% to 16% returns to investors, with actual returns dependent on levels of deal activity, short-term interest rates, and market risk premia. We now believe that merger arbitrage promises to deliver returns in the 4% to 10% range.

Our belief that returns in many strategies have been permanently impaired is grounded in the notion that many strategies are *overcapitalized* and *commoditized*. Managers who were once able to generate alpha at the expense of long-only, mandate-constrained managers must now try to generate alpha at the expense of other hedge fund managers and increasingly aggressive Wall Street proprietary trading desks.<sup>5</sup> They also must work much harder to ferret out and eliminate pricing inefficiencies in the capital markets, as easy-to-identify opportunities (i.e., low-hanging fruit) are now picked over by swarms of competitors. Competitive pressures are particularly intense in relative value strategies, such as fixed income arbitrage, as arbitrageurs now have the ability to identify pricing anomalies with remarkable speed and precision due to advances in computing power and market connectivity.

Compounding the problem, barriers to imitation in the hedge fund industry have also been falling. Ten years ago, there were a limited number of managers who could navigate the vagaries of corporate

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<sup>3</sup> According to a recent study by Morgan Stanley, the typical U.S. pension plan has a 1% allocation to hedge funds.

<sup>4</sup> Event-driven equities include spin-offs, restructured equities, litigation plays, and other equity recapitalizations.

<sup>5</sup> "Like many Wall Street firms, Goldman Sachs is taking more risk, and reaping more profit, on its own investments and for clients... 'It is the highest VaR number we have had, but not the highest you will ever see,' said CFO David Viniar." *The Wall Street Journal*, 3/15/06, "Money Machine: Goldman Breaks Profit Record."

bankruptcy law, scrutinize merger documents, or model delta-neutral hedges for convertible bonds. With an incredible amount of limelight trained on hedge fund managers and their businesses, formerly esoteric investment strategies have become much easier to understand and replicate. Imitation may be the sincerest form of flattery, but it is the bane of absolute return managers who ply their trades in capacity constrained corners of the global capital markets.

### **Fees and Terms**

While one would expect fees in the hedge fund industry to be highly correlated with expected returns, the two have swiftly decoupled. Five years ago, we decried fees as egregious and cautioned investors that few managers would be able to generate sufficient alpha to justify those fees. Since that time, the standard hedge fund fee schedule has escalated from 1%+20% to 2%+20%, even as the quality of the average manager has declined due to falling barriers to entry. This escalation in fees has been perpetuated by the prime brokerage firms who provide start-up advice to hedge funds—and who reap millions of dollars in commissions from each new crop of managers they help sow.

The decision to raise management fees represents one of many ways that hedge fund managers have capitalized on the supply/demand imbalance in the industry by methodically optimizing their businesses. **When assessing how the total costs of hedge fund investing have increased during the past few years, investors should also consider changes to liquidity provisions, assets under management, and portfolio transparency.**

Recognizing that they now have an enormous amount of leverage over investors, established managers have been amending the liquidity terms in their partnership agreements by imposing longer lock-up provisions on investors and introducing other provisions (e.g., quarterly gates, catastrophic gates, holdover provisions, side pockets) that limit the amount of money investors can redeem over discrete periods of time. Similarly, start-up managers have been imposing rolling lock-up provisions rather than determinate one-year lock-up provisions, demanding lock-up provisions of two to four years, or coupling initial hard lock-up provisions with subsequent soft lock-up provisions. Managers have been veiling these changes in ambiguous verbiage (with assistance from legal counsel) and burying them in amended offering documents. On many occasions in 2005, managers reported that they were updating terms to reflect the “latest market conventions,” which, loosely translated, means “to charge whatever the market would bear.”

Managers have also been raising vast amounts of capital, both by marketing existing products and by launching new products that claim to leverage existing resources. In order to justify raising capital in an environment where investment opportunities are scarce, managers have cited a desire to institutionalize their businesses, noting that firms with diversified revenue streams will be able to compensate employees in the event that returns in any one strategy or product disappoint investors. **Limited partners have little to gain from managers diversifying their business models in this manner, especially since product proliferation creates administrative burdens that tend to draw portfolio managers away from their portfolios.**

We have regrettably noticed that many established managers have become increasingly less transparent with investors—a trend that contradicts the popular perception that hedge funds are becoming more transparent as they become “institutionalized.” We find these final two trends (i.e., asset bloating and reduced transparency) to be particularly ironic, as hedge funds have been widely applauded for forcing corporate management teams to return excess cash to shareholders and become more transparent.

**Margins in the hedge fund industry continue to compress, and investors are being asked to pay higher fees for lower prospective returns.** The big question now is whether total costs in the industry will be elastic if returns continue to degrade (as one would hope) or inelastic (as was the case in the venture capital and leveraged buyout [LBO] industries following the burst of the stock market bubble in 2000).

## Hedge Fund Managers Expand their Reach

### Illiquid Investments

In last year’s research report on fundamental long/short equity investing, we described the migration of multi-strategy managers from capacity constrained businesses (e.g., merger arbitrage, distressed securities, convertible arbitrage, capital structure arbitrage, and event-driven equities) into fundamental long/short equity strategies. At that time we likened these managers to great white sharks scouring the capital markets for high-margin businesses, who, having discovered their traditional hunting grounds laid bare by over-fishing, had congregated to the same reef in search of food.

The sharks were on the move again in 2005, this time venturing from fundamental long/short equity strategies into private/illiquid investments. Most large, multi-strategy managers spent the better part of the year trumpeting the arrival of a wonderful new profit opportunity at the intersection of hedge fund investing and private equity investing, and most shifted significant amounts of capital into private or quasi-private investment strategies. These strategies include classic private equity strategies (e.g., venture capital, LBOs), lending-based strategies (e.g., loan originations, rescue financings, PIK debt, mezzanine debt), structured finance strategies (e.g., privately negotiated securities), and other equity-linked strategies (e.g., PIPEs, preferred stock, recapitalizations, significant minority equity investments in publicly traded companies).

The central theme that is fueling this migration into private/illiquid strategies is *disintermediation*. Traditionally, commercial banks lent money to companies and investment banks helped companies re-engineer their capital structures (either by underwriting public securities offerings or investing as principals). Now, well-capitalized hedge funds are approaching corporate management teams and offering to provide both of these services on relatively attractive terms. Their goal is to creatively and collaboratively help companies solve complex financial problems across their capital structures, and their selling point is ease of engagement.

Hedge fund managers claim that they possess all of the requisite skill sets to compete with traditional intermediaries: domain expertise, valuation expertise, and corporate finance expertise. They fancy

themselves as nimble competitors who can run circles around sluggish banks and buyout firms, performing detailed transaction analysis and deploying capital in a fraction of the time. They believe they can source deals through management contacts and other proprietary relationships, and in some cases through the very investment banks whose businesses they are targeting. (Hedge funds are huge fee payers to Wall Street, and Wall Street banks do not like to bite the hands that feed them.)

Private equity managers counter that hedge funds are not properly resourced to research or execute private transactions, as they are staffed by youngish analysts who tend to resign before long-duration private investments can be realized. (In contrast, most private equity firms are staffed by senior investment professionals who receive elaborate deferred compensation plans.) They scoff at the notion that speed represents a competitive advantage, reciting the proverb that haste makes waste, and caution that hedge funds lack the deal structuring skills possessed by top-tier private equity firms. Finally, they observe that hedge funds seem willing to bid for properties at absurdly high prices that do not adequately compensate them for attendant risks, because they have much lower hurdle rates than traditional private equity managers.

While we have a tremendous amount of respect for the capital allocation skills of many of the large multi-strategy managers who are rotating cash into private/illiquid strategies (and while we are impressed that they are substantiating their enthusiasm by seeding private/illiquid products with huge sums of their own money), we remain somewhat circumspect about the attractiveness of this opportunity for three reasons:

- 1) Our private equity research team has always favored private equity firms with differentiated domain expertise, deep management benches, and the ability to enhance the operating performance of their portfolio companies over firms focused exclusively on financial engineering. While hedge funds—especially those organized into sector-focused teams—may possess differentiated domain expertise, many are focused on financial engineering rather than operational enhancements.
- 2) It seems a bit too *coincidental* that mega-sized multi-strategy firms happened to discover this profit opportunity at a time when other core absolute return strategies are massively overcapitalized.
- 3) Private equity firms of every stripe are sitting on massive troves of capital and are struggling to put that money to work. According to Thomson Venture Economics, uninvested capital at private equity firms will have increased by 250% from \$93 billion in 2004 to \$254 billion at year-end 2006, and the amount of private equity capital raised during 2005 and 2006 will be 250% more than the capital raised during the next largest two-year period (1999-2000).

**While it remains to be seen if there will be a traffic accident at the intersection of private equity and hedge fund investing, one thing is clear: multi-strategy hedge funds are racing for the intersection at breakneck speed.** A handful of firms may be able to establish reputations as responsible providers of capital and advice to corporate America, but others may find themselves dangerously outside their circle of competence.

## Hedge Fund Activism

A hedge fund manager's value chain consists of five basic activities:

- 1) Search the global capital markets for companies that are poorly followed, widely misunderstood, or ignored by other asset managers;
- 2) Perform fundamental analysis on those companies in an attempt to understand the microeconomics of their business models;
- 3) Look for the best way to express investment theses on those companies by examining each security within their capital structures;
- 4) Construct a diversified portfolio of securities with attractive risk/return profiles that is carefully and methodically hedged; and
- 5) Engage corporate management teams to create catalysts that will unlock embedded value (i.e., improve the internal rate of return on investments by shortening investment time horizons).

The fifth step of this value chain—the step that is generally referred to as hedge fund activism—received a great deal of attention in 2005. The pages of *The Wall Street Journal* were lined with stories about activists agitating for reform in corporate America, with companies such as McDonald's, Time Warner, Wendy's, KT&G, SUEZ SA, Calpine, OfficeMax, Sears, Cracker Barrel, Deutsche Bourse, Euronext, BKF Capital Group, VNU, and Kerr-McGee targeted by various hedge funds. While there are different strains of corporate activism, running the gamut from collaborative (e.g., suggesting share repurchases) to hostile (e.g., waging proxy fights to remove corporate board members), all activists share a common goal: to force sleepy management teams to focus on shareholder value creation.

The impetus for the recent surge in hedge fund activism appears to be threefold. First, the state of corporate governance in the United States was heavily criticized following the bursting of the stock market bubble in 2000. The backlash against weak governance and the ensuing passage of Sarbanes-Oxley have made it more culturally acceptable for asset managers to wage battles with corporate management teams. Second, hedge fund managers recognized that the coffers of America's corporations were brimming with cash and set out to convince corporate managers to return that cash to shareholders. Third, hedge fund managers began to realize that they could wield significant influence over companies if they started to hunt in packs. As an example, hedge fund managers have discovered they can circumvent poison pill takeover provisions by establishing 9.9% equity stakes in companies and voting those stakes in concert with like-minded investors.<sup>6</sup>

Proponents of activism believe that hedge funds play a critical role in the corporate governance process by holding management teams accountable for their actions. Critics respond that hedge fund activists are more concerned with short-term stock prices than long-term value creation, prompting them to recommend leveraged recapitalizations that will hamstring companies in the future. **We believe that talented investment professionals can generate a tremendous amount of value for investors by working collaboratively with management teams to effect their own catalysts, but generally prefer to avoid**

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<sup>6</sup> *The Wall Street Journal*, 12/20/05, "Hedge Funds Find Cure For Poison Pill: Teamwork."

**managers who are openly and aggressively hostile.** Management teams under attack by hostile activists tend to utilize all available resources to combat their assailants, making hostile activism an extraordinarily time and labor intensive endeavor.

### **Credit Default Swaps**

Another trend that has important implications for the hedge fund industry is the exponential growth of the global credit default swap (CDS) market. According to a recent article in the *Financial Times*, the notional value of CDS outstanding now exceeds \$17 trillion—a figure that dwarfs both the cash market for bonds and the global equity derivatives market.<sup>7</sup> (The sheer size of the market is staggering when one considers that virtually no market for CDS existed in the United States in 2000.)

In their most basic form, CDS represent a contract between two parties in which one party purchases credit protection from another. If Party A owns a bond, she can purchase a CDS contract that will pay her par value minus the market value of the bond if a predetermined credit event (usually a default) occurs during a specified time frame. Party B agrees to insure the credit risk inherent in that bond in exchange for a series of periodic premium payments, which are determined by market forces. In many ways, these contracts resemble standard life insurance contracts.

The increasing standardization and liquidity of CDS contracts have enhanced their attractiveness to hedge fund managers, prompting them to use CDS in manifold ways. Convertible arbitrageurs who seek to make bets on implied volatilities use CDS to strip the credit risk out of convertible bonds. Broad-based credit managers use CDS to make directional bets on specific credits and use CDS indices (e.g., Dow Jones CDX indices) to hedge against systemic spread widening. Hedged credit managers use CDS to establish capital structure arbitrages, often arbitraging CDS against corresponding cash bonds. A few managers have even been able to engage in pure arbitrage in the CDS market, as the lack of pricing transparency in the market allows them to simultaneously buy and sell credit protection at different prices.

Some argue that the CDS market has grown too quickly and has never been tested by a market dislocation. They point out that the market has quickly outgrown the infrastructure needed to process and settle trades, making it very difficult for managers to properly assess counterparty risks. Critics note that the market is still dominated by a handful of big swap dealers (e.g., J.P. Morgan Chase, Bank of America, and Citigroup). While regulatory authorities are scrambling to address many of these issues—the FSA and Federal Reserve Bank of New York recently convened a meeting of the 14 largest swap dealers to discuss ways to enhance trade settlement mechanisms—there remains a huge backlog of unprocessed trades in the CDS market.

**While we believe that the maturation of the CDS market has provided hedge fund managers with an invaluable tool for managing credit risk and leveraging proprietary credit research, we caution that CDS create significant amounts of off balance sheet leverage that cannot easily be monitored by investors.** While managers who buy credit protection can only lose the present value of the

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<sup>7</sup> *Financial Times*, 3/16/06, “Boom Goes On For Credit Derivatives.”



premium payments they have contracted to pay, managers who sell protection can incur massive losses when bonds they have agreed to insure end up in default. Investors should carefully monitor managers to make sure they are not in the business of writing significant amounts of credit protection, as this strategy is akin to picking up nickels on a train track.

### **Implications for Portfolio Construction**

We have historically recommended that investors structure marketable alternative programs that incorporate both single-strategy and multi-strategy managers.

By using single-strategy managers, investors are able to maintain a modicum of control over the risk/return profiles of their marketable alternative programs. This allows them to manage their overall exposure to a variety of systemic risk factors, such as equity prices, equity volatility, corporate credit spreads, corporate credit quality, and interest rates. Single-strategy managers possess highly specialized expertise that theoretically gives them an edge within their chosen disciplines compared with multi-strategy firms and other crossover investors. They also tend to have more reasonably sized asset bases, allowing them to participate in small- and mid-cap situations that lie beyond the reach of large multi-strategy firms.

By using multi-strategy managers, investors are effectively able to rotate capital among strategies on a real time basis in the pursuit of attractive investment opportunities. As liquidity constraints preclude them from making capital allocation decisions during lock-up periods, investors are often willing to cede control of capital allocation decisions to multi-strategy managers with appropriate incentives to search for superior risk-adjusted opportunities across multiple strategies. Managers employing a multi-disciplinary approach benefit from the cross-fertilization of investment ideas among strategy teams, and are better able to track companies as they evolve from serial acquirers, to convertible bond issuers, to high-yield debt issuers, to bankruptcy candidates. Importantly, multi-strategy managers do not feel pressured to maintain exposure to strategies with unattractive opportunity sets.

The maturation of the hedge fund industry has affected the debate about the relative attractiveness of single-strategy versus multi-strategy models in two ways. First, heightened competition has increased the speed at which pricing inefficiencies are identified and eliminated in the capital markets. For example, when convertible arbitrageurs were hit with mass redemptions back in April 2005, selling pressure temporarily depressed convertible bond prices. In less than three days, multi-strategy firms and crossover investors stepped in and eliminated the opportunity to buy cheap bonds.

Second, the supply/demand imbalance in the hedge fund industry has allowed managers to introduce more restrictive liquidity provisions. Investors who were once able to rotate capital among strategies at year-end must often wait two or three years before they can redeem capital, making it increasingly difficult for them to create value by tactically rotating capital among strategies. This problem is compounded by the widespread adoption of gating provisions, holdover provisions, and side pockets, all of which create friction that inhibits capital mobility.

Heightened competition and diminished liquidity seem to favor the multi-strategy model over the single-strategy model, as flexibility and adaptivity become more important in a world where investment opportunities are fleeting. **Accordingly, we recommend that investors tilt the absolute return portion of their investment programs (i.e., the portion of their programs dedicated to strategies other than long/short equities) toward managers with multi-strategy or opportunistic mandates.** While there will always be a role for single-strategy managers in marketable alternative programs, we recommend that investors select single-strategy managers with broad mandates within their chosen disciplines (e.g., distressed security managers with trade claim, post reorganization equity, direct lending, and non-U.S. capabilities) or niche managers with flexible capital bases.

We make this recommendation with two caveats. First, investors should favor multi-strategy managers who have heavily invested in building out their investment platforms, either by developing talent internally or by acquiring it in the marketplace. Multi-strategy firms are the conglomerates of the hedge fund industry, and are just as prone to “di-worse-ification” as their brethren in corporate America. Second, investors need to be cognizant about the tendency of multi-strategy managers to flock to the same strategies at the same time. This problem was particularly evident in the third and fourth quarters of 2002, when many multi-strategy managers rotated 70% to 90% of their capital into distressed securities to capitalize on the Worldcom/Adelphia induced credit meltdown. While this decision was handsomely rewarded, many marketable alternative programs with heavy multi-strategy allocations ended up with extreme exposure to a single, directional strategy.

### **Challenges Faced by Funds-of-Funds**

While all of the aforementioned trends (e.g., product proliferation, escalating fees, stricter liquidity provisions, intensifying competition, strategy commoditization, rising correlations) have eroded the traditional value proposition of hedge funds and made it more difficult to construct marketable alternative programs, they have had a particularly negative impact on the hedge funds-of-funds industry.

The value proposition of most fund-of-funds managers (FOF) consists of three basic components:

- 1) FOF have (theoretically) developed an expertise in hedge fund manager selection, and spend a tremendous amount of time and energy sifting through an ever-burgeoning universe of products looking for talented managers;
- 2) FOF aggregate capital from small investors, allowing those investors to gain access to differentiated products with high investment minimums; and
- 3) FOF understand the key return drivers in marketable alternative strategies, and are better able than most investors to add value by tactically rotating capital among strategies. **In exchange for these services, FOF typically charge a management fee and an incentive fee—with fees now averaging almost 1%+10%.**

Several of the trends listed above have made it extremely difficult for most FOF to identify talented managers and secure capacity. First, the proliferation of hedge fund products has made it harder for FOF to identify talented managers, especially considering that the number of talented managers is not directionally proportional to the size of the manager universe. (In other words, there is a finite supply of exceptionally talented investment professionals, and that supply has not expanded in concert with industry growth.) Screening and surveying a universe of 10,000 managers is much more labor intensive than screening and surveying a universe of 3,000 managers, and many FOF lack the resources to do an exhaustive job. **Additionally, most U.S.-based FOF do not have offices overseas and are not properly resourced or staffed to perform due diligence on non-U.S. products—a fact that is becoming far more important as investors seek to diversify geographically.**

Perhaps more importantly, many FOF are having a very difficult time securing new capacity with talented managers. As mentioned above, hedge fund managers have attempted to capitalize on the supply/demand imbalance in the hedge fund industry by optimizing their businesses in a number of ways (e.g., increasing fees, introducing more restrictive liquidity provisions, raising capital, launching new products). **They have also tried to optimize their businesses by upgrading their investor bases, that is, by redeeming undesirable clients and replacing them with desirable clients.** While endowments, foundations, and strategic high net worth investors tend to be viewed as very desirable clients, FOF tend to be viewed less favorably for two reasons: (1) Many FOF have shorter-term investment horizons and are more likely to fire a manager for short-term underperformance (i.e., the hot money argument), and (2) Unlike the other types of investors listed above, FOF do not control the liability side of their balance sheets and are sometimes forced to redeem from talented managers to fund capital distributions to their own limited partners. **While some may reject these characterizations as too general, many established managers in our universe have indicated a willingness to swap FOF investors for longer-term investors such as endowments, foundations, and strategic high net worth investors.**

The third leg of FOF's value proposition concerns the impact of more restrictive liquidity provisions on the ability of investors to tactically rotate capital among marketable alternative strategies. In the past, seasoned FOF were able to create value for limited partners by assessing the business fundamentals of various strategies and calibrating allocations on a quarterly basis. This sort of calibration is significantly less additive in a world defined by lengthy lock-up provisions, gating provisions, holdover provisions, and side pockets—in other words, in a world defined by limited capital mobility.

Finally, the degradation of returns in capacity-constrained marketable alternative strategies presents a very difficult problem for FOF. Virtually all FOF pass underlying manager fee increases through to their limited partners *and* assess an extra layer of fees for the services they provide (e.g., aggregation, manager selection, strategy allocation). As FOF fees have been rising in lockstep with underlying manager fees, many FOF investors are now paying almost 3%+30% for marketable alternatives exposure—a levy we would argue is very, very difficult to justify given the current return environment. **When one considers that most FOF are having a much tougher time identifying talented managers, securing capacity with talented managers, and adding value by rotating capital among strategies, prevailing FOF fees seem unreasonably excessive.**

## Performance Reviews

### U.S. Long/Short Equities

Despite mounting concerns about energy prices, interest rates, geopolitical turmoil, underfunded pensions, the U.S. housing market, the U.S. budget and trade deficits, catastrophic hurricanes, and the spread of avian flu, major U.S. equity indices advanced for the third consecutive year (S&P 500 +4.91%, S&P 400 Mid-Cap +12.55%, and S&P 600 Small-Cap +7.68%). The Russell 2000® Value Index outperformed the Russell 2000® Growth Index for the fifth time in the last six years, although the performance gap narrowed to 0.55 percentage points in 2005 from 7.94 percentage points in 2004. The best-performing U.S. equity industry sectors included diversified energy, oil & gas services, diversified materials, and homebuilders, while the worst-performing sectors included automobile manufacturers, automobile parts suppliers, home furnishing, and food distribution. While the market breadth of the S&P 500 was reasonably strong in 2005 (with advancers leading decliners by a count of 311 to 189), this breadth belied a concentration of returns in the energy, commodity, and real estate sectors. The performance of managers who were underweight these sectors—or who failed to have positions in a handful of select technology names such as Google and Apple Computer—generally trailed their peers.<sup>8</sup> The median return of the U.S. long/short equity products in our universe was 8.62%, roughly comparable to the +9.68% return from the Credit Suisse/Tremont Long Short Equity Index.<sup>9</sup>

While equity returns are the primary driver of returns from long/short equity investing, *equity correlation* and *equity volatility* are also critically important. Several managers have observed that the correlation among U.S. equities has increased in recent years, with good and bad businesses accorded similar valuation multiples.<sup>10</sup> This compression of multiples has dampened returns for hedged equity managers by reducing the payoff from proprietary fundamental research, but should enhance prospective returns as investors begin to differentiate between good and bad businesses. (Put another way, long/short equity managers who maintain sizable short books perform well when investors are focused on the operating performance of individual companies—i.e., when there are lots of winners and losers within sectors—but struggle when macroeconomic factors determine stock prices and correlations.) Managers have also lamented a precipitous decline in equity volatility, with the Chicago Board Options Exchange Volatility Index (or VIX) recently touching a ten-year low. The VIX averaged 12.81% in 2005 (versus an average of 21.57% during the 1995-2005 period), and bottomed in December at 10.23%. Declining equity volatility impairs long/short equity returns by reducing the number of market dislocations that give rise to mispriced securities and by limiting the ability of managers to profitably trade around core positions.

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<sup>8</sup> A recent research report from Goldman Sachs entitled *Portfolio Strategy, Hedge Fund Monitor* suggests that more than 40% of long/short equity funds now have a position in Google. The company's common stock was +125.41% in 2005, while Apple Computer common stock was +123.75%.

<sup>9</sup> This figure was calculated by aggregating U.S. long/short value and U.S. long/short growth manager returns. The Credit Suisse/Tremont Index is not a direct proxy for this median because it includes non-U.S. products.

<sup>10</sup> A recent U.S. Strategy Update by Merrill Lynch (3/27/06) noted that five-year correlations between every S&P GICS Sector and the S&P 500 are higher today than they were in February 2000.

Many U.S. long/short equity managers remain reluctant to maintain high levels of security-specific short exposure for the following reasons:

- 1) The proliferation of long/short equity funds and migration of multi-strategy managers into fundamental long/short equity strategies has made it more difficult to unearth materially overpriced securities;
- 2) Overcrowding on the short side has made it more difficult to borrow stock and has increased the cost of short selling, as stock-borrow costs are a function of supply and demand, and has made short squeezes more prevalent;
- 3) Recently enacted tax legislation has led to a rise in dividend payout ratios, making short selling more expensive since short sellers are obligated to remit dividend income they receive to the nominal owner of borrowed securities; and
- 4) Both U.S. corporations and LBO firms are brimming with cash, and have been acquiring companies at a torrid pace. This acquisition activity has made short selling certain types of companies extremely treacherous, prompting managers to run LBO screens on short candidates as part of their formal research process.

**As we have mentioned in previous research reports, we strongly discourage investors from making commitments to long/short equity managers who use exchange-traded funds rather than stock shorts to maintain short exposure, as managers cannot (by definition) generate alpha on the short side of their equity portfolios if they invest in index-linked securities.** Investors have the ability to couple long-only allocations with short index positions on their own without having to pay an incremental 1%+20% to their long/short equity managers.<sup>11</sup>

### Non-U.S. Long/Short Equities

Non-U.S. equity markets substantially outperformed U.S. equity markets in 2005 (MSCI EAFE Index +13.54%, MSCI Emerging Markets Index +34.54%, MSCI Europe Index +9.42%, and Nikkei 225 Index up 40.24% in US\$). **The spread in performance between U.S. stocks and non-U.S. stocks drove home the benefits of having a long/short equity program that is diversified geographically, both through global long/short equity managers and regionally focused managers.** Investors in global equities benefit from a wider opportunity set and greater diversification, as regional economic growth is not perfectly synchronized. In addition exposure to global currencies provides an additional measure of diversification. One trend worth highlighting is that global long/short equity managers who carried net short positions in European equities tended to underperform their peers, as there was a fairly pronounced junk equity rally in Europe (i.e., companies with excessive balance sheet leverage, limited free cash flow, and faltering competitive positions were the biggest winners). Many managers who were net short European equities also complained about irrational risk taking by European management teams, particularly in cases where companies paid dear prices to acquire low-quality companies.

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<sup>11</sup> Assuming that a long-only manager charges a 1% management fee, the prevailing 2%+20% hedge fund fee schedule represents an incremental 1%+20% paid to the long/short equity manager for the service of shorting market indices.

Most emerging markets long/short equity managers in our universe failed to fully capitalize on the pronounced rally in emerging markets equities. **While we believe that securities in many developing markets are less efficiently priced than comparable securities in developed markets, we note that emerging markets hedge fund managers face some fairly considerable obstacles as they attempt to capitalize on these pricing inefficiencies.** These obstacles include considerable short-selling constraints (e.g., depth of borrow, cost of borrow, legality of short selling), high transaction costs, wide bid-ask spreads, fund flows that tend to overwhelm business fundamentals, volatile currencies that are extremely costly to hedge, and accounting/bankruptcy regimes that make fundamental security analysis extraordinarily difficult.

## Distressed Securities

While the return backdrop in distressed securities markets was significantly less attractive than it was during the past two years, our universe of distressed security managers did a remarkably good job of generating mid-single-digit to low double-digit returns in 2005. The median return for managers in our universe (which excludes private equity style lock-up funds) was +8.24%, versus a return of +1.84% for the Altman-NYU Salomon Center Defaulted Bonds and Bank Loans Index. (The Altman Index can be disaggregated into a Defaulted Bond Index, which returned -1.78%, and a Defaulted Bank Loan Index, which returned +7.19%.)

**The ability of distressed security managers to swim against the ebbing tide of corporate default rates can be attributed to a number of factors, most notably their ability to source interesting investments across an array of ancillary strategies.** These ancillary strategies included post-reorganization equities, trade claim factoring, direct lending, capital structure arbitrage, international distressed debt, small balance loan portfolios, distressed real estate, rescue financings, directional shorting, and debt-for-equity swaps.

Despite a slight uptick in corporate default rates from the extremely depressed levels witnessed in 2004, most distressed security managers readily acknowledge that the current return backdrop in the public distressed debt market remains very unattractive. **This backdrop is characterized by a dearth of big bankruptcies, extremely tight high-yield credit spreads, and rich valuations.** The rolling four quarter corporate default rate finished the year at 3.43%, down from a peak of 14.53% in the third quarter of 2002. While a handful of notable companies—most in the embattled automotive and airline sectors—petitioned for bankruptcy protection during the year (e.g., Refco, Calpine, Delta Air Lines, Delphi Corporation, Northwest Airlines, Collins & Aikman, Tower Automotive, Winn-Dixie Stores), there were only 86 corporate bankruptcies during 2005 (compared with 84 in 2004 and a peak of 257 in 2001).

Perhaps more importantly, intensifying competition between distressed security managers has ignited a melt-up in the prices of distressed bonds and bank loans. **The Altman-NYU Salomon Center calculates the ratio of aggregate market value to face value of the component securities that make up its indices, and has reported that both are at or near record highs.** The ratio associated with its Defaulted Bonds Index was 0.25 or below for the five-year period from 1998 to 2002 and bottomed at 0.17 at the end of 2002,

but surged to 0.59 during 2005. The ratio associated with its Defaulted Bank Loans Index dropped to an all-time low at the end of 2002 (when the opportunity set in the distressed debt market was extraordinarily attractive by historical standards), but skyrocketed to a record level of 0.86 last year.

Despite the recognition that the return backdrop in the strategy has continued to erode, most distressed security managers believe that conditions will improve during the next 12 to 18 months. There is a mounting consensus that the following two factors will precipitate a flare-up in corporate defaults during this period: (1) *Low-quality high-yield issuance*: The proportion of new bond issuance in 2005 that was rated CCC, CC, or C was 17.4%, up from a similarly alarming 16.3% in 2004. **As can be seen by examining mortality rates, almost a quarter of all CCC rated bonds have defaulted within two years and almost half have defaulted within four years (Exhibit 18)**; and (2) *A surge in LBO activity*: As mentioned above, uninvested capital at private equity firms has expanded significantly. **As LBO firms scramble to get this capital invested, they are layering significant amounts of debt into the capital structures of American corporations—debt that may lead to a spate of bankruptcies in coming years.**

As distressed security managers wait for the next round of corporate defaults to materialize, they are positioning their partnerships defensively by raising cash balances, migrating up in the capital structures of their portfolio companies, shorting stressed and distressed bonds in the cash market, building investment platforms overseas, and purchasing credit protection as a hedge against systemic spread widening. (Most managers who use portfolio-level hedges to hedge credit spread risk are using one of the Dow Jones CDX series of default swap indices.) Many managers are carrying very mature distressed debt portfolios—with positions such as Enron, Adelphia, Charter Communications, and Mirant—and have been hard pressed to source substantial new investments in distressed bonds and bank loans. We expect cash levels to rise steadily as these mature positions begin to roll off in 2006.

While many distressed security managers are off to a surprisingly strong start in 2006—thanks primarily to a further tightening of corporate credit spreads and a pronounced rally in post-Chapter 11 equities—we do not expect this strong performance to continue throughout the year. This opinion is based on our view that corporate default rates are unlikely to escalate substantially until the beginning or middle of 2007, that high-yield credit spreads are extraordinarily tight and do not currently provide investors with a reasonable margin of safety, and that distressed bond and bank loan valuations leave little room for further appreciation.

**Furthermore, we do not believe that distressed security managers will be able to generate the same kind of returns during the next round of corporate defaults that they were able to generate during the 2003-04 period.** Due to intensifying competition—both from dedicated firms and crossover buyers—distressed debt hedge funds now have less time to perform credit analysis before establishing positions and often find themselves competing with other hedge funds rather than traditional price-insensitive sellers of defaulted debt. When one considers that private equity firms are expected to raise between \$10 billion and \$15 billion in lock-up distressed debt partnerships during 2006 (compared with \$6 billion in

2005),<sup>12</sup> it appears increasingly unlikely that returns during the next downturn in the credit cycle will approximate the 27.5% median return generated by our universe of distressed security managers in 2003.

## Convertible Arbitrage

Convertible arbitrageurs failed to generate positive returns in the face of blistering macroeconomic headwinds during 2005, resulting in a median return of -0.94% for our manager universe. This return was modestly better than the -2.55% return on the Credit Suisse/Tremont Convertible Arbitrage Index, but represented the worst median return for the strategy since 1994. (By way of review, convertible arbitrageurs—especially those who failed to hedge their interest rate exposure—incurred sizable losses in 1994 when the Federal Open Market Committee raised short-term interest rates from 3.25% to 6.00%.)

**The second quarter of 2005 proved to be a particularly harrowing period for convertible arbitrageurs, as disappointed investors began to revisit their allocations to the strategy.** Capital redemptions from the strategy (largely submitted by FOF) started to mount very quickly during the first few weeks in April, forcing leveraged managers to sell convertible bonds at disadvantageous prices in order to fund redemptions. The popular press latched on to the story and started to disseminate information (or misinformation) about the sell-off, spooking the arbitrage community and prompting many managers to concurrently reduce their leverage and exposures. Adding fuel to an already simmering fire, several major credit ratings agencies sparked a liquidity crisis in the credit markets by unexpectedly downgrading General Motors and Ford Motor Company several notches. The spiral of losses and redemptions that ensued continued to spin out of control until the third week in May, when a host of participants in the market started to realize that convertible valuations had cheapened significantly. Over a three-day span, the sell-off in the convertible bond market exhausted itself as dedicated arbitrageurs, multi-strategy managers, and high-yield mutual fund managers pushed convertible valuations back to fair levels.

Almost all of the return drivers in the strategy remained arrayed against arbitrageurs. These return drivers include the following:

- 1) *Equity Volatility*: Equity volatility is the critical return driver in the strategy because it impacts convertible valuations, convertible issuance, and gamma trading profits. Despite optimism in the arbitrage community that equity volatility would reverse its painful and protracted decline, it remained fairly subdued throughout the year, as noted above.
- 2) *Corporate Credit Spreads*: Credit spreads remain very tight by historical standards, all but eliminating the possibility of additional spread compression and dramatically increasing the cost of hedging credit spread risk. Credit spreads (BB) were virtually unchanged during the year, slipping from 3.97 to 4.04 with an average of 4.13 and a range of 3.43 to 5.02. Credit spreads (BB) continued to tighten during the first quarter of 2006, moving from 4.04 to 3.46.
- 3) *Interest Rates*: The FOMC has continued to ratchet short-term interest rates higher to combat incipient inflation, and long-term rates have started to follow suit. The Federal funds rate has

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<sup>12</sup> *Investment News*, March 13, 2006, “Distressed Debt Investors Anticipating Defaults.”



elevated from 2.50% at the end of 2004 to 4.75% at the end of the first quarter of 2006, while the yield on the bellwether ten-year bond has risen from 4.21% at the end of 2004 to 5.12% as of April 30, 2006.

- 4) *Convertible Issuance*: New issuance in the United States fell from an already anemic \$45.4 billion in 2004 to \$37.4 billion in 2005,<sup>13</sup> with combined redemptions during the two-year period of \$132 billion. Put another way, the U.S. convertible bond universe contracted by a staggering \$49 billion during 2004 and 2005.
- 5) *Convertible Valuations*: Most convertible bonds have been trading dear to their theoretical values, with implied volatilities that hardly seem justified given realized levels of equity volatility. As pricing efficiency in the convertible bond market has increased in recent years, many arbitrageurs have shifted their focus away from traditional volatility and credit-oriented positions into event-driven positions that have proximate catalysts (i.e., managers with deep research teams have been able to forecast increases in issuer-specific volatility that are associated with discrete events). One manager described this shift by quipping, “this is not your grandmother’s convertible arbitrage.”
- 6) *Common Stock Dividends*: Arbitrageurs have bemoaned the trend toward rising common stock dividends, as rising common stock dividends have crimped the yield pickup they typically enjoy, (i.e., the coupon on the convertible bonds that arbitrageurs own are generally higher than the dividend yields on the common stocks that they are short).
- 7) *Leveraged Acquisitions*: A wave of leveraged acquisitions in the United States has created a problem for arbitrageurs, as arbitrageurs lose on both sides of trades when acquisitions are heavily financed with debt. (Acquisition premiums result in losses on short equity positions, while excess debt causes credit deterioration and losses on long bond positions.)

While all of these factors are weighing heavily on arbitrageurs, many managers have started to fixate on the dearth of new issuance in the convertible bond market. Managers do not believe that returns from arbitrage will improve until the opportunity set begins to expand again, as new issues are the lifeblood of the strategy. Most market participants attribute the stagnation of issuance activity to two factors: (1) the moderation of equity volatility, as corporate management teams are most inclined to issue convertible debt rather than straight debt when implied equity volatilities are very high (so they can effectively monetize that volatility); and (2) an ebullient high-yield market, as issuers who once would have been forced to issue convertible debt have enjoyed the luxury of financing themselves in the high-yield market at remarkably low rates.

While the lack of new issuance remains a primary concern, most arbitrageurs are optimistic that the return backdrop in their strategy will start to improve in 2006. They observe that merger and acquisition (M&A) activity could spur convertible bond issuance; that equity volatility is likely to rise for a host of macroeconomic and geopolitical reasons (e.g., uncertainty surrounding monetary policy in the wake of Alan Greenspan’s retirement, increasingly volatile energy and commodity prices, the ongoing war in Iraq, ascension of Hamas to power in the Palestinian territory); that investor sentiment is at an all-time low and can therefore only improve (as evidenced by underweight allocations to the strategy by FOF and multi-

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<sup>13</sup> *Merrill Lynch Convertible Monthly*, “Convertible New Issuance.”

strategy managers); and that convertible arbitrage is the only marketable alternative strategy where capacity has been removed from the system. Nevertheless, most reluctantly concede that a third consecutive year of lackluster performance could precipitate another cycle of capital redemptions and losses. **Our view is that returns from convertible arbitrage should improve modestly in 2006, especially if any of the factors listed above precipitate an increase in equity volatility and bond issuance.**

## Merger Arbitrage

While the scarcity of pure-play merger arbitrageurs (i.e., merger arbitrageurs who have not diversified into tangentially related businesses such as event-driven equities or distressed securities) makes it somewhat difficult to pinpoint returns from classic spread arbitrage, a survey of our manager universe indicates that *unleveraged* strategy returns ranged from 4% to 6% in 2005. These returns are slightly higher than the 3.08% return posted by the Credit Suisse/Tremont Risk Arbitrage Index, and roughly in line with the 4.9% median return posted by our universe of managers in 2004.

There continues to be a staggering plurality of opinions about the attractiveness of classic spread arbitrage. Dedicated merger arbitrageurs believe that return drivers in the strategy are aligning in their favor, and are heralding the return of double-digit deal spreads. (One manager recently proclaimed that the opportunity set is as attractive as it was back in 1998, when an avalanche of deals resulted in outsized gains in the strategy.) Multi-strategy managers counter that deal spreads are insufficient to compensate for attendant risks, and continue to underweight the strategy in their portfolios. **They assert that the commoditization of the skill sets needed to engage in merger arbitrage has led to an increase in the number of participants who are monitoring a finite set of transactions, leading to more efficient arbitrage markets and a permanent erosion of spreads.**

Merger arbitrageurs have been buoyed by a confluence of positive developments in recent quarters:

- 1) M&A activity in the United States (including U.S. cross-border transactions) surged to levels last seen in 2000, increasing from \$530.2 billion in 2003 to \$823.2 billion in 2004 and \$1,234.7 billion in 2005, while global ex U.S. M&A activity soared from \$533.6 billion in 2003 to \$567.0 billion in 2004 and \$951.3 billion in 2005;
- 2) The Federal Open Market Committee raised short-term interest rates from 2.50% to 4.25% during the year, enhancing returns from merger arbitrage, both by increasing the short rebate that arbitrageurs receive when they short stock and by resetting the bar on top of which risk premiums are assessed;<sup>15</sup> and

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<sup>15</sup> As we have discussed in previous reports, merger arbitrage tends to be a “spread over Treasuries” business, so an increase in market interest rates generally leads to higher absolute returns in the strategy.

- 3) Risk premiums expanded modestly during 2005, as market participants became more cognizant of the risks associated with underwriting tight spreads in response to a series of problematic deals during the third quarter.<sup>15</sup>

**While the confluence of these factors may have emboldened arbitrageurs, it has not translated into materially wider annualized deal spreads.** By most accounts, spreads on clean deals with little regulatory risk have moved from 4% to 6% at the beginning of the year to 7% to 9% today—a move that can almost completely be attributed to rising short-term interest rates. While some arbitrageurs have been able to augment returns in recent quarters by participating in complex deals and competitive bidding situations (in the United States and Europe), many are disappointed that spreads have not widened further in response to an explosion in global merger activity. As one experienced arbitrageur recently complained, “the safe deals in the market are uninteresting, and the interesting deals are unsafe.”

As stated earlier in this report, **we believe that normative returns on invested capital from merger arbitrage, or the range of returns that the strategy can be expected to generate across cycles, will be markedly lower than in the past.** Whereas merger arbitrage once promised to deliver 10% to 16% returns to investors, with actual returns dependent on levels of deal activity, short-term interest rates, and market risk premia, we now believe that merger arbitrage promises to deliver returns in the 4% to 10% range. There is some reason to believe that returns in 2006 and 2007 will be near the higher end of this range—deal activity continues to be fueled by historically high corporate cash balances, an explosion in LBO activity, activist hedge funds agitating for reform, and commodity rich non-U.S. companies scrambling to buy U.S. competitors—but the extremely attractive deal spreads that arbitrageurs once enjoyed appear to have been permanently consigned to the past. **To put recent returns in historical perspective, median unleveraged returns from merger arbitrage averaged 13.2% during the 1995-2000 period, but only 3.7% during the 2001-05 period.**

### Capital Structure Arbitrage

Capital structure arbitrageurs struggled to generate high single-digit returns in 2005. While capital structure arbitrage tends to be less cycle-dependent than merger arbitrage or distressed securities investing (i.e., relative mispricings within capital structures can occur at any point during the economic cycle), returns from capital structure arbitrage do tend to be volatility dependent. Equity volatility remained at historically low levels in 2005 and credit volatility, after spiking in March after two major credit rating agencies downgraded General Motors and Ford Motor, remained subdued throughout most of the year. **The lack of volatility in U.S. capital markets made it extremely difficult for arbitrageurs to identify and exploit pricing dislocations within corporate capital structures.**

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<sup>15</sup> The third quarter provided arbitrageurs with a painful reminder about the manifold factors that can roil deals, as several widely held positions incurred losses for different reasons: JNJ/Guidant (earnings woes at target), VNU/IMS (activist shareholders), Cablevision and School Supply (financing concerns), Capital One/Hibernia (natural disaster).

While the sectors that provided capital structure arbitrageurs with the most attractive opportunities in 2005 were automotive manufacturers and parts suppliers, two widely held automotive sector arbitrages backfired during the second quarter. Many arbitrageurs were long General Motors senior debt and short General Motors common stock entering the quarter, and were caught flat-footed when the company's debt was downgraded to junk status in early May. Losses in the position were quickly compounded when Kirk Kerkorian launched a tender offer for General Motors common stock, as the common stock appreciated more than 18% on the day the tender was announced. A second automotive sector position that roiled arbitrageurs during the quarter was a long Collins & Aikman senior debt—short Collins & Aikman common stock trade. Although the company petitioned for bankruptcy protection early in the year—generally a positive outcome for a long debt/short equity trade—the recovery value for debt holders turned out to be significantly lower than expected. As most arbitrageurs utilized a hedge ratio that was significantly lower than 100%, they incurred sizable losses when the price of the senior debt cratered.

As we have mentioned in previous reports, capital structure arbitrageurs are most likely to generate outsized returns in environments where, (1) corporate capital structures are extraordinarily complex, resulting in a raft of securities to research, analyze, and trade; (2) corporate management teams are actively re-engineering their capital structures, as recapitalizations generally have a meaningful impact on the relative attractiveness of various securities; (3) equity and credit market volatility forces the prices of related securities to gyrate wildly, creating exploitable dislocations; and (4) credit distress is accelerating, resulting in a divergence of opinion about the probability of corporate defaults and associated recovery rates. **In an environment with very little volatility or credit distress, many arbitrageurs have positioned their portfolios conservatively by buying bank debt or senior secured debt and shorting subordinated debt against those positions.** These trades represent synthetic put options, as arbitrageurs stand to profit if the prices of secured and unsecured issues (which are trading in line with one another despite differences in collateralization and seniority) diverge due to some sort of credit event or market dislocation.

Like many of the marketable alternative strategies we have discussed in this report, capital structure arbitrage has become increasingly competitive in recent years. Several multi-strategy managers have complained that dedicated capital structure arbitrageurs—who spend all of their time hunting for dislocations within corporate capital structures—have eliminated many of the pricing inefficiencies that once made the strategy compelling. Many multi-strategy managers have been unable to scale their allocations to the strategy because they are too big to establish meaningful positions within the capital structures of small- and mid-cap companies, but most maintain some exposure to the strategy. **We continue to believe that dedicated capital structure managers with reasonable assets under management can play important roles within diversified marketable alternative programs, as returns from capital structure arbitrage are not highly correlated with returns from other strategies.**

## Summary Conclusion

While we still believe select managers possess competitive advantages that will enable them to generate attractive risk-adjusted net returns for limited partners, the maturation of the hedge fund industry

has made many hedge fund strategies significantly less attractive than they were in the past. Investors who are committed to building marketable alternative programs must spend a tremendous amount of time identifying talented managers, determining whether talented managers have charged away their competitive advantages, convincing managers who are both talented *and* reasonably priced to grant them access, and monitoring managers closely to insure that they hew to their business plans. **This litany of tasks represents a formidable obstacle, but one that can be surmounted if investors are willing to devote the necessary time, capital resources, and human resources.**

## **EXHIBITS**

## **Long/Short Hedge Funds**

**Exhibit 1****REPRESENTATIVE HEDGE FUND STRATEGIES****Summary of 2005 Annual Total Returns (%)**

	<u>Maximum</u>	<u>Minimum</u>	<u>Median</u>	<u>Number of Funds</u>
U.S. Equity Long/Short Growth	34.0	-17.0	9.9	62
U.S. Equity Long/Short Value	43.6	-20.2	7.8	96
U.S. Equity Sectors	72.5	-13.8	10.0	90
Global and Non-U.S. Long/Short	142.9	-40.7	13.5	176
Market Neutral Equities	19.9	-10.7	5.0	40
Short Sellers	4.3	-5.3	-3.1	3
Fund-of-Funds Long/Short	24.1	2.9	10.2	39



## Exhibit 2

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

## Annual Total Returns (%)

<u>U.S. Equity Long/Short Growth Funds</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Adair Capital LLC - Adair Next Generation Fund, Ltd.	---	---	---	---	---	---	---	10.2	4.5	6.4
AIS Capital Mgmt - AIS Capital Growth Fund, L.P.	---	---	5.1	66.2	-17.1	3.7	-10.9	29.1	8.9	18.1
Argand Capital Advisors LLC - Candela Capital, L.P.	---	---	---	---	---	22.3	-7.5	17.9	16.0	15.0
Artemis Advisors - Artemis Partners, L.P.	---	---	---	20.8	29.6	2.1	-6.7	11.7	5.9	4.3
Ascend Capital - Ascend Offshore Fund, Ltd.	---	---	---	---	---	13.6	2.5	10.4	4.7	6.4
Ascend Capital - Ascend Offshore Leveraged Fund, Ltd.	---	---	---	---	---	---	---	---	---	9.8
Atlantic Investment Mgmt - Quest Capital Partners, L.P.	17.1	59.3	-15.5	34.1	62.7	17.5	9.3	18.6	11.6	2.3
Bain Capital, Inc. - Brookside Capital Partners Fund, L.P. (n)	---	21.8	20.8	58.2	11.4	20.1	5.8	11.3	14.0	10.6
Bennett Lawrence Mgmt - Emerging Growth Fund, L.P.	---	---	---	---	---	---	-6.1	36.1	27.4	7.6
Bennett Lawrence Mgmt - Bennett/Lawrence Partners, L.P.	24.2	9.7	31.2	96.4	-14.9	-26.3	-20.3	27.4	14.5	3.9
CapitalWorks Invst Partners, LLC - Long/Short U.S. Equity	---	---	---	45.0	21.9	-7.5	-7.6	10.0	6.0	4.1
CastleRock Management, LLC - CastleRock Partners, L.P.	39.3	1.3	57.6	67.3	27.2	-3.8	-33.0	52.0	20.8	22.4
Chilton Investment Co. - Chilton Investment Partners, L.P.	21.3	19.4	36.4	52.9	-0.4	2.7	-10.8	16.9	9.3	14.7
Chilton Investment Co. - Chilton Small Cap Partners, L.P.	---	---	---	---	---	---	3.1	22.2	10.6	14.6
Cupps Capital Management, LLC - Endeavor Fund, LLC	---	---	131.6	145.5	-30.1	4.4	-27.9	46.5	4.0	10.9
Dawson-Herman Capital Mgmt - Southport Mgmt, L.P.	25.1	33.1	0.3	48.8	36.0	-18.5	-21.2	8.8	3.1	10.3
Delta Advisors, LLC - Prism Partners, L.P.	---	---	---	---	34.7	92.4	22.3	8.1	19.4	34.0
EGM Capital - EEGO, L.P.	18.5	25.1	9.3	46.1	28.0	-0.3	-7.8	12.8	0.6	-2.2
EGM Capital - LASER Fund, L.P. (n)	16.8	28.4	13.6	52.0	30.1	-0.1	-8.5	9.2	-0.8	-3.0
EnTrust Capital Inc. - EnTrust Capital Partners L.P.	---	---	---	---	-17.7	4.1	-4.2	21.7	17.3	11.2
Everglades Capital Corporation - Everglades Partners, L.P.	48.6	23.1	-0.8	31.2	21.5	13.9	5.6	15.0	6.7	2.2
Fort Point Capital Mgmt, LLC - Blue Coast Partners, L.P.	---	---	---	---	---	10.6	-2.1	16.3	1.0	1.0
Gardner Lewis Asset Management - Gardner Lewis Fund, L.P.	11.2	14.7	9.8	75.2	1.2	4.8	-31.3	42.2	12.4	-5.1
Goodnow Investment Group, LLC - Old Kings Capital, L.P.	---	---	---	---	---	---	3.6	22.4	7.8	3.1
Maximum	49.1	98.1	131.6	145.5	107.9	92.4	22.3	84.0	44.4	34.0
Median	22.4	23.5	16.6	49.2	14.2	3.7	-7.7	15.7	8.9	9.9
Minimum	11.2	1.3	-28.7	-3.0	-30.1	-30.1	-47.7	2.9	-1.8	-17.0
Number of Funds	24	28	33	38	43	49	53	55	59	62
U.S. Equity ex Small-Cap Manager Median	22.6	30.9	20.7	19.1	0.8	-9.5	-20.8	30.5	13.0	8.0
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.1	1.3	3.1

Notes: Performance is net of all fees. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of the manager's management fees and/or performance allocation. Net performance has been estimated by applying the manager's stated fee schedule to the reported returns.

## Exhibit 2 (continued)

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>U.S. Equity Long/Short Growth Funds</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
Adair Capital LLC - Adair Next Generation Fund, Ltd.	---	---	---	---	---	---	---	7.0	5.4	6.4
AIS Capital Mgmt - AIS Capital Growth Fund, L.P.	---	---	10.5	11.3	4.1	8.9	10.3	18.4	13.4	18.1
Argand Capital Advisors LLC - Candela Capital, L.P.	---	---	---	---	---	12.2	9.8	16.3	15.5	15.0
Artemis Advisors - Artemis Partners, L.P.	---	---	---	9.1	7.3	3.3	3.6	7.3	5.1	4.3
Ascend Capital - Ascend Offshore Fund, Ltd.	---	---	---	---	---	7.4	5.9	7.1	5.5	6.4
Ascend Capital - Ascend Offshore Leveraged Fund, Ltd.	---	---	---	---	---	---	---	---	---	9.8
Atlantic Investment Mgmt - Quest Capital Partners, L.P.	19.6	19.9	15.7	21.0	18.9	11.7	10.3	10.6	6.8	2.3
Bain Capital, Inc. - Brookside Capital Partners Fund, L.P. (n)	---	18.6	18.2	17.8	12.1	12.3	10.4	12.0	12.3	10.6
Bennett Lawrence Mgmt - Emerging Growth Fund, L.P.	---	---	---	---	---	---	15.0	23.1	17.1	7.6
Bennett Lawrence Mgmt - Bennett/Lawrence Partners, L.P.	10.3	8.8	8.7	5.9	-4.5	-2.3	4.8	14.9	9.1	3.9
CapitalWorks Invst Partners, LLC - Long/Short U.S. Equity	---	---	---	9.0	4.0	0.7	2.9	6.7	5.0	4.1
CastleRock Management, LLC - CastleRock Partners, L.P.	21.2	19.4	21.8	17.4	10.7	7.7	10.7	31.0	21.6	22.4
Chilton Investment Co. - Chilton Investment Partners, L.P.	15.0	14.3	13.7	10.8	5.0	6.1	6.9	13.6	12.0	14.7
Chilton Investment Co. - Chilton Small Cap Partners, L.P.	---	---	---	---	---	---	12.4	15.7	12.5	14.6
Cupps Capital Management, LLC - Endeavor Fund, LLC	---	---	22.5	11.8	-1.9	4.9	5.1	19.1	7.4	10.9
Dawson-Herman Capital Mgmt - Southport Mgmt, L.P.	10.4	8.9	6.2	7.0	1.3	-4.5	-0.6	7.3	6.6	10.3
Delta Advisors, LLC - Prism Partners, L.P.	---	---	---	---	32.8	32.4	20.6	20.0	26.5	34.0
EGM Capital - EEGO, L.P.	11.9	11.2	9.6	9.7	4.5	0.4	0.6	3.5	-0.8	-2.2
EGM Capital - LASER Fund, L.P. (n)	12.5	12.0	10.1	9.6	3.8	-0.8	-1.0	1.7	-1.9	-3.0
EnTrust Capital Inc. - EnTrust Capital Partners L.P.	---	---	---	---	4.5	9.6	11.0	16.7	14.2	11.2
Everglades Capital Corporation - Everglades Partners, L.P.	15.9	12.7	11.5	13.4	10.6	8.6	7.3	7.8	4.4	2.2
Fort Point Capital Mgmt, LLC - Blue Coast Partners, L.P.	---	---	---	---	---	5.2	3.8	5.9	1.0	1.0
Gardner Lewis Asset Management - Gardner Lewis Fund, L.P.	10.5	10.4	9.9	9.9	1.7	1.8	1.1	14.9	3.3	-5.1
Goodnow Investment Group, LLC - Old Kings Capital, L.P.	---	---	---	---	---	---	9.0	10.8	5.4	3.1
Maximum	25.1	25.8	22.5	22.8	32.8	32.4	22.9	36.9	26.5	34.0
Median	13.3	13.2	12.5	10.2	5.0	5.6	6.5	13.6	8.4	9.9
Minimum	2.5	-0.1	-2.7	-0.2	-8.9	-6.6	-5.7	1.3	-3.1	-17.0
Number of Funds	24	28	33	38	43	49	53	55	59	62
U.S. Equity ex Small-Cap Manager Median	10.3	9.0	6.5	4.6	2.4	2.7	6.0	16.8	10.5	8.0
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of the manager's management fees and/or performance allocation. Net performance has been estimated by applying the manager's stated fee schedule to the reported returns.

## Exhibit 2 (continued)

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

## Annual Total Returns (%)

<u>U.S. Equity Long/Short Growth Funds (continued)</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Goodnow Investment Group, LLC - Thresher Partners, L.P.	35.0	22.6	16.6	22.9	-5.6	17.0	-15.0	31.2	9.1	3.3
Highside Capital Management - Highside Capital Mgmt, L.P.	---	---	---	---	---	---	---	---	13.5	10.6
Hintz, Holman & Robillard - HHR Atlas	---	---	---	---	---	---	---	---	---	24.2
Hintz, Holman & Robillard - Institutional Portfolio	17.0	22.8	31.2	33.8	-10.2	-1.0	-5.0	21.4	14.3	25.1
Hintz, Holman & Robillard - Jubilee	17.8	23.9	24.5	22.7	-15.0	-0.7	-2.4	15.3	15.2	25.3
Ibis Management - Ibis Capital, L.P.	---	---	---	---	---	5.9	-8.6	40.1	14.4	3.6
Integrity Capital Mgmt GP, LLC - Integrity Boston Fund, L.P.	---	---	---	---	---	---	---	---	5.2	5.3
Lee Munder Capital Group - Investment Partners I, L.P.	---	---	---	---	---	40.9	-8.5	23.7	1.9	11.3
New Castle Holding - New Castle Millennium II, L.P.	---	---	---	---	11.2	-5.9	-19.5	27.8	4.2	15.2
New Castle Holding - New Castle Millennium, L.P.	---	22.5	24.6	42.0	10.4	-6.6	-19.6	27.9	4.0	14.0
OMT Capital Management - Hawthorne Capital Partners, L.P.	---	---	---	34.9	18.6	13.3	-0.8	4.2	1.5	3.5
P.A.W. Capital Partners, L.P. - P.A.W. Partners, L.P.	22.7	19.2	8.9	49.6	13.0	5.7	-10.2	12.1	0.3	6.9
Pequot Capital Mgmt, Inc. - Pequot Endowment Fund, L.P.	22.1	26.5	40.3	46.9	19.8	-3.3	-8.0	8.0	8.1	8.8
Pequot Capital Mgmt, Inc. - Pequot Navigator Offshore Fund	---	---	---	---	---	15.5	-1.3	7.1	0.5	6.6
Pequot Capital Mgmt, Inc. - Pequot Partners Fund, L.P.	28.2	18.2	41.8	60.2	13.4	-3.8	-13.5	13.0	10.1	12.1
Pequot Capital Mgmt, Inc. - Pequot Scout Fund, L.P.	49.1	25.2	16.9	46.0	40.0	10.3	0.6	8.7	2.6	9.6
Pierce Street Capital Mgmt - Pierce Street Capital Partners, L.P.	---	---	---	---	---	---	---	15.2	6.6	-1.1
Precept Capital Mgmt, L.P. - The Precept Fund, L.P.	---	---	---	53.1	4.8	-8.6	-7.7	24.2	8.4	8.0
Red Comb, LLC - Snowdon, L.P.	28.9	23.9	-18.7	72.5	-27.6	-30.1	-38.7	84.0	-1.8	1.8
Sage Asset Mgmt, LLC - Sage Opportunity Fund, L.P.	---	---	27.9	47.5	32.8	-0.1	-13.8	14.3	14.3	16.9
SB Value Partners, L.P. - SAB III Growth Equity Program	---	---	---	---	---	---	---	---	4.3	4.5
Segalas Group, LLC (The) - KTS Olympus Partners, L.P.	---	---	---	---	14.2	-11.9	1.2	2.9	2.7	11.1
Select Equity Group, Inc. - SEG Partners, L.P.	---	---	---	-3.0	17.5	25.1	14.5	3.3	15.6	10.1
Seminole Capital Partners - Seminole Capital Partners, L.P.	18.7	98.1	11.7	48.5	40.4	16.1	-9.0	31.2	10.4	11.7
Maximum	49.1	98.1	131.6	145.5	107.9	92.4	22.3	84.0	44.4	34.0
Median	22.4	23.5	16.6	49.2	14.2	3.7	-7.7	15.7	8.9	9.9
Minimum	11.2	1.3	-28.7	-3.0	-30.1	-30.1	-47.7	2.9	-1.8	-17.0
Number of Funds	24	28	33	38	43	49	53	55	59	62
U.S. Equity ex Small-Cap Manager Median	22.6	30.9	20.7	19.1	0.8	-9.5	-20.8	30.5	13.0	8.0
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.1	1.3	3.1

Notes: Performance is net of all fees. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of the manager's management fees and/or performance allocation. Net performance has been estimated by applying the manager's stated fee schedule to the reported returns.

## Exhibit 2 (continued)

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>U.S. Equity Long/Short Growth Funds (continued)</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
Goodnow Investment Group, LLC - Thresher Partners, L.P.	12.7	10.4	9.0	7.9	5.6	8.0	5.9	13.9	6.2	3.3
Highside Capital Management - Highside Capital Mgmt, L.P.	---	---	---	---	---	---	---	---	12.0	10.6
Hintz, Holman & Robillard - HHR Atlas	---	---	---	---	---	---	---	---	---	24.2
Hintz, Holman & Robillard - Institutional Portfolio	14.0	13.6	12.5	10.1	6.6	10.3	13.3	20.2	19.6	25.1
Hintz, Holman & Robillard - Jubilee	11.8	11.2	9.7	7.7	5.4	10.0	12.9	18.5	20.1	25.3
Ibis Management - Ibis Capital, L.P.	---	---	---	---	---	10.0	11.0	18.4	8.9	3.6
Integrity Capital Mgmt GP, LLC - Integrity Boston Fund, L.P.	---	---	---	---	---	---	---	---	5.2	5.3
Lee Munder Capital Group - Investment Partners I, L.P.	---	---	---	---	---	12.6	6.5	11.9	6.5	11.3
New Castle Holding - New Castle Millennium II, L.P.	---	---	---	---	4.3	3.0	5.4	15.3	9.5	15.2
New Castle Holding - New Castle Millennium, L.P.	---	11.8	10.5	8.6	3.9	2.6	5.1	14.9	8.9	14.0
OMT Capital Management - Hawthorne Capital Partners, L.P.	---	---	---	10.1	6.5	4.2	2.1	3.0	2.5	3.5
P.A.W. Capital Partners, L.P. - P.A.W. Partners, L.P.	11.9	10.7	9.7	9.8	4.3	2.7	1.9	6.3	3.5	6.9
Pequot Capital Mgmt, Inc. - Pequot Endowment Fund, L.P.	15.7	15.1	13.7	10.3	5.2	2.5	4.0	8.3	8.5	8.8
Pequot Capital Mgmt, Inc. - Pequot Navigator Offshore Fund	---	---	---	---	---	5.5	3.1	4.7	3.5	6.6
Pequot Capital Mgmt, Inc. - Pequot Partners Fund, L.P.	16.3	15.1	14.7	11.2	4.7	3.0	4.8	11.7	11.1	12.1
Pequot Capital Mgmt, Inc. - Pequot Scout Fund, L.P.	19.7	16.8	15.8	15.7	11.3	6.3	5.3	6.9	6.0	9.6
Pierce Street Capital Mgmt - Pierce Street Capital Partners, L.P.	---	---	---	---	---	---	---	6.7	2.7	-1.1
Precept Capital Mgmt, L.P. - The Precept Fund, L.P.	---	---	---	10.2	4.3	4.2	7.6	13.3	8.2	8.0
Red Comb, LLC - Snowdon, L.P.	2.5	-0.1	-2.7	-0.2	-8.9	-4.6	3.1	22.5	0.0	1.8
Sage Asset Mgmt, LLC - Sage Opportunity Fund, L.P.	---	---	16.1	14.5	9.7	5.6	7.1	15.2	15.6	16.9
SB Value Partners, L.P. - SAB III Growth Equity Program	---	---	---	---	---	---	---	---	4.4	4.5
Segalas Group, LLC (The) - KTS Olympus Partners, L.P.	---	---	---	---	3.0	0.9	4.4	5.5	6.8	11.1
Select Equity Group, Inc. - SEG Partners, L.P.	---	---	---	11.5	14.1	13.5	10.7	9.5	12.8	10.1
Seminole Capital Partners - Seminole Capital Partners, L.P.	25.1	25.8	18.8	19.9	15.7	11.3	10.2	17.4	11.0	11.7
Maximum	25.1	25.8	22.5	22.8	32.8	32.4	22.9	36.9	26.5	34.0
Median	13.3	13.2	12.5	10.2	5.0	5.6	6.5	13.6	8.4	9.9
Minimum	2.5	-0.1	-2.7	-0.2	-8.9	-6.6	-5.7	1.3	-3.1	-17.0
Number of Funds	24	28	33	38	43	49	53	55	59	62
U.S. Equity ex Small-Cap Manager Median	10.3	9.0	6.5	4.6	2.4	2.7	6.0	16.8	10.5	8.0
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of the manager's management fees and/or performance allocation. Net performance has been estimated by applying the manager's stated fee schedule to the reported returns.

## Exhibit 2 (continued)

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

## Annual Total Returns (%)

<u>U.S. Equity Long/Short Growth Funds (continued)</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sirios Capital Management - Sirios Capital Partners II, L.P. (n)	---	---	---	---	18.6	4.3	5.2	9.4	5.1	10.8
Sonar Capital Management, LLC - Sonar Partners, L.P.	---	---	---	---	---	---	---	---	12.2	14.9
Sonz (Paul D.) Partners - Sonz Partners, L.P.	18.5	18.4	-0.2	33.7	15.8	2.2	-0.3	10.5	12.9	-16.8
Straus Capital Management - Straus Partners, L.P.	---	---	6.5	73.3	-24.5	7.5	-25.1	54.3	-1.4	10.8
Suffolk Capital Management - Suffolk Partners, L.P.	29.2	24.1	3.8	58.8	-11.3	-10.7	-32.0	48.9	23.8	10.3
Tremblant Holdings LLC - Tremblant Partners, L.P.	---	---	---	---	---	---	4.8	13.4	19.2	17.3
Tudor Investment Corporation - The Raptor Global Fund	26.2	24.3	32.0	98.5	2.6	-2.9	6.2	15.7	19.2	8.9
Tudor Investment Corporation - Witches Rock Fund Ltd.	---	---	---	---	---	---	---	---	---	3.2
Veredus Asset Mgmt, LLC - Veredus Partners, L.P.	11.4	5.4	43.3	98.9	76.3	-10.4	-47.7	26.1	44.4	-17.0
Wall Street Associates - La Jolla Partners, L.P. (n)	---	21.8	20.8	58.2	11.4	20.1	5.8	11.3	14.0	10.6
Welch Fund Mgmt, LLC - Welch Entrepreneurial Fund, L.P.	---	---	8.9	15.9	107.9	41.8	-3.1	5.3	1.2	4.3
Wellington Hedge Mgmt - Quissett Partners, L.P. (n)	---	55.3	0.8	77.3	26.0	6.6	-19.9	28.0	4.8	12.2
Westcliff Capital Mgmt - Westcliff Long/Short, L.P.	25.7	32.1	-28.7	27.2	85.0	-21.5	-11.1	62.1	31.2	20.7
Zweig-DiMenna Associates - Zweig-DiMenna Partners, L.P.	11.9	35.8	25.7	77.4	-6.6	-27.6	-11.7	12.2	17.8	23.2
Maximum	49.1	98.1	131.6	145.5	107.9	92.4	22.3	84.0	44.4	34.0
Median	22.4	23.5	16.6	49.2	14.2	3.7	-7.7	15.7	8.9	9.9
Minimum	11.2	1.3	-28.7	-3.0	-30.1	-30.1	-47.7	2.9	-1.8	-17.0
Number of Funds	24	28	33	38	43	49	53	55	59	62
U.S. Equity ex Small-Cap Manager Median	22.6	30.9	20.7	19.1	0.8	-9.5	-20.8	30.5	13.0	8.0
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.1	1.3	3.1

Notes: Performance is net of all fees. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of the manager's management fees and/or performance allocation. Net performance has been estimated by applying the manager's stated fee schedule to the reported returns.

## Exhibit 2 (continued)

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>U.S. Equity Long/Short Growth Funds (continued)</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
Sirios Capital Management - Sirios Capital Partners II, L.P. (n)	---	---	---	---	8.8	6.9	7.6	8.4	7.9	10.8
Sonar Capital Management, LLC - Sonar Partners, L.P.	---	---	---	---	---	---	---	---	13.5	14.9
Sonz (Paul D.) Partners - Sonz Partners, L.P.	8.6	7.6	6.3	7.3	3.4	1.1	0.9	1.3	-3.1	-16.8
Straus Capital Management - Straus Partners, L.P.	---	---	8.3	8.5	0.4	6.3	6.0	19.0	4.5	10.8
Suffolk Capital Management - Suffolk Partners, L.P.	11.2	9.4	7.7	8.2	1.5	4.3	8.4	26.7	16.9	10.3
Tremblant Holdings LLC - Tremblant Partners, L.P.	---	---	---	---	---	---	13.5	16.6	18.2	17.3
Tudor Investment Corporation - The Raptor Global Fund	20.6	20.0	19.5	17.8	8.0	9.1	12.4	14.5	13.9	8.9
Tudor Investment Corporation - Witches Rock Fund Ltd.	---	---	---	---	---	---	---	---	---	3.2
Veredus Asset Mgmt, LLC - Veredus Partners, L.P.	15.4	15.8	17.2	13.9	3.8	-6.6	-5.7	14.8	9.5	-17.0
Wall Street Associates - La Jolla Partners, L.P. (n)	---	18.6	18.2	17.8	12.1	12.3	10.4	12.0	12.3	10.6
Welch Fund Mgmt, LLC - Welch Entrepreneurial Fund, L.P.	---	---	18.9	20.5	21.2	8.8	1.9	3.6	2.7	4.3
Wellington Hedge Mgmt - Quissett Partners, L.P. (n)	---	18.2	14.2	16.3	8.4	5.1	4.8	14.6	8.4	12.2
Westcliff Capital Mgmt - Westcliff Long/Short, L.P.	17.4	16.5	14.7	22.8	22.1	12.3	22.9	36.9	25.8	20.7
Zweig-DiMenna Associates - Zweig-DiMenna Partners, L.P.	12.7	12.7	10.2	8.1	-0.5	0.8	9.5	17.7	20.5	23.2
Maximum	25.1	25.8	22.5	22.8	32.8	32.4	22.9	36.9	26.5	34.0
Median	13.3	13.2	12.5	10.2	5.0	5.6	6.5	13.6	8.4	9.9
Minimum	2.5	-0.1	-2.7	-0.2	-8.9	-6.6	-5.7	1.3	-3.1	-17.0
Number of Funds	24	28	33	38	43	49	53	55	59	62
U.S. Equity ex Small-Cap Manager Median	10.3	9.0	6.5	4.6	2.4	2.7	6.0	16.8	10.5	8.0
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of the manager's management fees and/or performance allocation. Net performance has been estimated by applying the manager's stated fee schedule to the reported returns.

## Exhibit 3

## REPRESENTATIVE HEDGE FUND MANAGERS BY STRATEGY

Statistical and Volatility Analysis  
Period Ended December 31, 2005

<u>Manager (first full quarter of performance)</u>	<u>3-Year Standard Deviation</u>	<u>5-Year Standard Deviation</u>	<u>3-Year AACR</u>	<u>5-Year AACR</u>	<u>Worst Rolling Four Quarters</u>	<u>Cumulative Manager Return During Down S&amp;P Quarters</u>	<u>Cumulative S&amp;P Return During Down Quarters*</u>
<u>U.S. Equity Long/Short Funds</u>							
Black Bear Fund, L.P. (4Q 95)	8.4	9.2	26.8	18.3	-10.4	10.5	-62.4
Brahman Partners II, L.P. (3Q 91)	4.5	6.1	12.4	13.6	-24.9	105.5	-64.8
Chilton Investment Partners, L.P. (3Q 92)	8.0	8.1	13.6	6.1	-10.8	-7.5	-63.8
Everglades Partners, L.P. (2Q 94)	5.4	5.5	7.8	8.6	-13.6	16.5	-62.4
Pequot Partners Fund, L.P. (4Q 86)	8.6	11.0	11.7	3.0	-41.0	-56.9	-77.2
Rocker Partners, L.P. (2Q 85)	27.1	25.5	-0.1	3.8	-35.6	587.3	-79.7
Tyndall Partners, L.P. (2Q 91)	5.7	7.0	16.3	19.3	-9.0	139.9	-64.8
<u>U.S. Equity Sector Funds</u>							
AG&J Power Fund, L.P. (1Q 93)	4.8	4.3	4.0	5.3	-1.8	34.7	-63.8
Deerfield Partners, L.P. (1Q 94)	9.5	9.1	6.3	8.6	-12.2	106.7	-63.8
Northaven Partners, L.P. (3Q 95)	11.3	12.6	16.1	10.4	-9.7	-14.6	-62.4
Galleon Healthcare Partners, L.P. (2Q 97)	10.9	10.7	6.7	2.1	-15.1	20.8	-62.4
<u>Global and Non-U.S. Long/Short Funds</u>							
GLS Global Opportunities Fund, L.P. (3Q 96)	15.6	17.9	18.8	14.6	-57.7	-66.2	-62.4
Kingdon Partners (2Q 83)	11.3	13.1	21.7	9.0	-19.0	-55.3	-80.7
Maverick Fund USA, Ltd. (2Q 95)	8.7	7.3	6.3	9.3	-3.3	8.1	-62.4
SCI Global Hedge Fund (3Q 87)	15.6	16.1	31.4	12.5	-43.4	-62.9	-77.2
SR Global Fund (International) (2Q 94)	30.0	28.6	32.9	20.4	-34.4	-32.4	-62.4
Standard Global Equity Partners, L.P. (3Q 95)	4.5	5.1	3.5	4.0	-5.1	43.1	-62.4
<u>Fund-of-Funds</u>							
New Providence Fund, Ltd. (1Q 96)	5.2	5.9	9.1	4.4	-5.5	-12.8	-62.4
Selectinvest Global Equities L/S (1Q04)	6.2	5.8	10.1	8.1	-1.5	-1.0	-49.9
Winston Hedged Equity Fund, Ltd. (4Q99)	3.9	4.9	8.6	5.4	-5.5	2.8	-55.5
Barlow Partners Group Trust (1Q 94)	4.5	5.5	11.0	5.7	-8.8	-10.3	-63.8
Meridian Performance Partners, L.P. (1Q98)	3.2	3.1	8.1	5.5	0.3	11.4	-62.4
U.S. Hedged Equity Specialists (1Q96)	3.4	5.0	9.7	7.9	-14.7	-9.8	-62.4
U.S. Equity ex Small-Cap (1Q 80)	11.5	17.8	16.5	2.6	-23.6	-80.7	-85.0
S&P 500 (1Q 80)	11.6	18.2	14.4	0.5	-26.6	-85.0	-85.0
91-Day Treasury Bills (1Q 80)	0.5	0.7	1.8	2.3	1.0	65.0	-85.0

Note: Performance is net of all fees.

\* The time period of the S&P cumulative decline corresponds to the past performance period for each fund

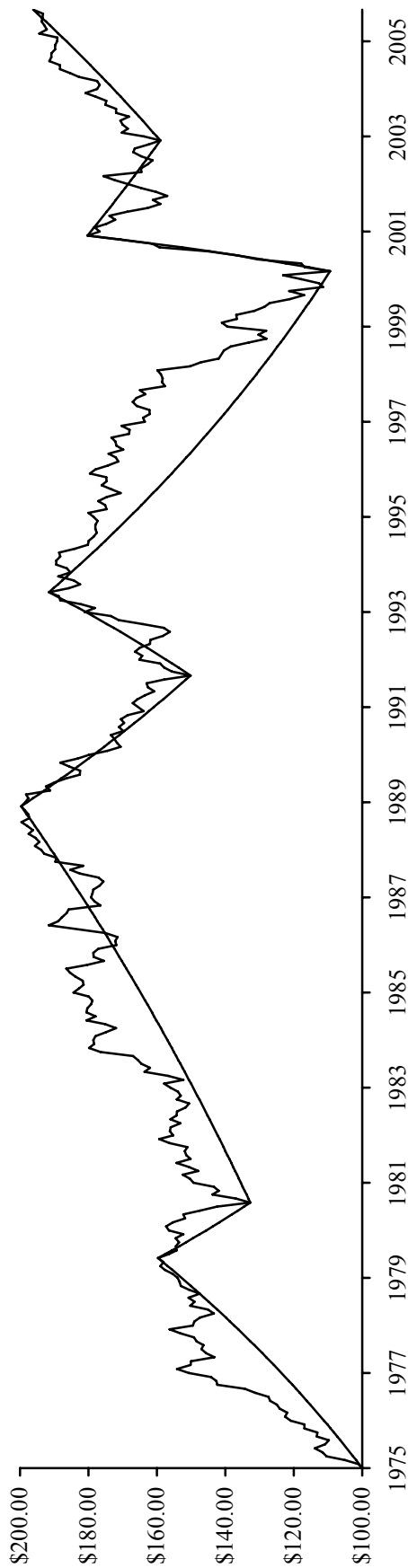
Managers have been selected for inclusion in this exhibit to show the diverse nature of risk and return objectives of various funds within the same category. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

Exhibit 4

S&P 500 EQUITIES BY STYLE

Ratio of Cumulative Wealth of S&P/BARRA Value to S&P/BARRA Growth

May 1, 1975 - December 31, 2005  
(April 30, 1975 = \$100.00)



	Growth Outperforms				Value Outperforms						
	10/1/79- 11/30/80	4/1/89- 12/31/91	10/1/93- 6/30/00	4/1/01- 3/31/03	Average	5/1/75- 9/30/79	12/1/80- 3/31/89	1/1/92- 9/30/93	7/1/00- 3/31/01	4/1/03- 12/31/05	Average
Duration of Outperformance (Years)	1.2	2.8	6.8	2.0	3.2	4.4	8.3	1.8	0.8	2.8	3.6
Outperformance (Percentage Points)	25.0	44.0	201.8	9.4	70.1	72.8	122.3	28.2	40.6	32.5	59.3
S&P/BARRA Value Return (%)	23.3	33.6	168.8	-29.4	49.1	94.8	264.8	30.5	3.4	71.6	93.0
S&P/BARRA Growth Return (%)	48.3	77.6	370.6	-19.9	119.1	22.0	142.5	2.4	-37.3	39.1	33.8
S&P 500 Return (%)	36.3	55.5	262.4	-24.6	82.4	52.8	197.4	15.8	-19.5	54.6	60.2

Sources: BARRA, Inc. and Standard & Poor's.

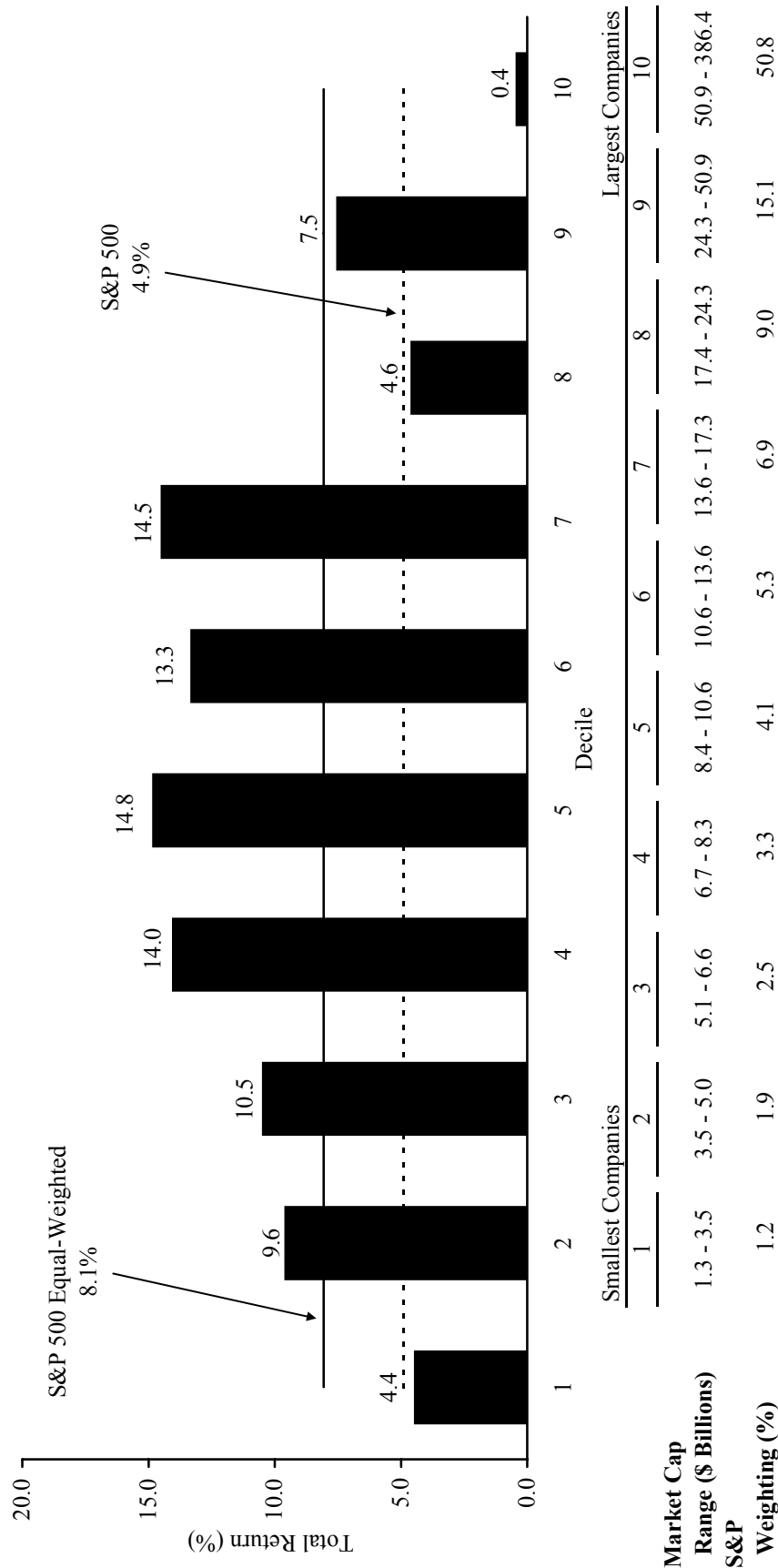
Notes: When the slope of the line is positive, value outperforms growth. When it is negative, growth outperforms value. The average annual compound returns over the full period, May 1, 1975 through December 31, 2005, are as follows: S&P 500 12.6%, S&P/BARRA Growth 11.2%, and S&P/BARRA Value 13.7%. Since January 1, 2005, value has returned 6.3%, outperforming growth by 287 basis points.

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**Exhibit 5**

**THE MARKET CAPITALIZATION EFFECT:  
2005 TOTAL RETURNS FOR S&P 500 MARKET CAPITALIZATION DECILES**

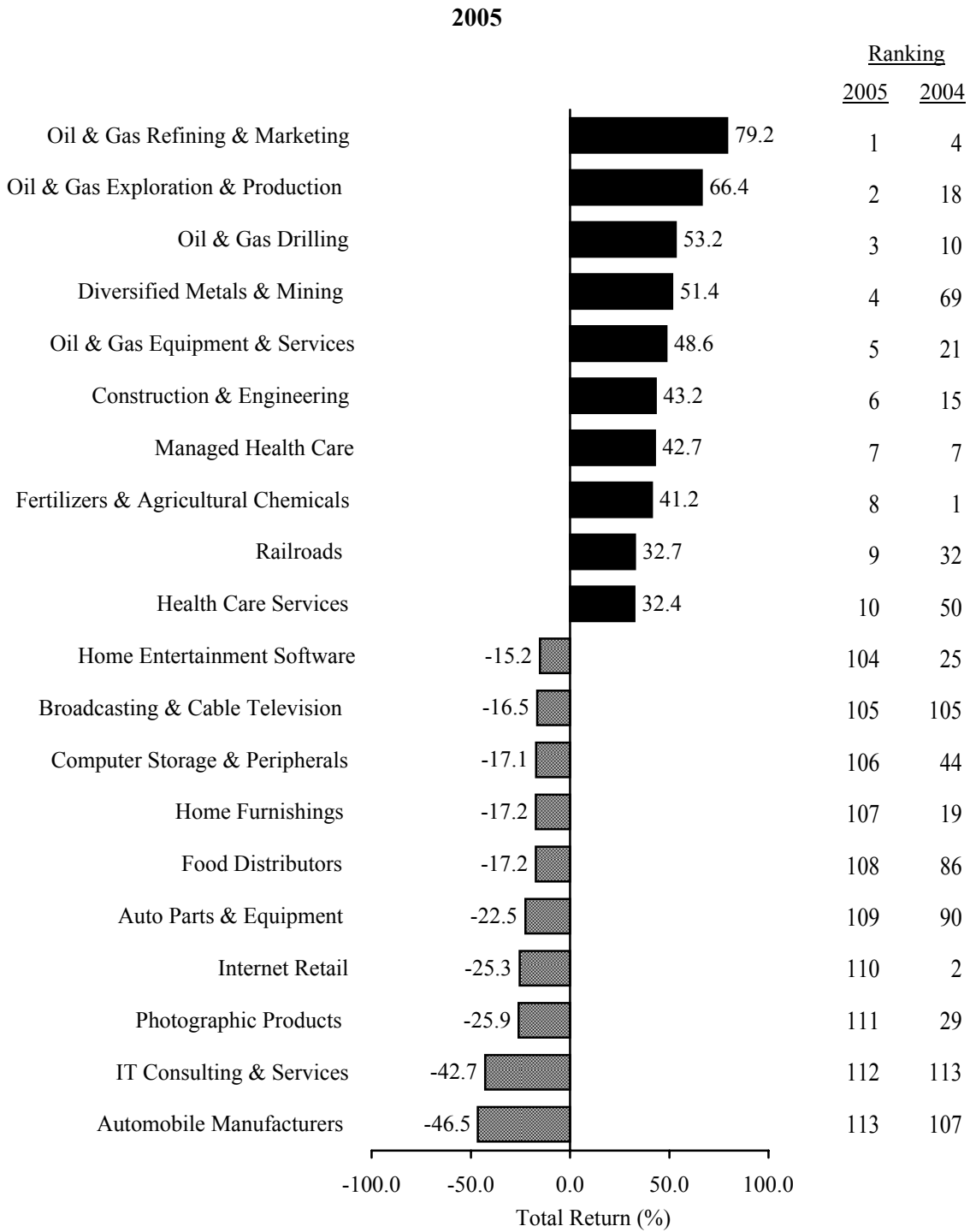


Sources: Factset Research Systems, Standard & Poor's, Standard & Poor's Compustat, and Wilshire Associates, Inc.

Note: Market capitalization is as of December 31, 2004.

**Exhibit 6**

**BEST AND WORST PERFORMERS AMONG S&P 500 SUB-INDUSTRIES**



Source: Standard & Poor's.

## Exhibit 7

## LARGEST NYSE SHORT POSITIONS

As of March 21, 2006

<u>Company</u>	<u>Industry</u>	<u>2005 Price Change (%)</u>
Lucent Technologies Inc.	Telecommunications Equipment	-29.3
Ford Motor Co.	Motor Vehicles	-47.3
General Motors Corp.	Motor Vehicles	-51.5
Qwest Communications International Inc.	Specialty Telecommunications	27.3
Sprint Nextel Corp.	Major Telecommunications	-6.0
AT&T Inc.	Major Telecommunications	-5.0
The Walt Disney Co.	Media Conglomerates	-13.8
Pfizer Inc.	Pharmaceuticals: Major	-13.3
Time Warner Inc.	Media Conglomerates	-10.3
E.I. du Pont de Nemours & Co.	Chemicals: Major Diversified	-13.4
Allied Waste Industries, Inc.	Environmental Services	-5.8
ConocoPhillips	Integrated Oil	34.0
Hewlett-Packard Co.	Computer Processing Hardware	36.5
Boston Scientific Corp	Medical Specialties	-31.1
Duke Energy Corp	Electric Utilities	8.4
Mean		-8.0
Median		-10.3
S&P 500		3.0
NYSE		7.0

Sources: Factset Research Systems, Standard & Poor's, Standard & Poor's Compustat, and *The Wall Street Journal*.

Note: Industry names are defined by Factset.

## Exhibit 8

## LARGEST NYSE SHORT INTEREST RATIOS

As of March 15, 2006

<u>Company</u>	<u>Industry</u>	Short Interest Ratio <u>(Days to Cover)</u>	2005 Price Change (%)
Pre-Paid Legal Services, Inc.	Other Consumer Services	107	1.8
Retail Ventures, Inc.	Discount Stores	55	75.2
Hancock Fabrics, Inc.	Specialty Stores	36	-60.8
American Vanguard Corp.	Chemicals: Agricultural	31	27.8
Hawaiian Electric Industries, Inc.	Electric Utilities	31	-11.1
American Italian Pasta Co.	Food: Specialty/Candy	30	-70.8
First Commonwealth Financial Corp /PA/	Regional Banks	30	-16.0
Piedmont Natural Gas Company, Inc.	Gas Distributors	29	4.0
Superior Industries International, Inc.	Auto Parts: OEM	29	-23.4
Ruby Tuesday, Inc.	Restaurants	28	-0.7
Hearst-Argyle Television, Inc.	Broadcasting	27	-9.6
Odyssey Re Holdings Corp.	Property/Casualty Insurance	26	-0.5
Scottish Re Group Limited	Life/Health Insurance	26	-5.2
Revlon, Inc.	Household/Personal Care	25	34.8
Six Flags, Inc.	Movies/Entertainment	25	43.6
Mean			-0.7
Median			-0.7
S&P 500			3.0
NYSE			7.0

Sources: Factset Research Systems, Standard & Poor's, Standard & Poor's Compustat, Thomson Datastream, and *The Wall Street Journal*.

Notes: The short interest ratio is the number of days it would take to cover the short interest if trading continued at the average daily volume for the month and is calculated by dividing total short interest by the average daily trading volume. Industry names are defined by Factset.

**Exhibit 9****LARGEST NASDAQ SHORT POSITIONS****As of March 24, 2006**

<u>Company</u>	<u>Industry</u>	<u>2005 Price Change (%)</u>
Nasdaq-100 Trust	Investment Banks/Brokers	244.9
Level 3 Communications, Inc.	Information Technology Services	-15.3
Sirius Satellite Radio Inc.	Broadcasting	-12.1
Charter Communications	Cable/Satellite TV	-45.5
Yahoo! Inc.	Internet Software/Services	4.0
Intel Corp.	Semiconductors	6.7
Microsoft Corp.	Packaged Software	-2.1
Sun Microsystems, Inc.	Computer Processing Hardware	-22.3
JDS Uniphase Corp.	Electronic Equipment/Instruments	-25.6
eBay Inc.	Other Consumer Services	-25.7
Comcast Corp.	Cable/Satellite TV	-22.1
Cisco Systems, Inc.	Computer Communications	-11.4
Oracle Corp.	Packaged Software	3.7
XM Satellite Radio Holdings Inc.	Broadcasting	-27.5
Amazon.com, Inc.	Internet Retail	6.5
Mean		3.7
Median		-12.1
S&P 500		3.0
Nasdaq		1.4
Nasdaq 100		1.5

Sources: Factset Research Systems, Standard & Poor's, Standard & Poor's Compustat, Thomson Datastream, and *The Wall Street Journal*.

Note: Industry names are defined by Factset.

## Exhibit 10

## LARGEST NASDAQ SHORT INTEREST RATIOS

As of March 15, 2006

<u>Company</u>	<u>Industry</u>	Short Interest	
		<u>Ratio</u> <u>(Days to Cover)</u>	<u>2005 Price</u> <u>Change (%)</u>
SCO Group, Inc.	Internet Software/Services	194	-6.6
BUCA, Inc.	Restaurants	91	-21.7
Learning Tree International, Inc.	Miscellaneous Commercial Services	59	-4.3
Bank of the Ozarks, Inc.	Regional Banks	56	8.4
Quaker Fabric Corp.	Textiles	47	-61.7
ParkerVision, Inc.	Electronic Equipment/Instruments	47	2.2
Global Crossing	Specialty Telecommunications	47	-11.6
Introgen Therapeutics, Inc.	Biotechnology	46	-37.6
Carmike Cinemas, Inc.	Movies/Entertainment	44	-30.5
Navigant International, Inc.	Miscellaneous Commercial Services	41	-10.8
Convera Corp.	Packaged Software	38	36.4
MAIR Holdings, Inc.	Airlines	37	26.4
Renaissance Learning, Inc.	Other Consumer Services	36	1.9
Medis Technologies Limited	Miscellaneous Commercial Services	35	-19.8
Crown Media Holdings, Inc.	Movies/Entertainment	35	6.6
Mean			-8.2
Median			-6.6
S&P 500			3.0
Nasdaq			1.4
Nasdaq 100			1.5

Sources: Factset Research Systems, Standard & Poor's, Standard & Poor's Compustat, Thomson Datastream, and *The Wall Street Journal*.

Notes: The short interest ratio is the number of days it would take to cover the short interest if trading continued at the average daily volume for the month and is calculated by dividing total short interest by the average daily trading volume. Industry names are defined by Factset.

## Exhibit 11

## NASDAQ SHORT INTEREST RATIOS

## 1993-2005

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
January	1.81	2.06	2.47	1.94	2.38	2.65	2.14	1.79	1.52	2.30	2.83	2.91	2.64
February	1.80	2.15	2.38	1.75	2.08	2.49	1.82	1.65	1.58	2.16	2.82	2.21	2.69
March	2.02	2.35	2.42	1.83	2.28	2.52	2.15	1.54	1.84	2.25	3.39	2.74	2.96
April	2.24	2.27	2.41	1.94	2.62	2.54	2.02	1.51	1.78	2.57	3.01	2.83	3.23
May	2.21	2.60	2.27	1.65	2.66	2.46	1.82	1.69	1.79	2.27	2.85	2.76	3.16
June	2.09	2.87	2.24	1.70	2.76	3.00	2.18	1.94	2.19	2.49	2.74	3.33	3.54
July	2.36	3.21	2.05	2.17	2.62	2.86	2.17	2.06	2.36	2.21	2.62	3.39	3.44
August	2.31	3.11	1.81	2.24	2.29	2.65	2.10	1.92	2.56	2.11	2.63	3.03	3.53
September	2.30	2.87	2.08	2.85	2.51	2.83	2.43	2.17	2.99	2.91	3.05	3.88	3.97
October	2.38	2.87	2.05	2.35	2.30	2.63	2.22	1.88	1.96	2.75	2.63	3.29	3.36
November	2.06	2.53	2.08	2.39	2.22	2.29	2.08	1.71	2.20	2.35	2.52	3.18	3.25
December	2.29	2.70	1.96	2.43	2.89	2.19	1.77	1.84	2.27	2.47	2.87	2.72	3.42

Source: Nasdaq.

Notes: The short interest is the number of shares that have not been purchased, but eventually must be, for return to the lenders. The short interest ratio is calculated by dividing total short sales by average daily trading volume and indicates the number of trading days required to cover the total short interest.

## Exhibit 12

## LARGEST NYSE SHORT POSITIONS

As of March 15, 2006

Rank	Equity	Convertible Securities	Type of Short	Total Short Interest (\$000s)
		Outstanding (\$ Millions)		
1	Lucent Technologies Inc.	2,447	F, C	195,669
2	Ford Motor Co.	N/A	F	103,623
3	General Motors Corp.	N/A	F	87,524
4	Qwest Communications International Inc.	N/A	F, A	61,178
5	Sprint Nextel Corp.	607	F, C, A	54,592
6	AT&T Inc.	N/A	F	53,937
7	The Walt Disney Co.	1,323	F, C	51,736
8	Pfizer Inc.	N/A	F, A	51,354
9	Time Warner Inc.	N/A	F, A	50,680
10	E.I. du Pont de Nemours and Co.	N/A	F	46,665
11	Allied Waste Industries, Inc.	N/A	F	43,697
12	ConocoPhillips	N/A	F, A	43,293
13	Hewlett-Packard Co.	505	F, C, A	42,759
14	Boston Scientific Corp.	N/A	F, A	39,693
15	Duke Energy Corp.	742	F, C, A	37,646
16	General Electric Co.	30	F, C, A	36,224
17	AMR Corp.	624	F, C	35,683
18	Blockbuster Inc.	N/A	F	34,692
19	News Corp.	117	F, C, A	34,648
20	HCA, Inc.	65	F, C	33,877
21	Exxon Mobil Corp.	N/A	F	33,813
22	Interpublic Group of Companies, Inc.	801	F, C	33,417
23	Wal-Mart Stores, Inc.	N/A	F	33,313
24	Bank of America Corp.	326	F, C, A	32,631
25	JPMorgan Chase and Co.	6,979	F, C, A	31,050
26	Eastman Kodak Co.	575	F, C	30,723
27	Micron Technology, Inc.	N/A	F	29,122
28	Xerox Corp.	452	F, C	28,274
29	Tenet Healthcare Corp.	N/A	F	27,416
30	Maxtor Corp.	517	F, C	27,415

Sources: The Bloomberg and *The Wall Street Journal*.

Notes: Securities are coded by considering merger activity, convertible bond issuance, and hedge fund portfolios in 2005. The short interest is the number of shares that have not been purchased, but eventually must be, for return to the lenders.

A = Event Arbitrage

C = Convertibles Arbitrage

F = Fundamental Shorts



## Exhibit 13

## LARGEST NASDAQ SHORT POSITIONS

As of March 15, 2006

<u>Rank</u>	<u>Equity</u>	Convertible Securities		<u>Total Short Interest (\$000s)</u>
		<u>Outstanding (\$ Millions)</u>	<u>Type of Short</u>	
1	Nasdaq-100 Trust	N/A	F, A	144,676
2	Level 3 Communications, Inc.	2,769	F, C	144,020
3	Sirius Satellite Radio Inc.	599	F, C	128,138
4	Charter Communications Inc.	1,847	F, C	76,963
5	Yahoo! Inc.	750	F, C	73,504
6	Intel Corp.	1,600	F, C	71,861
7	Microsoft Corp.	N/A	F, A	61,834
8	Sun Microsystems, Inc.	N/A	F, A	54,777
9	JDS Uniphase Corp.	475	F, C, A	46,870
10	eBay Inc.	N/A	F	42,917
11	Comcast Corp.	1,914	F, C	40,893
12	Cisco Systems, Inc.	N/A	F, A	39,980
13	Oracle Corp.	N/A	F, A	39,360
14	XM Satellite Radio Holdings Inc.	400	F, C, A	39,169
15	Amazon.com, Inc.	1,140	F, C	35,076
16	JetBlue Airways Corp	425	F, C	32,473
17	Comcast Corp.	N/A	F	31,368
18	Ciena Corp.	842	F, C	30,667
19	Applied Materials, Inc.	N/A	F	29,057
20	Amgen Inc.	7,858	F, C, A	25,029
21	Apple Computer, Inc.	N/A	F	24,420
22	Juniper Networks, Inc.	400	F, C, A	24,214
23	Dell Inc.	N/A	F	23,815
24	Conexant Systems, Inc.	912	F, C	22,648
25	Take-Two Interactive Software, Inc.	N/A	F	21,599
26	PMC-Sierra, Inc.	225	F, C, A	21,056
27	Human Genome Sciences, Inc.	513	F, C	20,436
28	NII Holdings, Inc.	692	F, C	20,407
29	Celgene Corp.	400	F, C	20,373
30	Starbucks Corp.	N/A	F	20,216

Sources: The Bloomberg and *The Wall Street Journal*.

Notes: Securities are coded by considering merger activity, convertible bond issuance, and hedge fund portfolios in 2005. The short interest is the number of shares that have not been purchased, but eventually must be, for return to the lenders.

A = Event Arbitrage

C = Convertibles Arbitrage

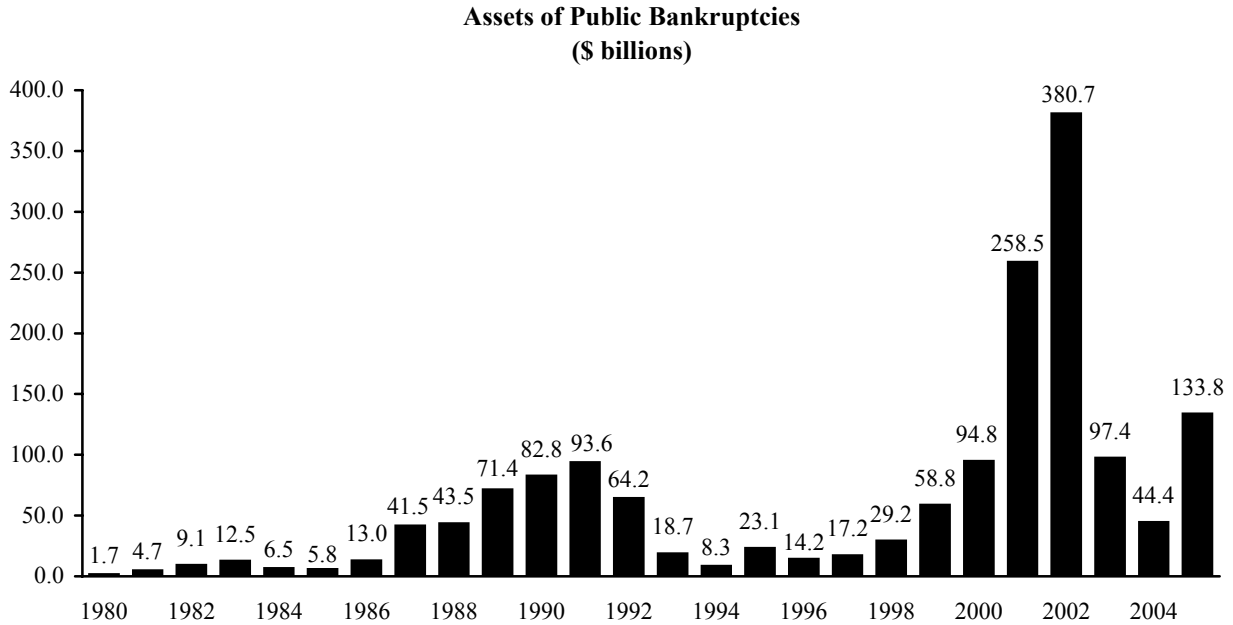
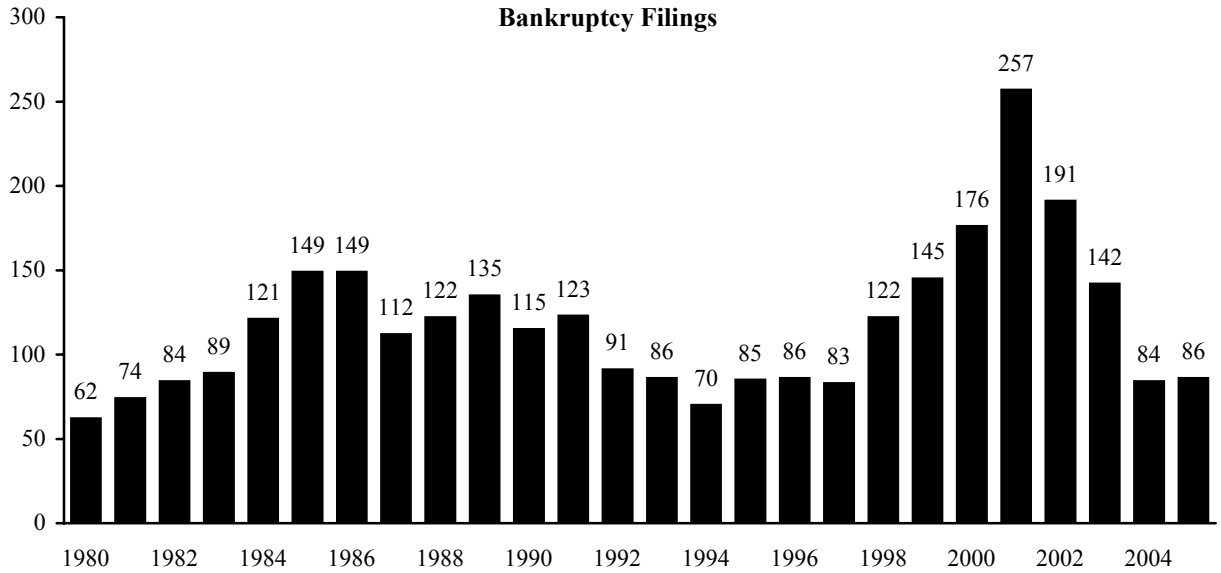
F = Fundamental Shorts

## **U.S. Distressed Company Investing**

**Exhibit 14**

**NUMBER OF BANKRUPTCY FILINGS AND  
CORRESPONDING ASSETS OF PUBLIC COMPANIES**

**1980-2005**



Source: New Generation Research, Inc.

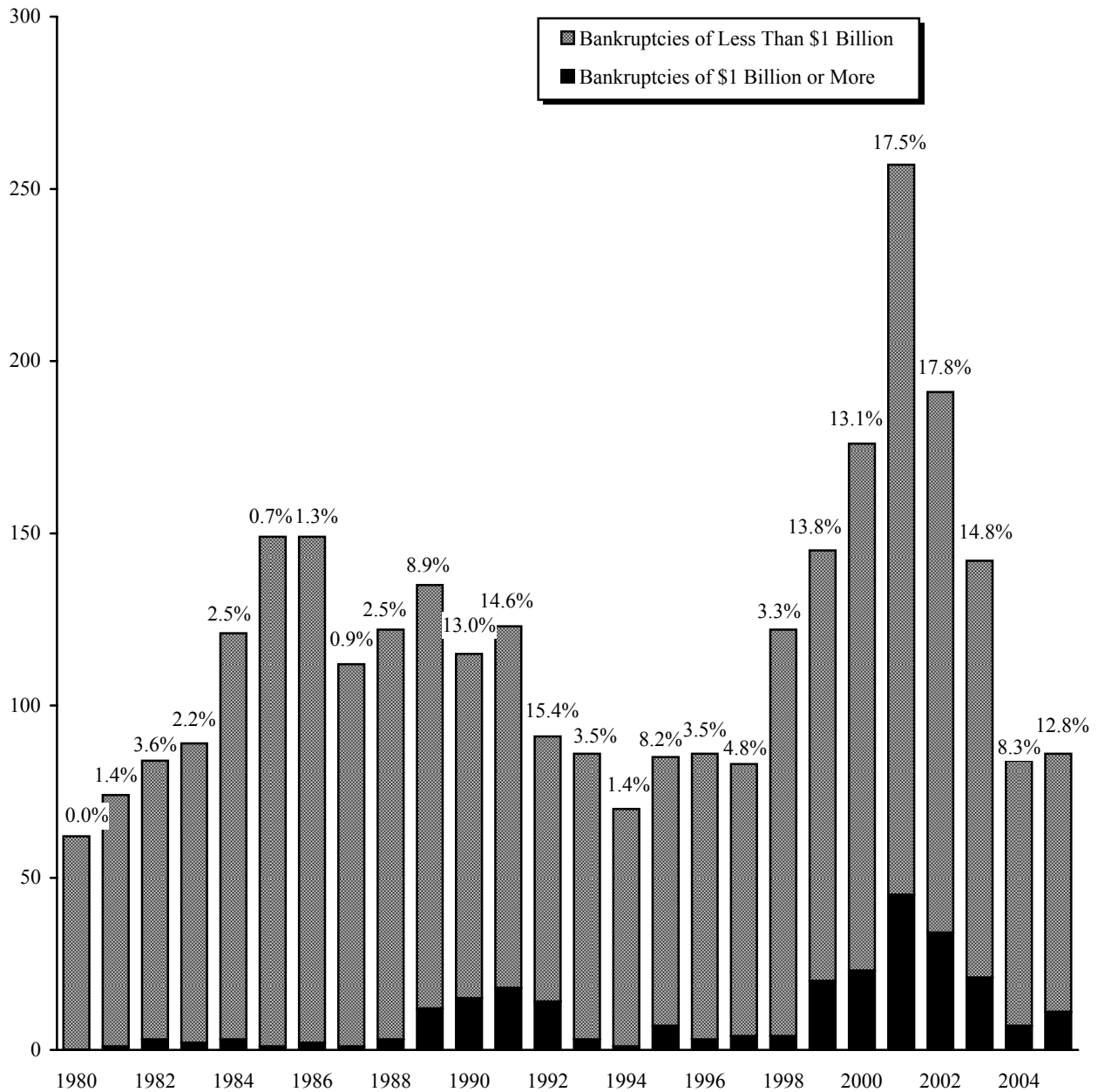
Note: Bankruptcies are measured by total assets prior to filing.

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**Exhibit 15**

**NUMBER OF PUBLIC BANKRUPTCIES AND PERCENTAGE WITH ASSETS OF \$1 BILLION OR MORE**

**1980-2005**



Source: New Generation Research, Inc.

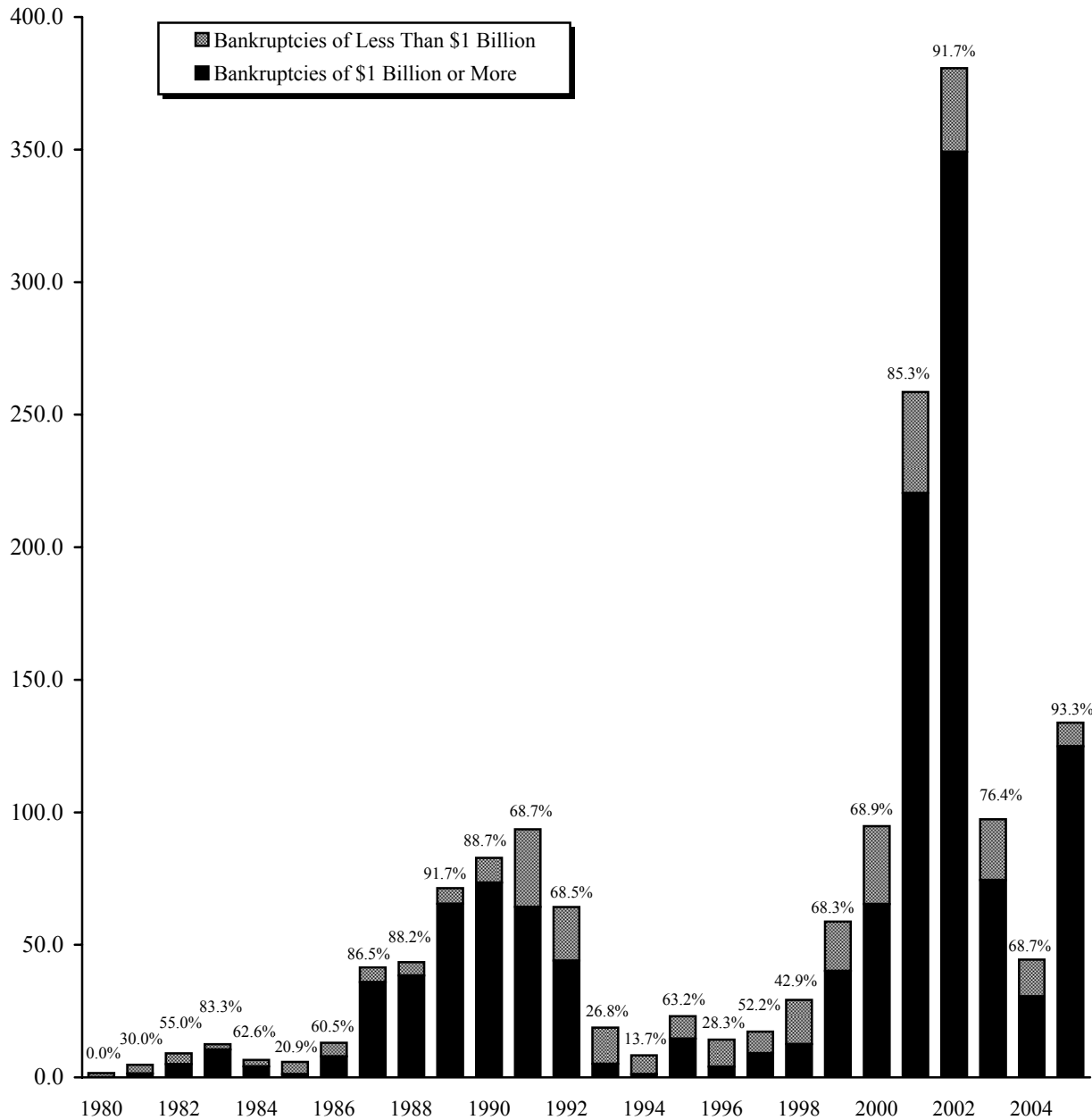
Note: Bankruptcies are measured by total assets prior to filing.

253a

**Exhibit 16**

**TOTAL ASSETS OF PUBLIC BANKRUPTCIES AND PERCENTAGE WITH ASSETS OF \$1 BILLION OR MORE**

**1980-2005**



Source: New Generation Research, Inc.

Note: Bankruptcies are measured by total assets prior to filing.

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## Exhibit 17

## LARGEST PUBLIC COMPANY BANKRUPTCIES

2005

<u>Company</u>	<u>Assets</u> <u>(in \$ millions)</u>
Refco, Inc.	33,333.2
Calpine Corporation	27,216.1
Delta Air Lines, Inc.	21,801.0
Delphi Corporation	16,593.0
Northwest Airlines Corporation	14,042.0
Collins & Aikman Corporation	3,196.7
Tower Automotive, Inc.	2,846.4
Winn-Dixie Stores, Inc.	2,618.9
ASARCO, LLC	1,108.4
American Business Financial Services, Inc.	<u>1,042.9</u>
Total	123,798.6

Source: New Generation Research, Inc.

Note: Assets are taken from most recent annual report prior to bankruptcy.

## Exhibit 18

## MORTALITY RATES (%) BY ORIGINAL RATING OF ALL RATED CORPORATE BONDS

## 1971-2005

Original Rating	Years After Issuance										
	1	2	3	4	5	6	7	8	9	10	
AAA	Yearly	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00
	Cumulative	0.00	0.00	0.00	0.00	0.05	0.06	0.06	0.06	0.06	0.06
AA	Yearly	0.00	0.00	0.31	0.15	0.02	0.02	0.00	0.00	0.05	0.01
	Cumulative	0.00	0.00	0.31	0.47	0.50	0.52	0.52	0.52	0.57	0.58
A	Yearly	0.01	0.09	0.03	0.06	0.05	0.10	0.05	0.21	0.10	0.05
	Cumulative	0.01	0.10	0.13	0.21	0.26	0.36	0.41	0.62	0.72	0.77
BBB	Yearly	0.34	3.15	1.36	1.26	0.75	0.53	0.19	0.18	0.14	0.39
	Cumulative	0.34	3.48	4.81	6.01	6.72	7.26	7.43	7.60	7.73	8.09
BB	Yearly	1.17	2.46	4.37	2.30	2.49	1.25	1.58	1.10	1.68	3.50
	Cumulative	1.17	3.60	7.81	9.93	12.18	13.27	14.65	15.59	17.00	19.97
B	Yearly	2.87	6.83	7.37	8.51	5.95	4.30	3.65	2.30	1.90	0.84
	Cumulative	2.87	9.51	16.81	23.40	27.95	31.05	33.57	35.10	36.33	38.86
CCC	Yearly	8.15	15.47	19.45	12.00	4.16	9.36	5.82	5.65	0.00	4.77
	Cumulative	8.15	22.36	37.47	48.97	46.97	51.70	54.56	57.08	57.08	58.86

Sources: Edward I. Altman-NYU Salomon Center and Standard &amp; Poor's.

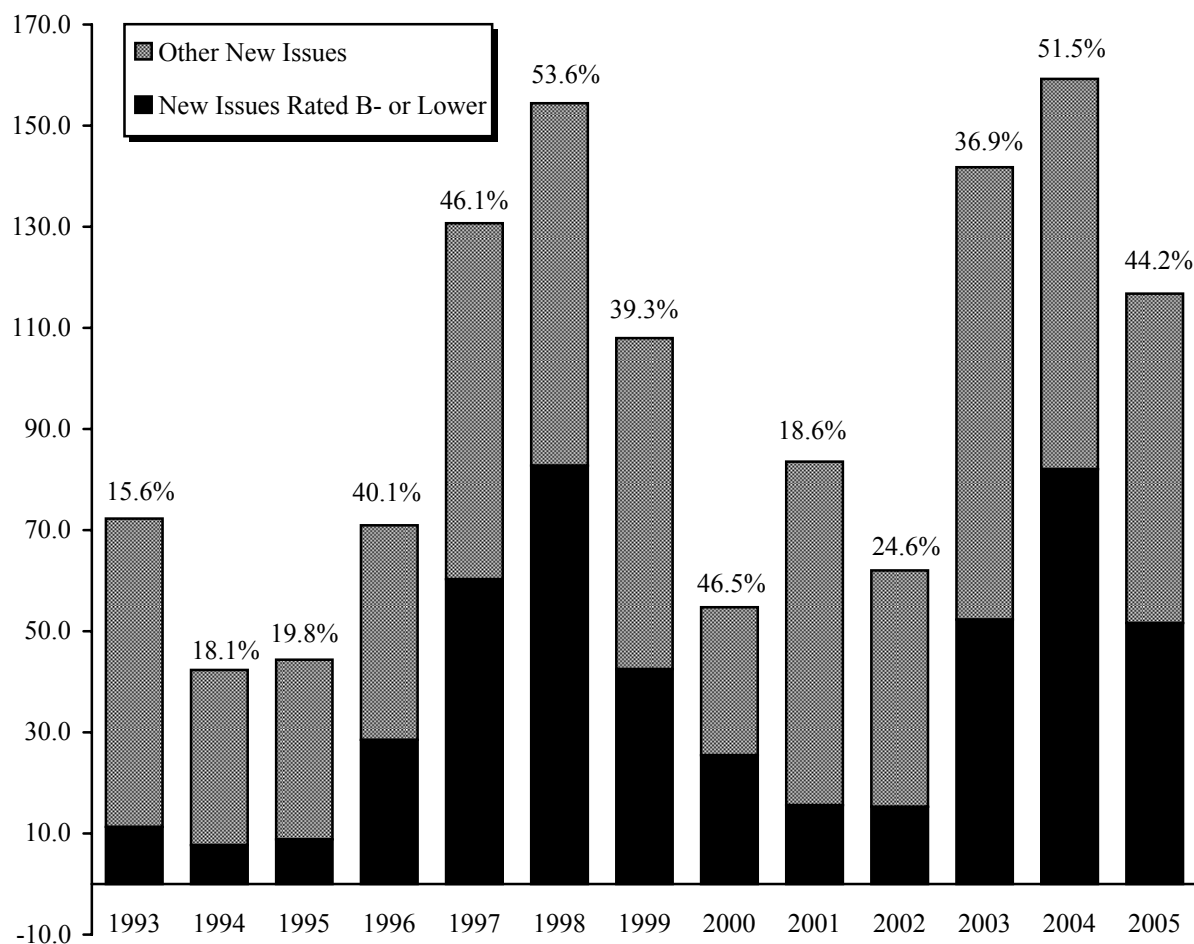
Notes: Corporate bonds are rated by S&amp;P at issuance. These data are based on 1,903 issues.

## Exhibit 19

PAR VALUE OF HIGH-YIELD NEW ISSUES AND  
PERCENTAGE RATED B- OR LOWER

1993-2005

(\$ billions)

New Issue Volume  
(\$ billions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
New Issues Rated B- or Lower	11.2	7.7	8.8	28.5	60.2	82.7	42.5	25.5	15.6	15.2	52.3	82.0	51.6
Other New Issues	61.0	34.7	35.6	42.5	70.4	71.7	65.5	29.3	68.0	46.8	89.5	77.2	65.2
Total New Issues	72.3	42.3	44.4	71.0	130.7	154.4	108.0	54.8	83.6	62.0	141.8	159.2	116.8

Source: Merrill Lynch &amp; Company.

Notes: Analysis is based on Standard & Poor's ratings. New issue volume has included 144A high-yield new issues. Other new issues include those rated higher than B-. Figures may not total due to rounding. Data for 2005 are through December 31.

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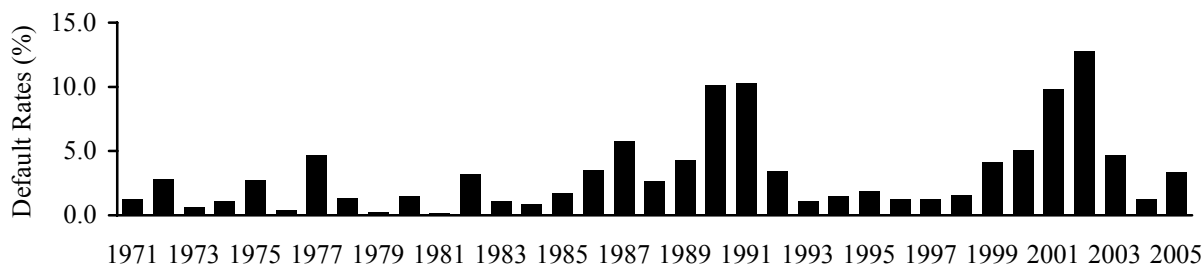


## Exhibit 20

**HISTORICAL HIGH-YIELD BOND DEFAULT RATES  
(Excluding Defaulted Issues in Par Value Outstanding)**

## 1971-2005

<u>Year</u>	<u>Par Value Outstanding (\$ millions)</u>	<u>Par Value Defaults (\$ millions)</u>	<u>Default Rates (%)</u>
1971	6,602	82	1.2
1972	6,928	193	2.8
1973	7,824	49	0.6
1974	10,894	123	1.1
1975	7,471	204	2.7
1976	7,735	30	0.4
1977	8,157	381	4.7
1978	8,946	119	1.3
1979	10,356	20	0.2
1980	14,935	224	1.5
1981	17,115	27	0.2
1982	18,109	577	3.2
1983	27,492	301	1.1
1984	40,939	344	0.8
1985	58,088	992	1.7
1986	90,243	3,156	3.5
1987	129,557	7,486	5.8
1988	148,187	3,944	2.7
1989	189,258	8,110	4.3
1990	181,000	18,354	10.1
1991	183,600	18,862	10.3
1992	163,000	5,545	3.4
1993	206,907	2,287	1.1
1994	235,000	3,418	1.5
1995	240,000	4,551	1.9
1996	271,000	3,336	1.2
1997	335,400	4,200	1.3
1998	465,500	7,464	1.6
1999	567,400	23,532	4.1
2000	597,200	30,295	5.1
2001	649,000	63,609	9.8
2002	757,000	96,858	12.8
2003	825,000	38,451	4.7
2004	933,100	11,657	1.2
2005	1,073,000	36,181	3.4



(1971-2005) Simple Average Default Rate: 3.24%      Standard Deviation: 3.09%  
(1971-2005) Weighted Average Default Rate: 4.65%

Source: Edward I. Altman-NYU Salomon Center.

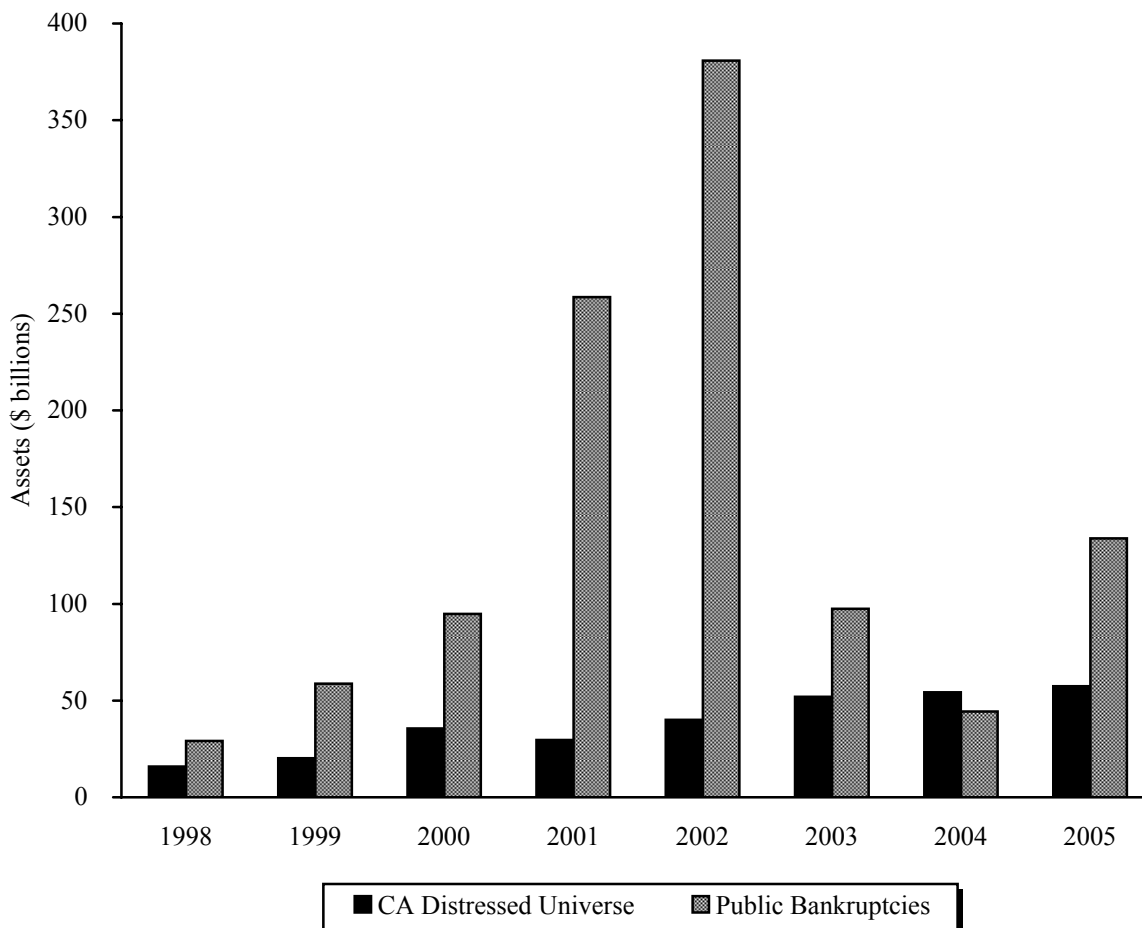
Notes: Data for 2005 are through December 31. The weighted average is calculated by the par value of amount outstanding for each year. Par value outstanding totals are as of mid-year.

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## Exhibit 21

**ASSET GROWTH OF PUBLIC BANKRUPTCIES/CAMBRIDGE ASSOCIATES  
DISTRESSED MANAGER UNIVERSE ASSETS UNDER MANAGEMENT**

**1998-2005**



	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
CA Distressed Manager Universe								
Assets Under Management (\$ billions)	15.8	20.2	35.5	29.7	40.0	52.0	54.2	57.4
Assets of Public Bankruptcies (\$ billions)	29.2	58.8	94.8	258.5	380.7	97.4	44.4	133.8

Sources: Cambridge Associates LLC Investment Manager Database and New Generation Research, Inc.

Notes: Bankruptcies are measured by total assets prior to filing. Data are not adjusted for inflation. Cambridge Associates LLC Distressed Manager Universe Assets Under Management values include assets committed, but not drawn down.

## Exhibit 22

## DISTRESSED SECURITIES/REORGANIZATION MANAGERS

As of December 31, 2005

## Total Firm Distressed Assets Under Management (\$ millions)\*

<u>Firm</u>	<u>Assets Under Management (\$ millions)</u>
Argyle Street Management	224
Ashmore Investment Management Limited	605
Avenue Capital Group	5,600
Bay Harbour Investments	725
Bennett Management	768
BlackRock, Inc.	324
Boldwater Capital Management, L.P.	220
Brookville Capital Management, L.P.	327
Catalyst Investment Management Company	113
Cerberus Capital Management	7,502
Contrarian Capital Management, L.L.C.	2,511
Cyrus Capital Partners	785
Dalton Investments, LLC	193
Durham Asset Management	574
EBF & Associates	1,788
Everest Capital	240
Fir Tree Partners	683
Golden Tree Asset Management, LP	4,201
Hammerman Capital Management LLC	194
Harbert Fund Advisors, Inc.	2,783
Intermarket Corporation	713
Kellner DiLeo Cohen & Company	52
King Street Advisors, L.L.C.	5,963
Lampe, Conway & Co.	658
Longacre Management, LLC	1,346
Murray Capital Management	555
Oaktree Capital Management	5,198
Ore Hill Partners, LLC	1,520
Outrider Management LLC	41
Pequot Capital Management, Inc.	406
Post Advisory Group	1,070
Private Advisors, LLC	189
Restoration Capital Management, LLC	159
Satellite Asset Management, L.P.	681
Scott's Cove Capital Management LLC	94
Silver Point Capital	4,740
Standard Pacific Capital LLC	590
Symphony Asset Management LLC	277
Tiedemann Investment Group	41
Varde Partners	<u>1,737</u>
Total	56,392

\*Assets under management include assets committed, but not drawn down. Adjustments for omissions (e.g., arbitrage funds, hedge funds, equity mutual funds, and private capital pools) would likely raise the total assets under management by an additional \$3 billion to \$5 billion.

## Exhibit 23

## REPRESENTATIVE DISTRESSED SECURITIES FUNDS

## Annual Total Returns (%)

<u>Fund</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Hedge Fund Structure</u>										
Ahab Capital Mgmt - Ahab Partners, L.P.	21.0	24.4	5.4	31.5	-22.5	25.2	16.0	31.0	12.9	10.6
Angelo, Gordon & Co. - AG Eleven Partners, L.P.	25.6	25.3	10.4	15.6	4.8	31.2	-6.8	51.3	13.2	11.2
Ashmore Inv. Mgmt - Asian Recovery Fund (n)	---	---	---	38.0	-2.1	6.8	22.9	19.7	15.8	12.7
Asia Debt Mgmt - ADM Galleus Fund	---	---	---	---	8.4	16.3	20.8	18.4	17.4	8.7
Avenue Capital Group - Asia Investments, L.P.	---	---	---	---	22.8	18.8	16.1	22.5	15.7	7.7
Avenue Capital Group - Avenue Investments, L.P.	21.0	19.9	-5.9	15.0	4.2	7.0	11.8	28.6	9.4	7.9
Bay Harbour Investments - Bay Harbour 90-1, L.P.	27.0	14.3	-7.7	26.7	-5.8	11.1	-26.2	30.9	30.8	21.4
Bennett Management - Restructuring Fund, L.P.	15.1	10.7	-1.1	10.7	1.2	14.8	12.8	34.5	15.5	4.0
Cerberus Capital Mgmt - Cerberus Ptnrs, L.P.	19.8	18.7	4.9	14.0	4.4	13.0	9.4	18.1	18.5	21.8
Contrarian Cap Mgmt - Long Short, L.P.	---	---	---	---	---	---	---	27.3	10.1	10.1
Contrarian Cap Mgmt - Capital Fund I, L.P.	16.7	10.6	-5.7	1.3	-13.6	18.1	11.9	38.9	18.5	12.0
Dalton Investments - Global Opp Fund, Ltd.	---	---	---	---	7.0	5.4	15.2	37.5	7.8	7.9
Deltec Asset Mgmt - Recovery Fund, L.P.	---	---	---	---	---	---	4.3	37.7	26.0	-4.9
Durham Asset Mgmt - American Durham, L.P.	---	---	---	---	---	---	14.7	27.5	10.7	17.2
EBF & Associates - Merced Partners	12.3	18.4	13.9	17.2	18.5	14.0	12.7	16.5	21.9	8.0
EBF & Associates - Tamarack International Ltd.	---	---	---	---	---	---	6.0	13.9	11.1	3.9
Everest Capital - Debt Opportunity	---	---	---	---	1.4	10.0	4.4	54.6	10.3	0.4
Fir Tree Partners - Recovery Master Fund, L.P.	---	---	---	---	---	42.9	14.1	20.1	10.0	4.5
Gramercy Advisors - Emerging Markets LLC	---	---	---	---	35.2	16.4	2.6	9.6	20.5	-7.7
Harbert Fund Advisors - Harbinger Cap Partners I	---	---	---	---	---	---	16.8	27.5	10.6	12.8
Intermarket Corp. - Fernwood Associates LLC	23.5	25.9	-6.7	6.9	7.5	17.2	-4.0	37.6	13.8	13.7
Kellner DiLeo Cohen - Distressed/High Income	---	---	---	---	---	---	4.9	17.8	7.4	8.5
King Street Advisors, L.L.C.	19.9	16.9	7.2	17.5	14.7	16.5	5.2	24.7	10.5	10.4
Lampe, Conway - Cap Master Fund, Ltd.	---	---	---	---	1.7	15.9	29.0	47.4	25.4	2.9
Longacre Mgmt - Capital Partners (QP), L.P.	---	---	---	---	---	---	---	---	19.2	10.4
Longacre Mgmt - Capital Partners, L.P.	---	---	---	---	16.3	11.9	-0.9	19.2	20.5	12.6
Murray Capital Management - ReCap Partners, L.P.	12.2	9.4	1.1	6.7	1.7	9.2	2.5	15.2	25.0	8.4
Maximum	37.3	27.9	22.0	48.0	62.3	42.9	29.0	56.3	60.1	21.8
Median	20.4	17.6	1.1	15.6	4.8	15.3	9.0	27.5	15.7	8.4
Minimum	1.2	-4.6	-30.8	-5.2	-22.5	-21.3	-26.2	9.6	7.4	-7.7
Number of Funds	16	16	17	19	27	28	35	38	39	40
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
Altman-NYU Salomon Defaulted Bank Loans	19.6	1.7	-10.2	0.7	-6.6	14.0	3.0	27.5	11.7	7.2
Altman-NYU Salomon Defaulted Public Bonds	10.2	-1.6	-26.9	11.3	-33.1	17.4	-6.0	84.9	18.9	-1.8

## Exhibit 23 (continued)

## REPRESENTATIVE DISTRESSED SECURITIES FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Fund</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
<u>Hedge Fund Structure</u>										
Ahab Capital Mgmt - Ahab Partners, L.P.	14.4	13.7	12.4	13.5	10.7	18.9	17.4	17.8	11.8	10.6
Angelo, Gordon & Co. - AG Eleven Partners, L.P.	17.2	16.3	15.3	16.0	16.0	18.4	15.4	24.0	12.2	11.2
Ashmore Inv. Mgmt - Asian Recovery Fund (n)	---	---	---	15.7	12.3	15.5	17.7	16.1	14.3	12.7
Asia Debt Mgmt - ADM Galleus Fund	---	---	---	---	14.9	16.3	16.2	14.8	13.0	8.7
Avenue Capital Group - Asia Investments, L.P.	---	---	---	---	17.1	16.0	15.4	15.1	11.6	7.7
Avenue Capital Group - Avenue Investments, L.P.	11.5	10.5	9.4	11.7	11.2	12.7	14.1	14.9	8.6	7.9
Bay Harbour Investments - Bay Harbour 90-1, L.P.	10.6	8.9	8.2	10.7	8.2	11.2	11.3	27.6	26.0	21.4
Bennett Management - Restructuring Fund, L.P.	11.4	11.0	11.1	12.9	13.3	15.9	16.2	17.3	9.6	4.0
Cerberus Capital Mgmt - Cerberus Ptnrs, L.P.	14.1	13.5	12.8	14.0	14.0	16.0	16.8	19.4	20.1	21.8
Contrarian Cap Mgmt - Long Short, L.P.	---	---	---	---	---	---	---	15.5	10.1	10.1
Contrarian Cap Mgmt - Capital Fund I, L.P.	10.0	9.3	9.1	11.4	13.2	19.5	19.9	22.6	15.2	12.0
Dalton Investments - Global Opp Fund, Ltd.	---	---	---	---	13.0	14.2	16.5	16.9	7.9	7.9
Deltec Asset Mgmt - Recovery Fund, L.P.	---	---	---	---	---	---	14.5	18.1	9.4	-4.9
Durham Asset Mgmt - American Durham, L.P.	---	---	---	---	---	---	17.4	18.3	13.9	17.2
EBF & Associates - Merced Partners	15.3	15.6	15.3	15.5	15.2	14.6	14.7	15.3	14.8	8.0
EBF & Associates - Tamarack International Ltd.	---	---	---	---	---	---	8.6	9.5	7.4	3.9
Everest Capital - Debt Opportunity	---	---	---	---	12.2	14.5	15.6	19.6	5.2	0.4
Fir Tree Partners - Recovery Master Fund, L.P.	---	---	---	---	---	17.6	12.0	11.3	7.2	4.5
Gramercy Advisors - Emerging Markets LLC	---	---	---	---	11.9	7.8	5.8	6.8	5.5	-7.7
Harbert Fund Advisors - Harbinger Cap Partners I	---	---	---	---	---	---	16.7	16.7	11.7	12.8
Intermarket Corp. - Fernwood Associates LLC	12.8	11.7	10.0	12.7	13.6	14.9	14.3	21.2	13.8	13.7
Kellner DiLeo Cohen - Distressed/High Income	---	---	---	---	---	---	9.5	11.1	7.9	8.5
King Street Advisors, L.L.C.	14.2	13.6	13.2	14.1	13.5	13.3	12.5	15.0	10.4	10.4
Lampe, Conway - Cap Master Fund, Ltd.	---	---	---	---	19.3	23.2	25.2	23.9	13.6	2.9
Longacre Mgmt - Capital Partners (QP), L.P.	---	---	---	---	---	---	---	---	14.7	10.4
Longacre Mgmt - Capital Partners, L.P.	---	---	---	---	13.0	12.4	12.5	17.4	16.5	12.6
Murray Capital Management - ReCap Partners, L.P.	8.9	8.6	8.5	9.6	10.1	11.8	12.5	16.0	16.4	8.4
Maximum	19.6	17.8	16.9	25.5	31.5	26.1	25.2	28.9	28.8	21.8
Median	13.5	13.5	12.8	14.1	13.5	15.7	14.8	16.8	11.8	8.4
Minimum	8.9	8.6	8.2	7.3	8.2	7.8	5.8	6.8	5.2	-7.7
Number of Funds	16	16	17	19	27	28	35	38	39	40
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
Altman-NYU Salomon Defaulted Bank Loans	6.3	4.9	5.3	7.7	9.0	12.4	12.0	15.1	9.4	7.2
Altman-NYU Salomon Defaulted Public Bonds	3.5	2.8	3.3	8.6	8.1	19.0	19.4	29.3	8.1	-1.8

## Exhibit 23 (continued)

## REPRESENTATIVE DISTRESSED SECURITIES FUNDS

## Annual Total Returns (%)

<u>Fund</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Hedge Fund Structure (continued)</u>										
Murray Capital Management - ReCap Partners, L.P.	12.2	9.4	1.1	6.7	1.7	9.2	2.5	15.2	25.0	8.4
New Generation Advisers - New Generation, L.P.	21.5	12.4	13.2	23.0	4.4	21.7	-9.1	55.1	18.6	3.9
Outrider Mgmt LLC - Outrider Master Fund	---	---	---	---	---	---	---	---	---	6.3
Post Advisory Group - Distressed Composite (n)	---	---	---	---	4.8	26.1	5.6	30.1	9.3	10.4
Private Advisors, LLC - Distressed Opps Fund	---	---	---	---	---	---	---	30.1	13.4	7.6
Restoration Cap Mgmt - Restoration Holdings, Ltd.	---	---	---	---	---	---	3.7	24.3	20.1	11.6
Resurgence Asset Mgmt - Sass Re/Enterprise	1.2	-4.6	22.0	48.0	5.7	13.4	3.0	11.0	24.1	13.4
Satellite Asset Mgmt - Credit Opps Fund, Ltd.	---	---	---	---	---	---	-1.5	24.1	11.9	6.8
Schultze Asset Mgmt - Schultze Partners, L.P.	---	---	-27.6	31.9	27.7	-21.3	11.7	19.6	60.1	3.7
Scott's Cove Cap Mgmt - Special Credits Fund I	---	---	---	-0.9	3.2	10.1	6.6	21.3	13.1	-0.9
Silver Point Capital - Silver Point Capital Fund, L.P.	---	---	---	---	---	---	---	51.8	25.6	12.3
TRIAGE Mgmt LLC - Triage Capital Mgmt, L.P.	29.7	24.0	6.1	15.9	-4.8	37.2	19.8	33.9	10.7	3.1
Turnberry Capital Mgmt - Capital Partners, L.P.	37.3	27.9	-30.8	-5.2	62.3	31.9	23.4	56.3	15.9	8.4
Varde Partners - Varde U.S. Composite	18.7	9.3	-1.7	10.5	5.5	10.6	9.0	33.2	23.5	15.4
Maximum	37.3	27.9	22.0	48.0	62.3	42.9	29.0	56.3	60.1	21.8
Median	20.4	17.6	1.1	15.6	4.8	15.3	9.0	27.5	15.7	8.4
Minimum	1.2	-4.6	-30.8	-5.2	-22.5	-21.3	-26.2	9.6	7.4	-7.7
Number of Funds	16	16	17	19	27	28	35	38	39	40
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
Altman-NYU Salomon Defaulted Bank Loans	19.6	1.7	-10.2	0.7	-6.6	14.0	3.0	27.5	11.7	7.2
Altman-NYU Salomon Defaulted Public Bonds	10.2	-1.6	-26.9	11.3	-33.1	17.4	-6.0	84.9	18.9	-1.8

## Exhibit 23 (continued)

## REPRESENTATIVE DISTRESSED SECURITIES FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Fund</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
<u>Hedge Fund Structure (continued)</u>										
Murray Capital Management - ReCap Partners, L.P.	8.9	8.6	8.5	9.6	10.1	11.8	12.5	16.0	16.4	8.4
New Generation Advisers - New Generation, L.P.	15.4	14.8	15.1	15.3	14.1	16.2	14.8	24.1	11.0	3.9
Outrider Mgmt LLC - Outrider Master Fund	---	---	---	---	---	---	---	---	---	6.3
Post Advisory Group - Distressed Composite (n)	---	---	---	---	14.0	15.9	13.5	16.3	9.9	10.4
Private Advisors, LLC - Distressed Opps Fund	---	---	---	---	---	---	---	16.7	10.5	7.6
Restoration Cap Mgmt - Restoration Holdings, Ltd.	---	---	---	---	---	---	14.6	18.5	15.7	11.6
Resurgence Asset Mgmt - Sass Re/Enterprise	12.9	14.3	16.9	16.2	11.6	12.8	12.6	16.0	18.6	13.4
Satellite Asset Mgmt - Credit Opps Fund, Ltd.	---	---	---	---	---	---	9.9	14.0	9.3	6.7
Schultze Asset Mgmt - Schultze Partners, L.P.	---	---	9.9	16.6	14.3	11.8	22.0	25.7	28.8	3.7
Scott's Cove Cap Mgmt - Special Credits Fund I	---	---	---	7.3	8.7	9.8	9.7	10.8	5.9	-0.8
Silver Point Capital - Silver Point Capital Fund, L.P.	---	---	---	---	---	---	---	28.9	18.8	12.3
TRIAGE Mgmt LLC - Triage Capital Mgmt, L.P.	16.8	15.5	14.4	15.7	15.6	20.2	16.3	15.2	6.8	3.1
Turnberry Capital Mgmt - Capital Partners, L.P.	19.6	17.8	16.5	25.5	31.5	26.1	24.7	25.2	12.1	8.4
Varde Partners - Varde U.S. Composite	13.0	12.4	12.8	15.0	15.8	18.0	19.9	23.8	19.3	15.4
Maximum	19.6	17.8	16.9	25.5	31.5	26.1	25.2	28.9	28.8	21.8
Median	13.5	13.5	12.8	14.1	13.5	15.7	14.8	16.8	11.8	8.4
Minimum	8.9	8.6	8.2	7.3	8.2	7.8	5.8	6.8	5.2	-7.7
Number of Funds	16	16	17	19	27	28	35	38	39	40
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
Altman-NYU Salomon Defaulted Bank Loans	6.3	4.9	5.3	7.7	9.0	12.4	12.0	15.1	9.4	7.2
Altman-NYU Salomon Defaulted Public Bonds	3.5	2.8	3.3	8.6	8.1	19.0	19.4	29.3	8.1	-1.8

## Exhibit 23 (continued)

## REPRESENTATIVE DISTRESSED SECURITIES FUNDS

## Annual Total Returns (%)

<u>Fund</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Long-Term, Venture Capital Structure</u>										
Angelo, Gordon & Co. - Cap. Recovery Partners II	---	---	---	---	---	---	-5.2	50.3	27.3	27.7
Angelo, Gordon & Co. - Cap. Recovery Partners III	---	---	---	---	---	---	---	60.4	28.2	35.9
Oaktree Cap. Mgmt - Oaktree Opportunities Funds	27.8	22.0	3.0	9.8	4.2	12.6	7.4	36.3	31.2	13.1
Tennenbaum Cap. Partners - Special Val. Abs. Ret.	---	---	---	---	---	---	---	33.0	18.2	10.1
Tennenbaum Cap. Partners - Special Val. Bond II	---	---	---	---	---	28.4	20.4	45.8	23.7	14.5
Tennenbaum Cap. Partners - Special Val. Bond	---	---	---	---	22.2	34.8	37.3	25.9	4.5	12.1
Tennenbaum Cap. Partners - Special Val. Opps	---	---	---	---	---	---	---	---	---	18.8
Varde Partners - The Värde Fund VI, L.P.	---	---	---	---	---	---	6.94	35.7	28.2	15.9
Whippoorwill Associates - Distressed Opp Fund	---	---	---	---	---	---	---	---	9.74	4.34
Maximum	27.8	22.0	3.0	9.8	22.2	34.8	37.3	60.4	31.2	35.9
Median	27.8	22.0	3.0	9.8	13.2	28.4	7.4	36.3	25.5	14.5
Minimum	27.8	22.0	3.0	9.8	4.2	12.6	-5.2	25.9	4.5	4.3
Number of Funds	1	1	1	1	2	3	5	7	8	9
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
Altman-NYU Salomon Defaulted Bank Loans	19.6	1.7	-10.2	0.7	-6.6	14.0	3.0	27.5	11.7	7.2
Altman-NYU Salomon Defaulted Public Bonds	10.2	-1.6	-26.9	11.3	-33.1	17.4	-6.0	84.9	18.9	-1.8
Altman-NYU Salomon DPB & BL	15.6	0.5	-17.6	4.5	-15.8	15.6	-0.6	49.3	15.1	1.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite, with a similar strategy, has been linked to the product returns.

(n) Returns were reported by the manager gross of management fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.



## Exhibit 23 (continued)

## REPRESENTATIVE DISTRESSED SECURITIES FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Fund</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
<u>Long-Term, Venture Capital Structure</u>										
Angelo, Gordon & Co. - Cap. Recovery Partners II	---	---	---	---	---	---	23.4	34.7	27.5	27.7
Angelo, Gordon & Co. - Cap. Recovery Partners III	---	---	---	---	---	---	---	40.9	32.0	35.9
Oaktree Cap. Mgmt - Oaktree Opportunities Funds	16.2	15.0	14.1	15.8	16.9	19.6	21.4	26.5	21.8	13.1
Tennenbaum Cap. Partners - Special Val. Abs. Ret.	---	---	---	---	---	---	---	20.1	14.1	10.1
Tennenbaum Cap. Partners - Special Val. Bond II	---	---	---	---	---	26.1	25.6	27.3	19.0	14.5
Tennenbaum Cap. Partners - Special Val. Bond	---	---	---	---	22.2	22.3	19.3	13.8	8.3	12.1
Tennenbaum Cap. Partners - Special Val. Opps	---	---	---	---	---	---	---	---	---	18.8
Varde Partners - The Värde Fund VI, L.P.	---	---	---	---	---	---	21.2	26.3	21.9	15.9
Whippoorwill Associates - Distressed Opp Fund	---	---	---	---	---	---	---	---	7.0	4.3
Maximum	16.2	15.0	14.1	15.8	22.2	26.1	25.6	40.9	32.0	35.9
Median	16.2	15.0	14.1	15.8	19.6	22.3	21.4	26.5	20.4	14.5
Minimum	16.2	15.0	14.1	15.8	16.9	19.6	19.3	13.8	7.0	4.3
Number of Funds	1	1	1	1	2	3	5	7	8	9
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
Altman-NYU Salomon Defaulted Bank Loans	6.3	4.9	5.3	7.7	9.0	12.4	12.0	15.1	9.4	7.2
Altman-NYU Salomon Defaulted Public Bonds	3.5	2.8	3.3	8.6	8.1	10.0	10.4	20.3	8.1	-1.8

## Exhibit 24

## CORPORATE BOND DEFAULTS BY INDUSTRY

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Auto/Motor Carrier	---	1	---	---	---	1	---	---	1	---	---	4	7
Conglomerates	---	---	---	---	---	---	1	---	---	1	1	---	3
Energy	---	1	---	---	1	13	1	---	8	9	---	1	34
Financial Services	1	2	1	2	6	1	6	4	5	6	2	3	39
Leisure/Entertainment	4	3	1	5	5	8	9	6	5	6	---	---	52
General Manufacturing	3	8	6	7	6	16	23	43	22	13	17	12	176
Health Care	---	2	---	---	2	8	6	3	4	3	---	2	30
Miscellaneous Industries	1	1	---	3	3	16	34	38	25	16	6	1	144
Real Estate/Construction	---	2	1	2	1	4	6	4	3	---	2	1	26
REITs	---	---	---	---	---	---	---	---	1	---	---	---	1
Retailing	5	6	3	6	6	12	7	12	5	5	3	2	72
Communications	3	2	2	1	6	11	8	39	26	21	6	3	128
Transportation (non-auto)	2	---	---	2	1	8	5	7	7	6	2	5	45
Utilities	---	---	1	1	---	---	1	---	---	---	---	---	3
<b>Total</b>	<b>19</b>	<b>28</b>	<b>15</b>	<b>29</b>	<b>37</b>	<b>98</b>	<b>107</b>	<b>156</b>	<b>112</b>	<b>86</b>	<b>39</b>	<b>34</b>	<b>760</b>

Source: Edward I. Altman-NYU Salomon Center.

Exhibit 25

WEIGHTED AVERAGE RECOVERY RATES ON DEFAULTED DEBT BY SENIORITY PER \$100 FACE AMOUNT

1978-2005

Default Year	Senior Secured		Senior Unsecured		Senior Subordinated		Subordinated		Discount & Zero Coupon		All Seniorities	
	#	Dollar Value	#	Dollar Value	#	Dollar Value	#	Dollar Value	#	Dollar Value	#	Dollar Value
1978			1	\$60.00							1	\$60.00
1979							1	\$31.00			1	\$31.00
1980			2	\$26.71			2	\$16.63			4	\$21.67
1981	1	\$72.00									1	\$72.00
1982			16	\$39.31			4	\$32.91			20	\$38.03
1983	1	\$71.00	3	\$67.72			4	\$41.79			8	\$55.17
1984	4	\$53.42	1	\$50.50	2	\$65.88	7	\$44.68			14	\$50.62
1985	2	\$74.25	3	\$34.81	7	\$36.18	15	\$41.45			27	\$41.78
1986	8	\$48.32	11	\$37.72	7	\$35.20	30	\$33.39			56	\$36.60
1987	4	\$90.68	17	\$72.02	6	\$56.24	4	\$35.25			31	\$66.63
1988	13	\$67.96	19	\$41.99	10	\$30.70	20	\$35.27			62	\$43.45
1989	9	\$82.69	16	\$53.70	21	\$19.60	30	\$23.95			76	\$35.97
1990	12	\$32.18	31	\$29.02	38	\$25.01	24	\$18.83	11	\$15.63	116	\$24.66
1991	4	\$44.12	69	\$55.84	37	\$31.91	38	\$24.30	9	\$27.89	157	\$40.67
1992	15	\$59.85	8	\$35.61	17	\$58.20	22	\$49.13	5	\$19.82	67	\$50.03
1993	2	\$55.75	7	\$33.38	10	\$51.50	9	\$28.38	4	\$31.75	32	\$38.83
1994	5	\$48.66	8	\$51.14	5	\$19.81	3	\$37.04	1	\$5.00	22	\$39.44
1995	5	\$44.64	9	\$50.50	17	\$39.01	1	\$20.00	1	\$17.50	33	\$41.77
1996	4	\$59.08	4	\$50.11	9	\$48.99	4	\$44.23	3	\$11.99	24	\$45.44
1997	4	\$74.90	12	\$70.94	6	\$31.89	1	\$60.00	2	\$19.00	25	\$57.61
1998	6	\$70.38	21	\$39.57	6	\$17.54	0	\$0.00	1	\$17.00	34	\$40.46
1999	14	\$26.90	60	\$42.54	40	\$23.56	2	\$13.88	11	\$17.30	127	\$32.20
2000	13	\$39.58	47	\$25.40	61	\$25.96	26	\$26.62	17	\$23.61	164	\$26.74
2001	9	\$40.95	187	\$28.84	48	\$18.37	0	\$0.00	37	\$15.05	281	\$25.62
2002	37	\$52.81	254	\$21.82	21	\$32.79	0	\$0.00	28	\$26.47	340	\$26.25
2003	57	\$53.51	108	\$45.40	29	\$35.98	1	\$38.00	8	\$32.27	203	\$45.78
2004	27	\$63.67	33	\$56.77	2	\$37.44	0	\$0.00	7	\$43.06	69	\$57.72
2005	67	\$76.50	44	\$45.88	7	\$32.67	0	\$0.00	5	\$14.86	123	\$60.55
Total/Avg	323	\$58.78	991	\$36.22	406	\$30.21	248	\$31.06	150	\$21.91	2,118	\$36.89
Median		\$57.42		\$43.97		\$32.73		\$29.69		\$18.25		\$41.22

Source: Edward I. Altman-NYU Salomon Center.

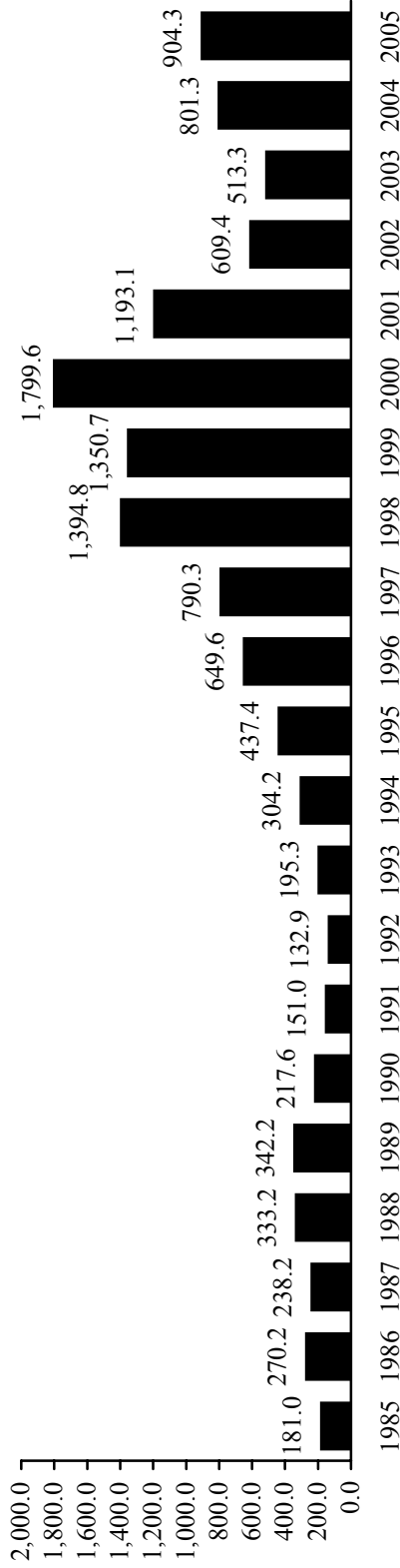
**Convertible Arbitrage, Merger Arbitrage, and Capital Structure Arbitrage**

**Exhibit 26**

**ANNOUNCED U.S. MERGERS AND ACQUISITIONS**

**Total Volume**

(\$ billions)



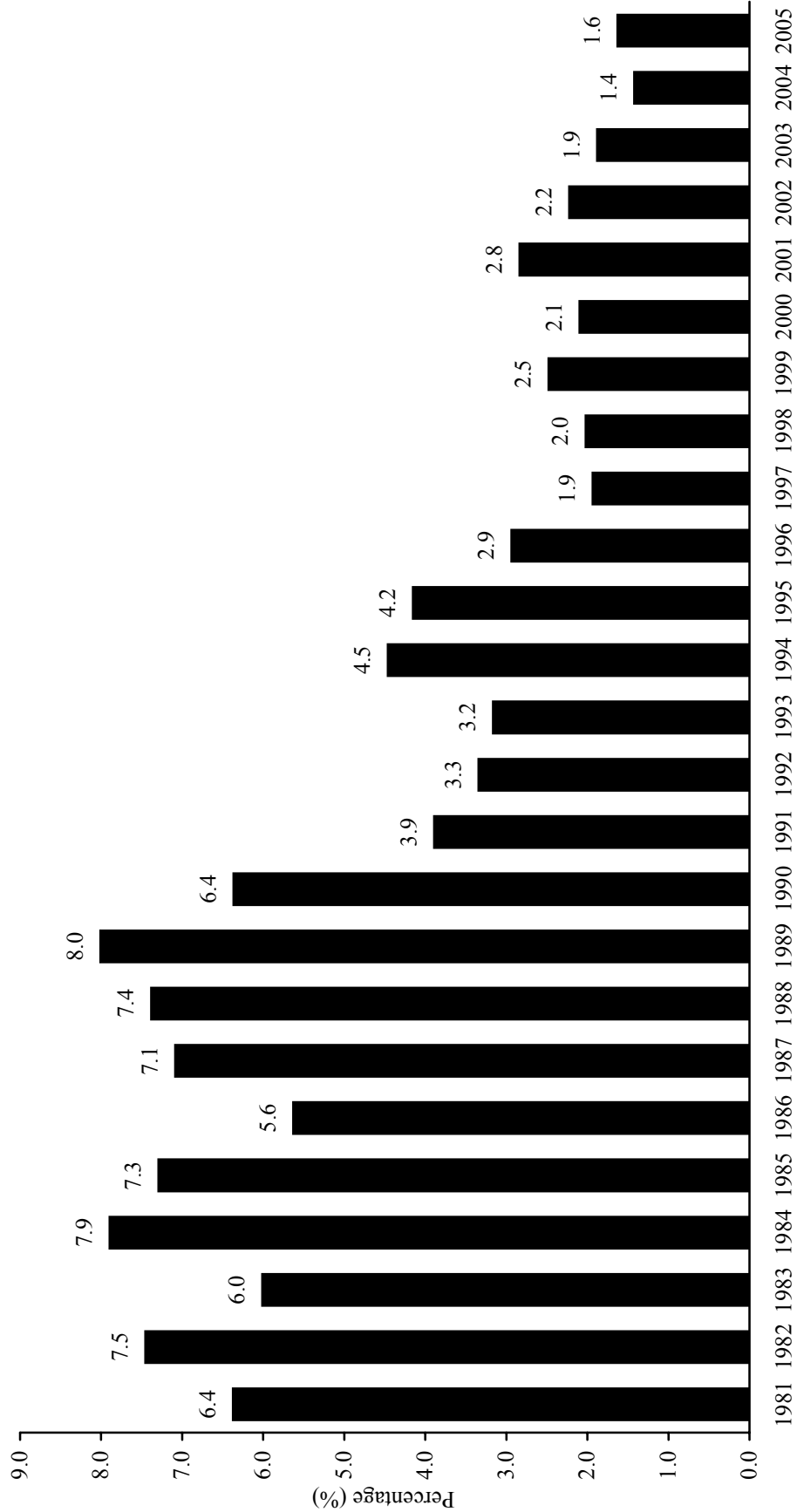
Total Number of Transactions	1,691	2,428	2,389	2,844	3,591	4,208	3,692	3,927	4,505	5,321	6,393	7,406	8,615	9,949	8,637	8,295	6,077	5,597	5,899	6,688	7,048
Number of Disclosed Values	1,256	1,479	1,585	2,074	2,544	2,583	2,379	2,679	3,137	3,967	4,514	5,250	5,670	5,759	5,001	4,942	3,499	3,035	2,949	3,136	3,328
Average Disclosed Price (\$ millions)	144.1	182.7	150.3	160.7	134.5	84.3	63.5	49.6	62.3	76.7	96.9	123.7	139.4	242.2	270.1	364.1	200.8	174.1	255.5	271.7	

Source: Securities Data Company, Inc.

Notes: Merger and acquisition activity is based on completed, pending, partially complete, and intended deals, where there is a formal transfer of ownership of at least 5% of a company's equity with no minimum purchase price. Data includes U.S. acquisitions of overseas firms, but excludes foreign acquisitions of U.S. companies. Deals are removed from the data set if, and when, they are cancelled. As a result data from prior years are subject to revision.

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**Exhibit 27**  
**PERCENTAGE OF CANCELLED MERGER TRANSACTIONS**  
**1981-2005**



Source: *Mergerstat Review* (Houlihan, Lokey, Howard, & Zukin).

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## Exhibit 28

## ANNOUNCEMENT OF ACQUISITIONS BY FORM OF PAYMENT

## 1979-2005

Year	<u>Cash</u>		<u>Stock</u>		<u>Combination</u>		<u>Debt and Other*</u>		Number Disclosing Form of Payment
	# of Deals	% of Total	# of Deals	% of Total	# of Deals	% of Total	# of Deals	% of Total	
1979	654	53	323	26	247	20	9	1	1,233
1980	522	47	345	31	237	21	17	1	1,121
1981	542	42	448	34	301	23	18	1	1,309
1982	405	38	317	29	338	31	23	2	1,083
1983	350	32	387	35	362	33	9	0	1,108
1984	465	43	281	26	320	30	13	1	1,079
1985	742	51	344	23	377	26	5	0	1,468
1986	545	42	411	32	345	26	2	0	1,303
1987	298	41	248	34	176	24	2	1	724
1988	437	56	166	21	170	22	4	1	777
1989	307	46	199	30	153	23	5	1	664
1990	260	40	207	31	186	28	4	1	657
1991	221	34	221	34	197	31	6	1	645
1992	178	22	328	40	303	37	9	1	818
1993	236	25	369	40	321	35	3	0	929
1994	317	26	466	39	412	34	7	1	1,202
1995	413	27	566	37	557	36	4	0	1,540
1996	830	34	900	37	687	28	16	1	2,433
1997	1,271	40	1,021	33	854	27	7	0	3,153
1998	1,509	44	1,014	30	905	26	12	0	3,440
1999	1,844	46	1,226	30	963	24	15	0	4,048
2000	1,766	49	1,150	32	666	18	20	1	3,602
2001	1,395	45	835	27	813	27	37	1	3,080
2002	1,503	56	595	22	578	21	26	1	2,702
2003	1,693	59	524	18	614	22	39	1	2,870
2004	1,775	57	544	18	750	24	44	1	3,113
2005	<u>1,701</u>	54	<u>583</u>	19	<u>787</u>	25	<u>72</u>	2	<u>3,143</u>
Total	22,179	45%	14,018	28%	12,619	26%	428	1%	49,244

Source: *Mergerstat Review* (Houlihan, Lokey, Howard, & Zukin).

Notes: Percentages may not total due to rounding. At least one U.S. company must be involved in the transaction.

\* Other includes stock options and stock warrants.

## Exhibit 29

ANNOUNCED MERGER AND ACQUISITIONS  
AVERAGE AND MEDIAN PURCHASE PRICES

January 1, 1979 - December 31, 2005

Year	Total Number of Announcements	Number of Announcements Disclosing a Purchase Price	Total Value (\$ mm)	Average Price (\$ mm)	Median Price (\$ mm)	Number of Announcements		
						\$100 mm or More	\$1 bil or More	\$10 bil or More
1979	2,128	1,047	43,535.1	41.6	8.5	83	3	0
1980	1,889	890	44,345.7	49.8	9.3	94	4	0
1981	2,395	1,126	82,617.6	73.4	9.0	113	12	0
1982	2,346	930	53,754.5	57.8	10.5	116	6	0
1983	2,533	1,077	73,080.5	67.9	16.5	138	11	0
1984	2,543	1,084	122,223.7	112.8	20.1	200	18	2
1985	3,011	1,320	179,767.5	136.2	21.1	270	36	0
1986	3,336	1,468	173,136.9	117.9	24.9	346	27	0
1987	2,032	972	163,686.3	168.4	51.3	301	36	0
1988	2,258	1,149	246,875.1	215.1	56.9	369	45	2
1989	2,366	1,092	221,085.1	202.5	36.6	328	35	3
1990	2,074	856	108,151.7	126.4	21.0	181	21	0
1991	1,877	722	71,163.8	98.6	22.7	150	13	0
1992	2,574	950	96,688.3	101.8	22.5	200	18	0
1993	2,663	1,081	176,399.6	163.2	26.0	242	27	2
1994	2,997	1,348	226,670.8	168.2	33.0	383	51	0
1995	3,510	1,735	356,016.4	205.2	30.5	462	74	3
1996	5,848	2,658	494,962.1	186.7	25.3	640	94	4
1997	7,800	3,013	657,062.6	218.1	30.0	873	120	5
1998	7,809	3,091	1,191,861.1	385.6	33.5	906	158	16
1999	9,278	3,384	1,425,884.8	421.4	39.6	1,097	195	17
2000	9,566	3,757	1,325,734.4	352.9	36.0	1,150	206	16
2001	8,290	2,997	699,398.4	233.4	22.6	703	121	12
2002	7,303	2,839	440,701.0	155.2	21.0	608	72	2
2003	7,983	2,927	504,596.2	172.4	21.8	654	88	4
2004	9,783	3,208	750,732.9	234.0	28.4	841	134	8
2005	<u>10,332</u>	<u>4,110</u>	<u>1,010,997.0</u>	246.0	20.0	<u>963</u>	<u>170</u>	<u>13</u>
Total	126,524	50,831	10,941,129.1			12,411	1,795	109

Source: *Mergerstat Review* (Houlihan, Lokey, Howard, & Zukin).

Notes: Merger and acquisition activity is based on completed and pending deals where there is a formal transfer of ownership of at least 10% of a company's equity with a minimum purchase price of \$1 million. At least one U.S. company must be involved in the transaction. For 2005, the total value of the 4,110 merger and acquisition announcements disclosing a purchase price was \$1,011.0 billion, an increase of 34.7% since 2004. As a result of this change, the average transaction price increased 5.1% to \$246.0 million, while the median price decreased 29.6% to \$20.0 million. Announced deals valued at \$100 million or more increased 14.5% to 963, while deals valued at \$1 billion or more increased 26.9% to 170 announcements.

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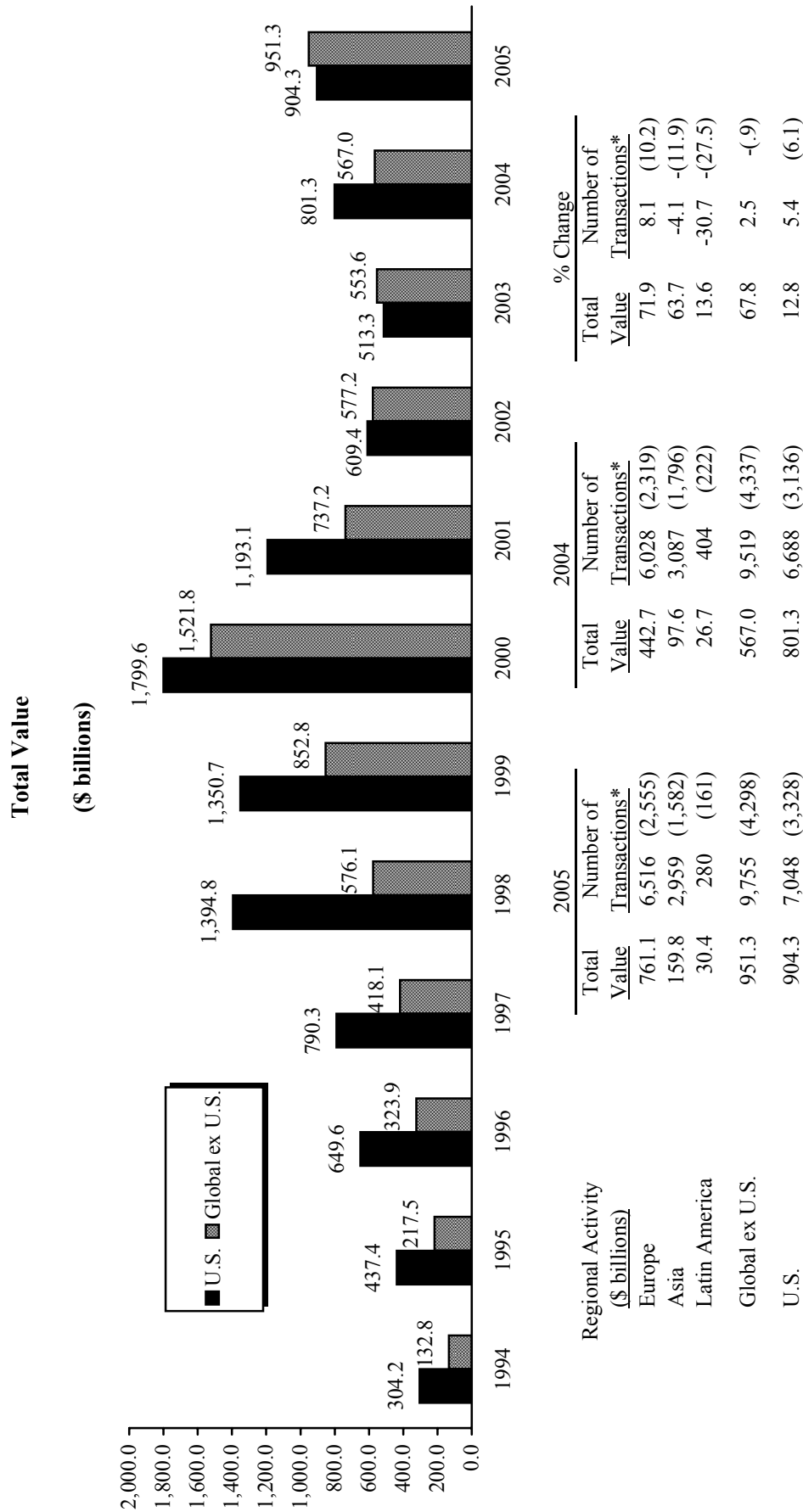
**Exhibit 30****LARGEST ANNOUNCED ACQUISITIONS****2005**

<u>Buyer/Seller</u>	<u>Value (\$ billions)</u>
1. Procter & Gamble Co./Gillette Company	57.3
2. ConocoPhillips/Burlington Resources Inc.	36.1
3. Bank of America Corp./MBNA Corp.	35.4
4. Boston Scientific Corp./Guidant Corp.	25.2
5. Koch Industries, Inc./Georgia-Pacific Corp.	20.4
6. Chevron Corp./Unocal Corp.	20.0
7. Consortium/Substantially All U.S. Assets	17.6
8. Federated Department Stores, Inc./May Department Stores Co.	16.6
9. FPL Group Inc./Constellation Energy Group	14.8
10. Duke Energy Corp./Cinergy Corp.	13.7
11. Symantec Corp./VERITAS Software Corp.	13.7
12. MetLife, Inc./Travelers Life & Annuity Co.	11.7
13. Solar Capital Corp./SunGard Data Systems Inc.	10.6
14. R.H. Donnelley Corp./Dex Media, Inc.	9.7
15. Berkshire Hathaway Inc./PacifiCorp	<u>9.4</u>
Total	312.2

Source: The Bloomberg.

Notes: Acquisitions include announced deals and exclude related company transactions (e.g., Royal Dutch Shell/Shell Transport) as well as terminated deals. Value is the base equity price offered. Figures may not total due to rounding.

**Exhibit 31**  
**COMPLETED GLOBAL MERGER AND ACQUISITION ACTIVITY**



Source: Securities Data Company, Inc.

Notes: The above figures do not include any cross-border activity. Please see Exhibit 34 for a breakdown of cross-border activity.

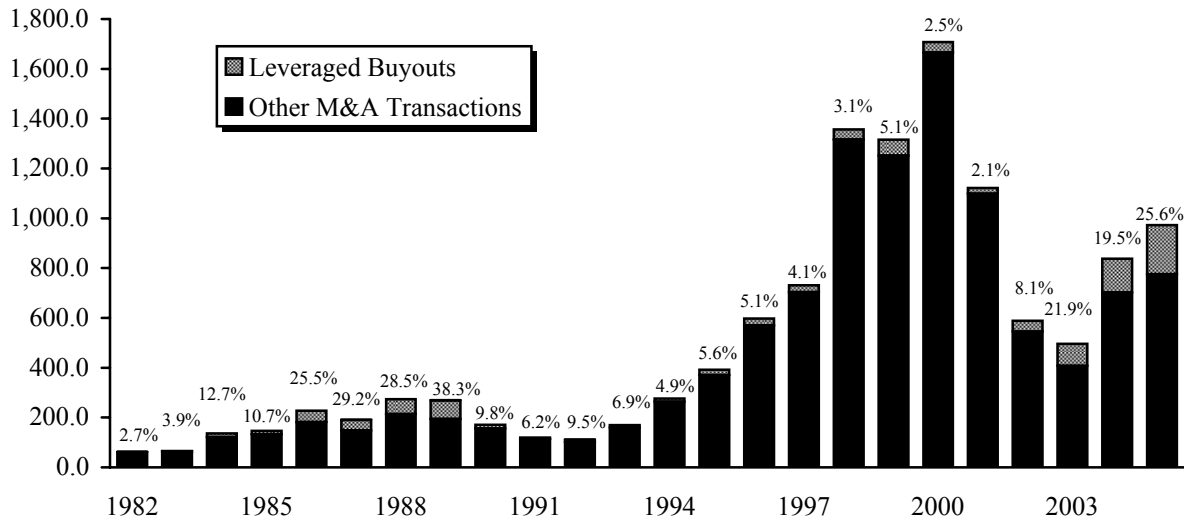
\* Transaction figures represent the total number of transactions that took place, while numbers in parentheses indicate the number of transactions disclosed in the total value figure.

**Exhibit 32**

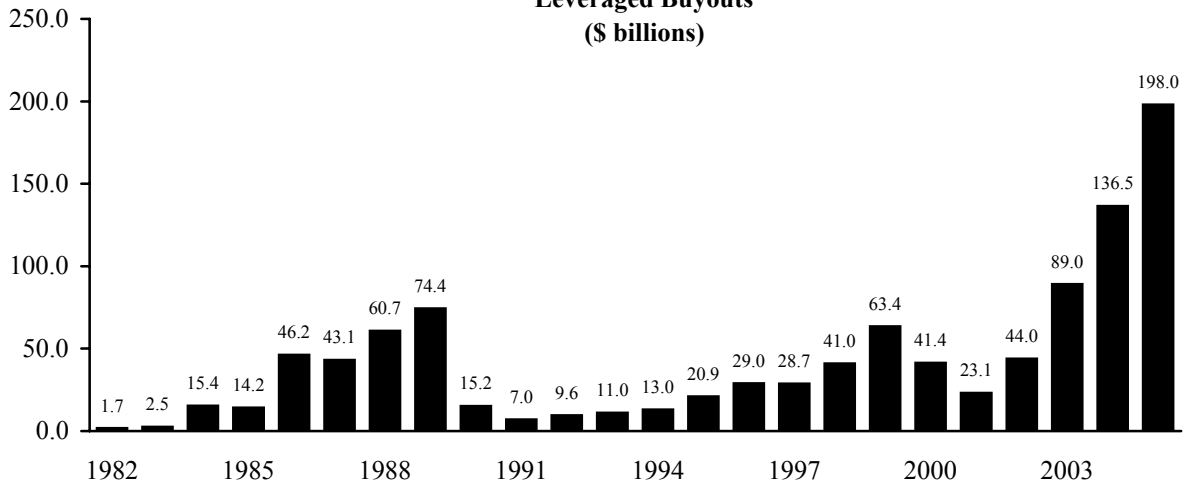
**COMPLETED MERGER AND ACQUISITION AND LEVERAGED BUYOUT ACTIVITY**

**1982-2005**

**Mergers and Acquisitions  
(\$ billions)**



**Leveraged Buyouts  
(\$ billions)**



Sources: *Buyouts* and Securities Data Company, Inc.

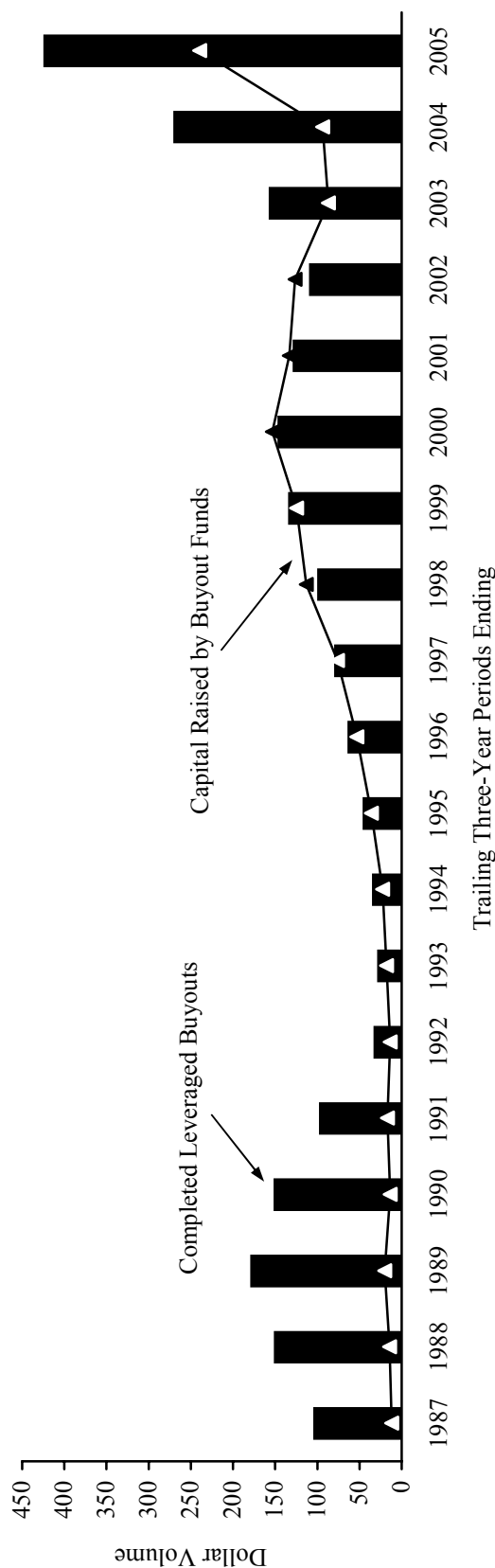
Notes: Percentages show LBOs as a percent of total M&A transactions. All activity are on a completed basis. Other M&A transactions include mergers, acquisitions, spin-offs, and tender offers. The 1989 data include the RJR Nabisco LBO.

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Exhibit 33

COMPLETED LEVERAGED BUYOUTS AND CAPITAL RAISED BY BUYOUT FUNDS

1987-2005  
(\$ billions)



Completed Leveraged Buyouts (\$ billions)	103.5	150.1	178.2	150.3	96.6	31.8	27.6	33.6	44.9	62.9	78.6	98.7	133.1	145.8	127.9	108.5	156.1	269.5	423.5
Capital Raised by Buyout Funds (\$ billions)	12.0	14.4	20.2	13.6	16.9	13.7	18.1	22.7	35.9	53.3	76.2	113.2	124.5	153.3	133.3	126.3	87.0	93.8	239.7

Analysis: For the trailing three-year period 1987-89 the debt-to-equity ratio was approximately 10:1 compared to the trailing three-year period 2001-03 when the debt-to-equity ratio was approximately 2:1. Leveraged 2:1, the \$87 billion raised by buyout funds during the period 2001-03 would finance \$261 billion in future buyout transactions, which indicates that the increase in buyout demand could result in buyout managers having to pay substantially higher prices for acquisitions. Three-year periods are used because capital raised by buyout funds is usually drawn down over several years.

Source: *Buyouts*.

Note: Since not all completed leveraged buyout values are disclosed, the buyout supply figure understates the actual volume of supply.

## Exhibit 34

## CROSS-BORDER ACQUISITION ACTIVITY

	As of December 31, 2005		
<u>Non-U.S. Buyers</u>	<u>2005*</u>	<u>2004*</u>	<u>% Change</u>
Number	1,490	1,251	19.1
Value (US\$ billions)	128.3 (673)	105.0 (506)	22.2
<u>Non-U.S. Sellers</u>			
Number	1,708	1,698	0.6
Value (US\$ billions)	141.4 (675)	110.8 (617)	27.6

	Number of Acquisitions			
	2005		2004	
<u>Selected Countries</u>	<u>Non-U.S. Buyers</u>	<u>Non-U.S. Sellers</u>	<u>Non-U.S. Buyers</u>	<u>Non-U.S. Sellers</u>
United Kingdom	289	276	255	330
Canada	338	287	310	257
Japan	89	46	69	53
France	93	99	65	85
Germany	69	141	54	139
Australia	54	61	54	56

	Price Paid (US\$ millions)			
	2005		2004	
<u>Selected Countries</u>	<u>Non-U.S. Buyers*</u>	<u>Non-U.S. Sellers*</u>	<u>Non-U.S. Buyers*</u>	<u>Non-U.S. Sellers*</u>
United Kingdom	19,883.1 (141)	39,595.0 (133)	32,085.2 (125)	26,215.3 (138)
Canada	13,132.9 (151)	19,596.4 (97)	24,416.6 (125)	16,106.6 (89)
Japan	5,927.9 (46)	351.1 (11)	1,941.1 (24)	3,476.3 (17)
France	7,095.1 (27)	14,349.0 (37)	4,067.2 (19)	8,568.9 (31)
Germany	13,295.9 (22)	13,753.5 (45)	2,893.4 (13)	16,602.7 (51)
Australia	3,694.9 (36)	2,583.4 (29)	6,964.3 (31)	701.3 (18)

Source: *Mergerstat Review* (Houlihan, Lokey, Howard, & Zukin).

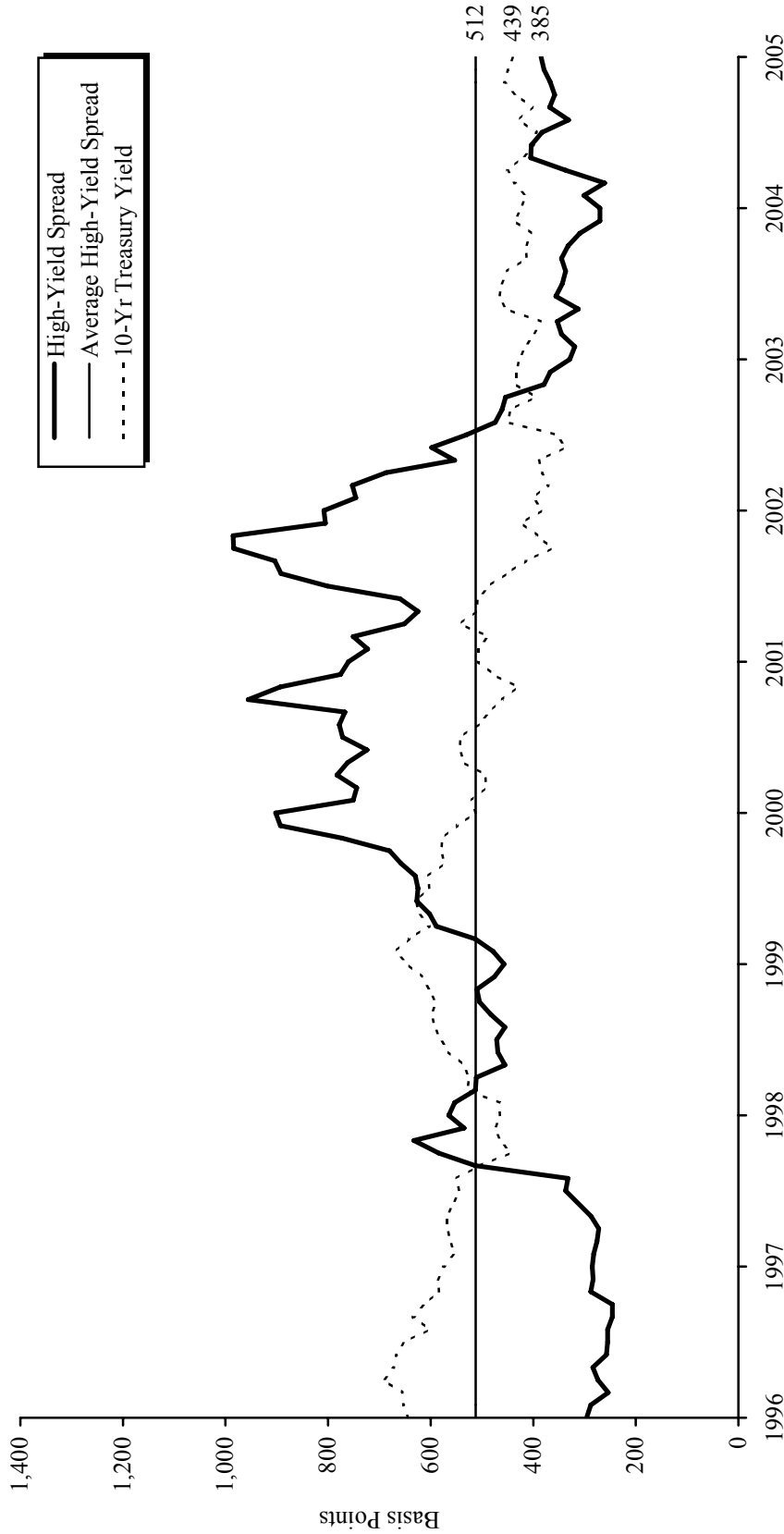
\* The numbers in parentheses indicate the number of transactions included in value calculations.

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Exhibit 35

**MERRILL LYNCH HIGH-YIELD MASTER II BOND INDEX:  
SPREAD RELATIVE TO TEN-YEAR TREASURY BONDS**

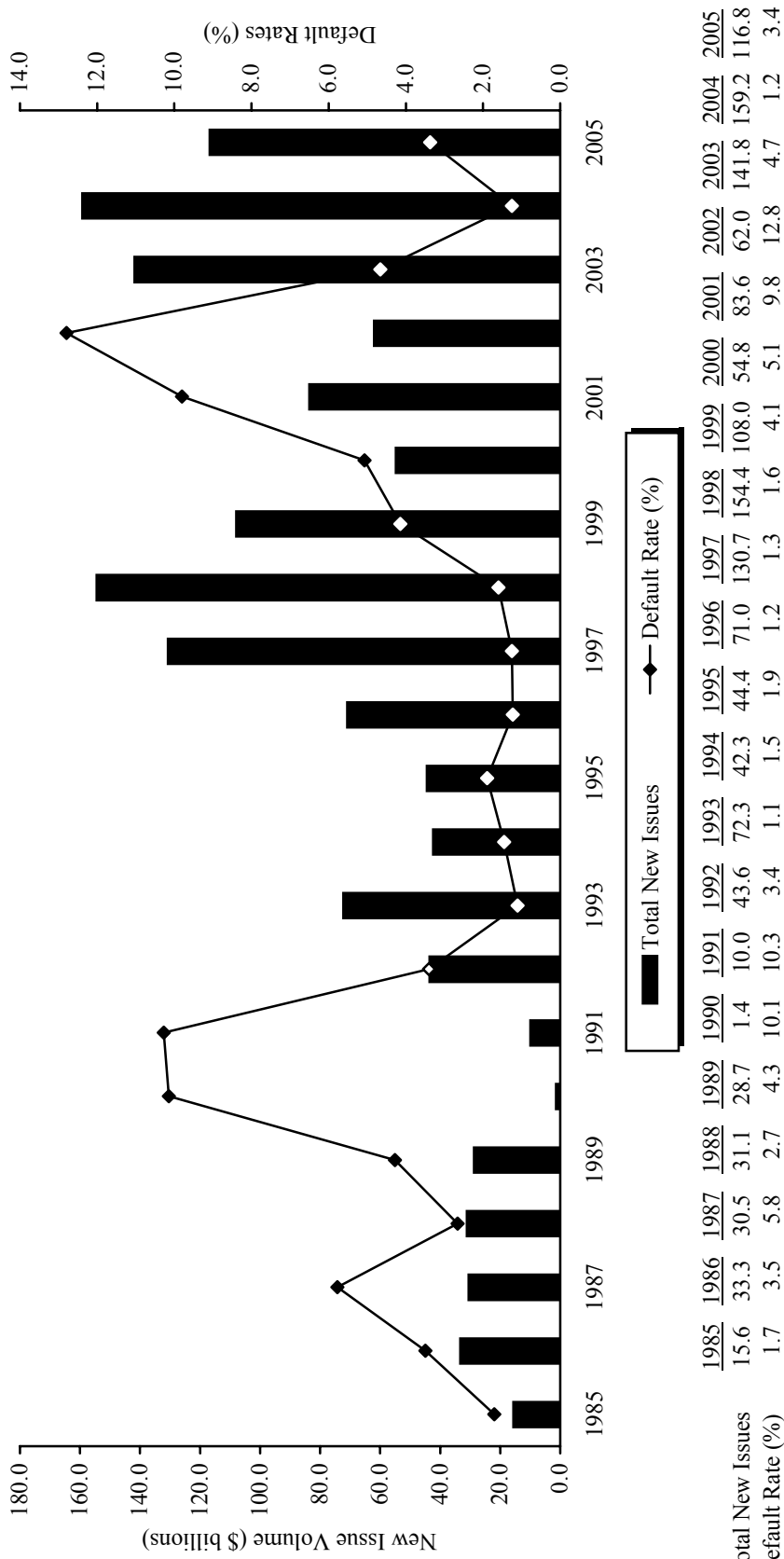
December 31, 1996 - December 31, 2005



Sources: Merrill Lynch & Company and Thomson Datastream.

Note: Yield spreads are based on the difference between the weighted-average yield-to-worst (the lower of yield-to-maturity and yield-to-call) for high-yield bonds and the yield-to-maturity for ten-year Treasury securities.

**Exhibit 36**  
**PAR VALUE OF HIGH-YIELD NEW ISSUES AND**  
**DEFAULT RATES**  
**1985-2005**



Sources: Edward I. Altman-NYU Salomon Center and Merrill Lynch & Company.

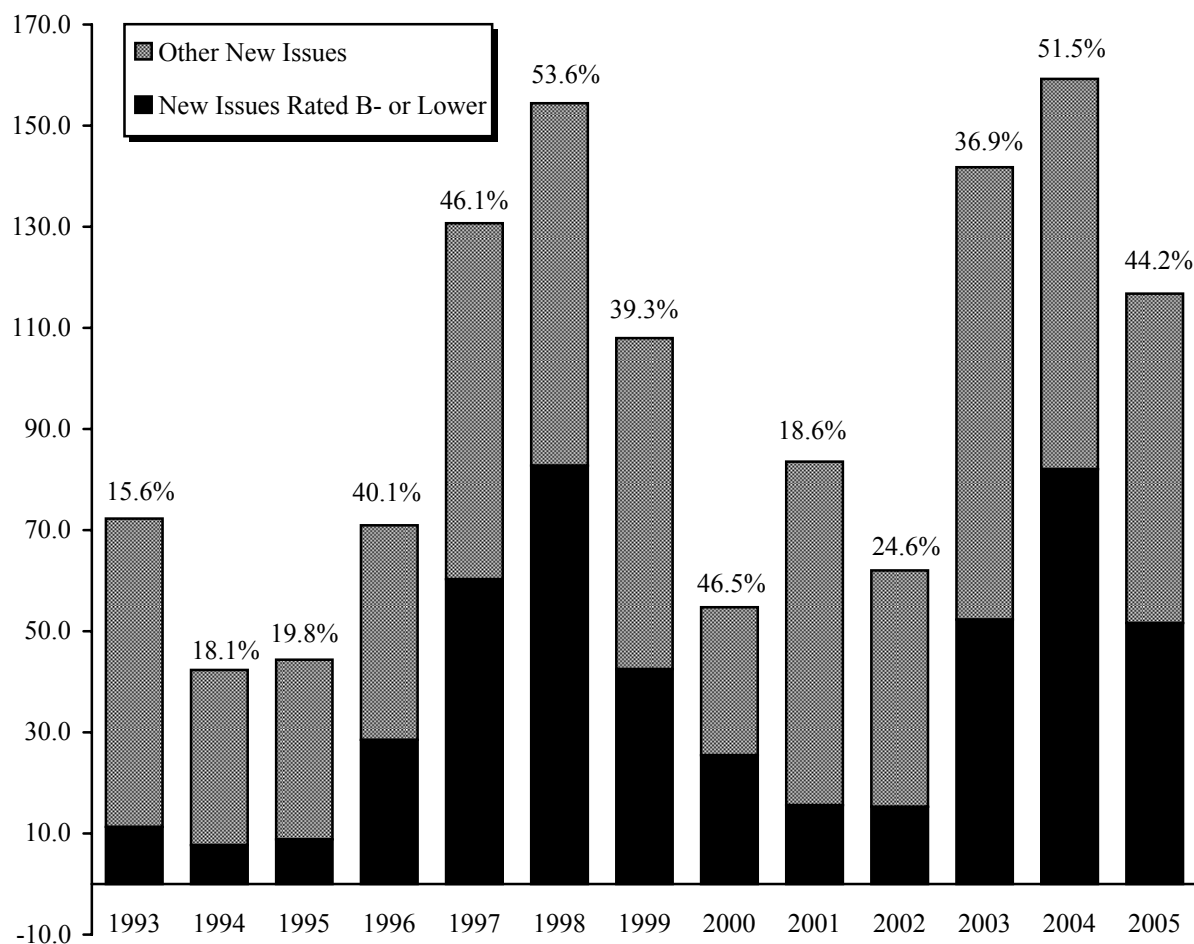
Note: New issue volume has included 144A high-yield new issues.

## Exhibit 37

PAR VALUE OF HIGH-YIELD NEW ISSUES AND  
PERCENTAGE RATED B- OR LOWER

1993-2005

(\$ billions)

New Issue Volume  
(\$ billions)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
New Issues Rated B- or Lower	11.2	7.7	8.8	28.5	60.2	82.7	42.5	25.5	15.6	15.2	52.3	82.0	51.6
Other New Issues	61.0	34.7	35.6	42.5	70.4	71.7	65.5	29.3	68.0	46.8	89.5	77.2	65.2
Total New Issues	72.3	42.3	44.4	71.0	130.7	154.4	108.0	54.8	83.6	62.0	141.8	159.2	116.8

Source: Merrill Lynch &amp; Company.

Notes: Analysis is based on Standard & Poor's ratings. New issue volume has included 144A high-yield new issues. Other new issues include those rated higher than B-. Figures may not total due to rounding. Data for 2005 are through December 31.

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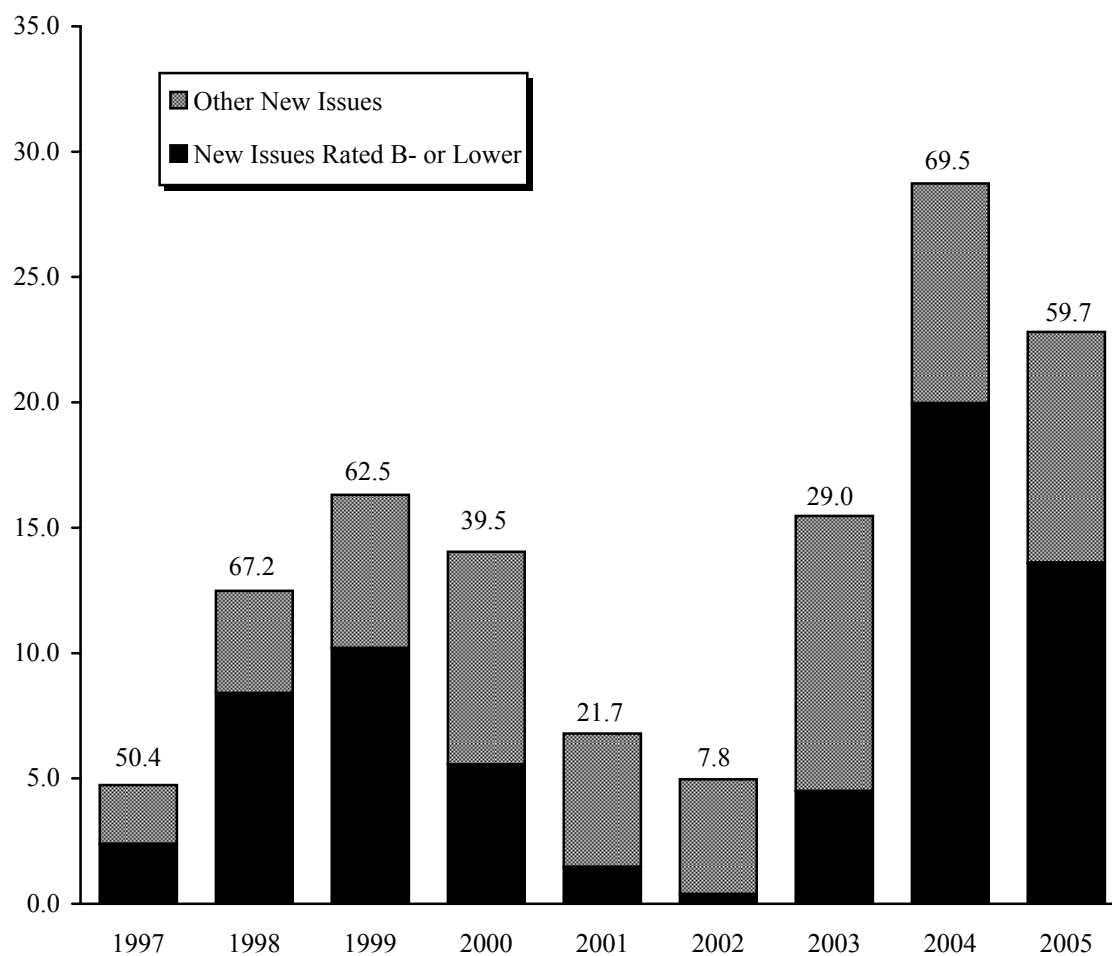


## Exhibit 38

PAR VALUE OF EUROPEAN HIGH-YIELD NEW ISSUES AND  
PERCENTAGE RATED B- OR LOWER

1997-2005

(\$ billions)

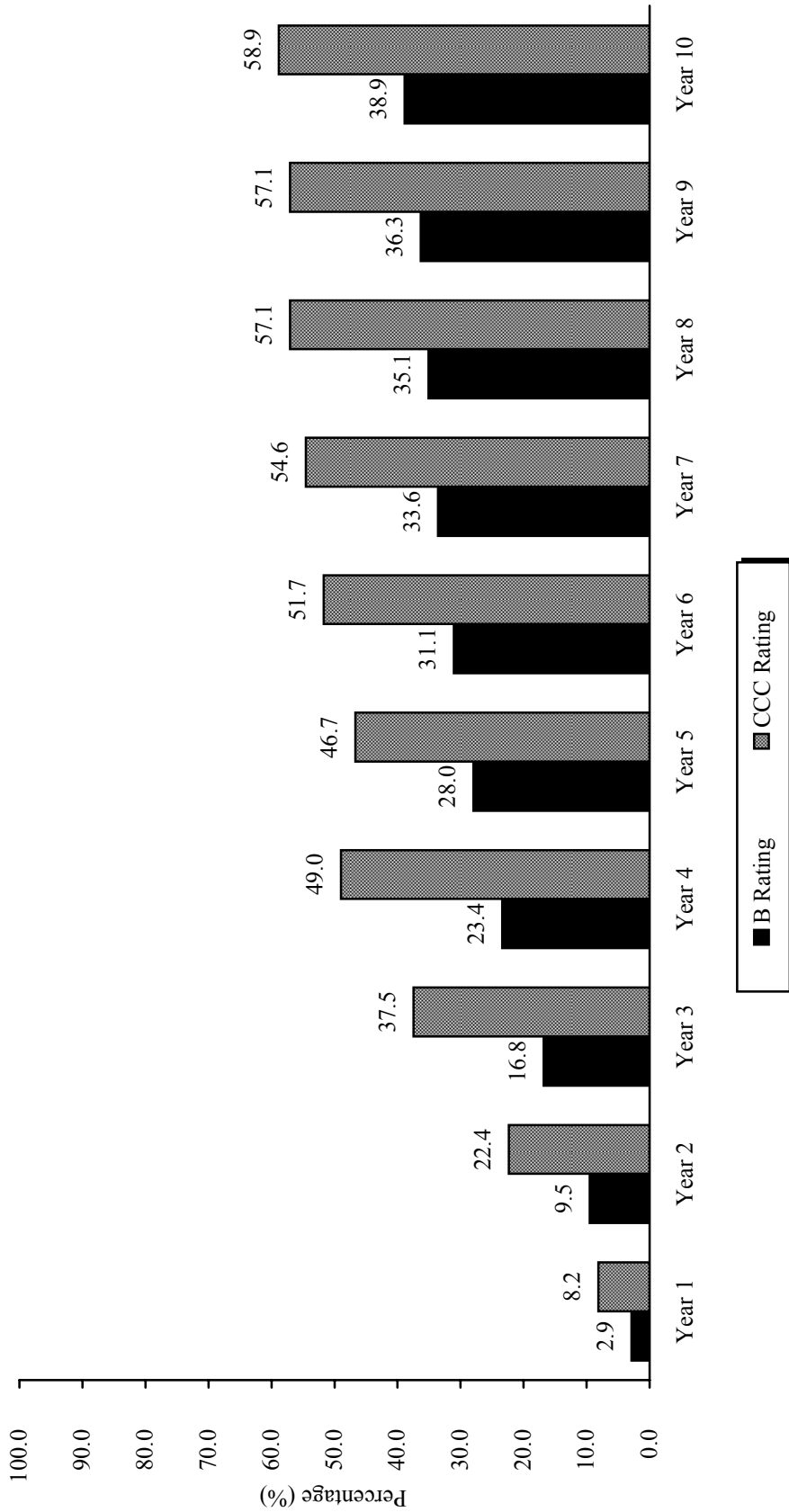
New Issue Volume  
(\$ billions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
New Issues Rated B- or Lower	2.4	8.4	10.2	5.5	1.5	0.4	4.5	20.0	13.6
Other New Issues	<u>2.4</u>	<u>4.1</u>	<u>6.1</u>	<u>8.5</u>	<u>5.3</u>	<u>4.6</u>	<u>11.0</u>	<u>8.8</u>	<u>9.2</u>
Total New Issues	4.7	12.5	16.3	14.0	6.8	5.0	15.5	28.7	22.8

Source: Merrill Lynch &amp; Company.

Notes: Analysis is based on Standard & Poor's ratings. Other new issues include those rated higher than B-.  
Figures may not total due to rounding.

**Exhibit 39**  
**MORTALITY RATES (%) BY ORIGINAL RATING OF B AND CCC RATED CORPORATE BONDS**  
**1971-2005**



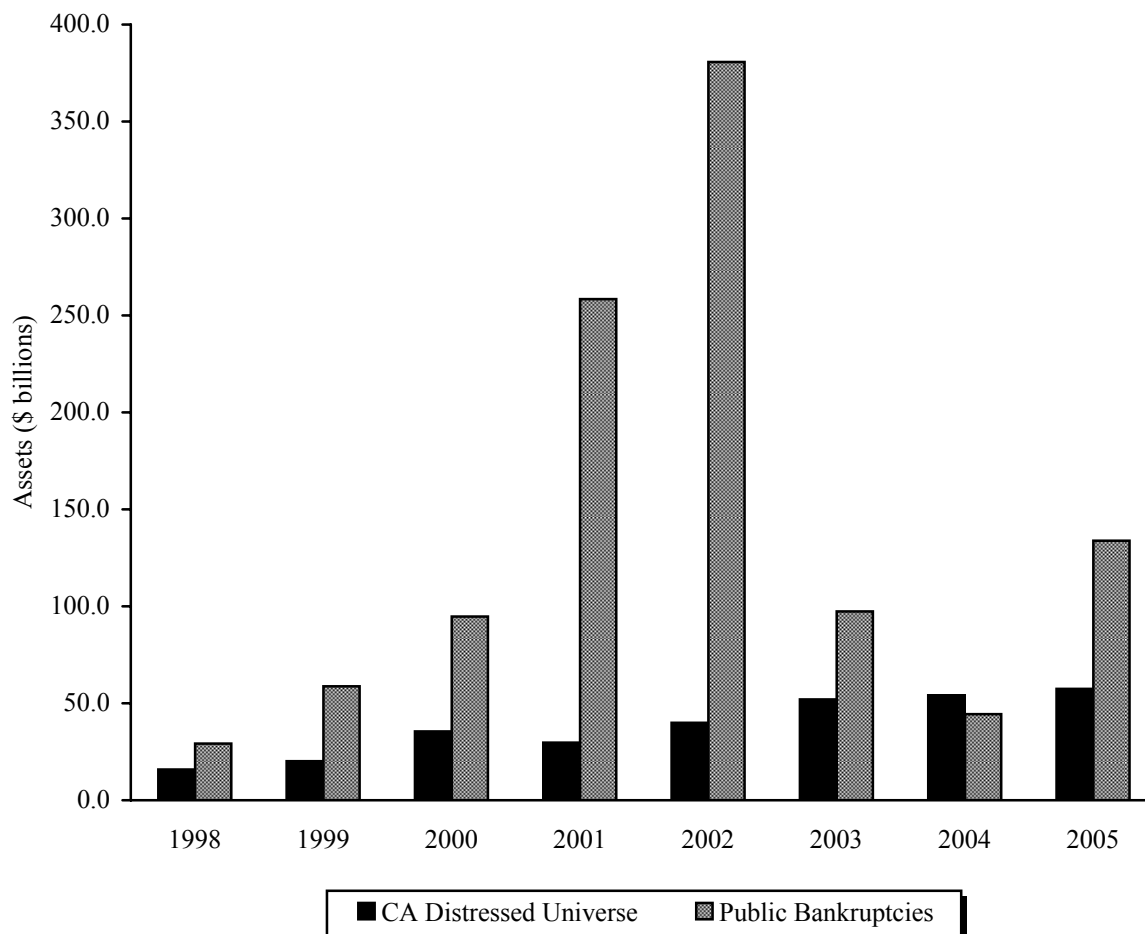
Sources: Edward I. Altman-NYU Salomon Center and Standard & Poor's.

Notes: Data are based on cumulative years after issuance. Corporate bonds are rated by S&P at issuance. These data are based on 1,903 issues.

## Exhibit 40

## DISTRESSED DEBT SUPPLY AND DEMAND

1998-2005

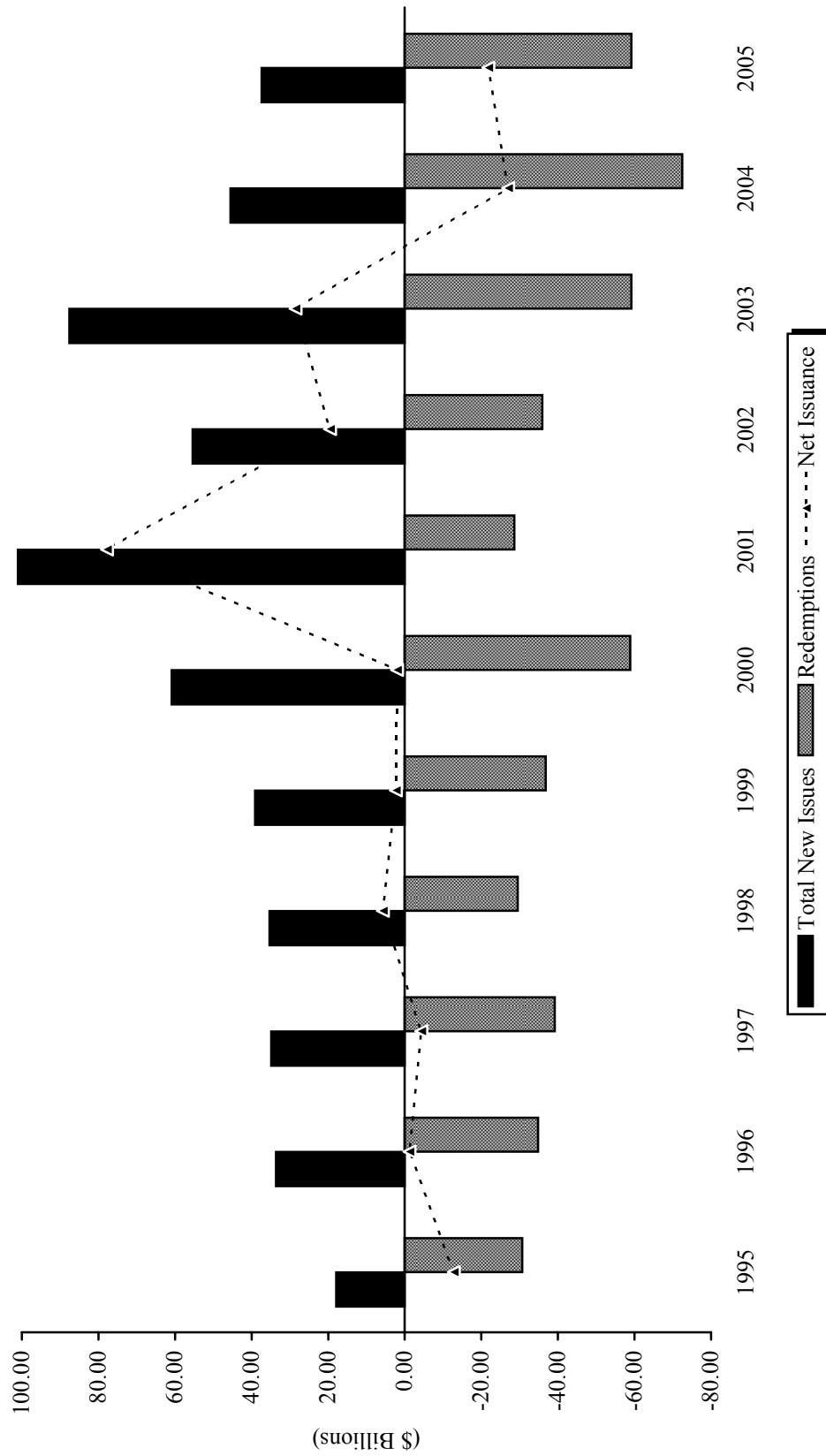


	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
CA Distressed Manager Universe								
Assets Under Management (\$ billions)	15.8	20.2	35.5	29.7	40.0	52.0	54.2	57.4
Assets of Public Bankruptcies (\$ billions)	29.2	58.8	94.8	258.5	380.7	97.4	44.4	133.8

Sources: Cambridge Associates LLC Investment Manager Database and New Generation Research, Inc.

Notes: Bankruptcies are measured by total assets prior to filing. Data are not adjusted for inflation. Cambridge Associates LLC Distressed Manager Universe Assets Under Management values include assets committed, but not drawn down.

**Exhibit 41**  
**CONVERTIBLE BOND ISSUANCE**  
**1995-2005**



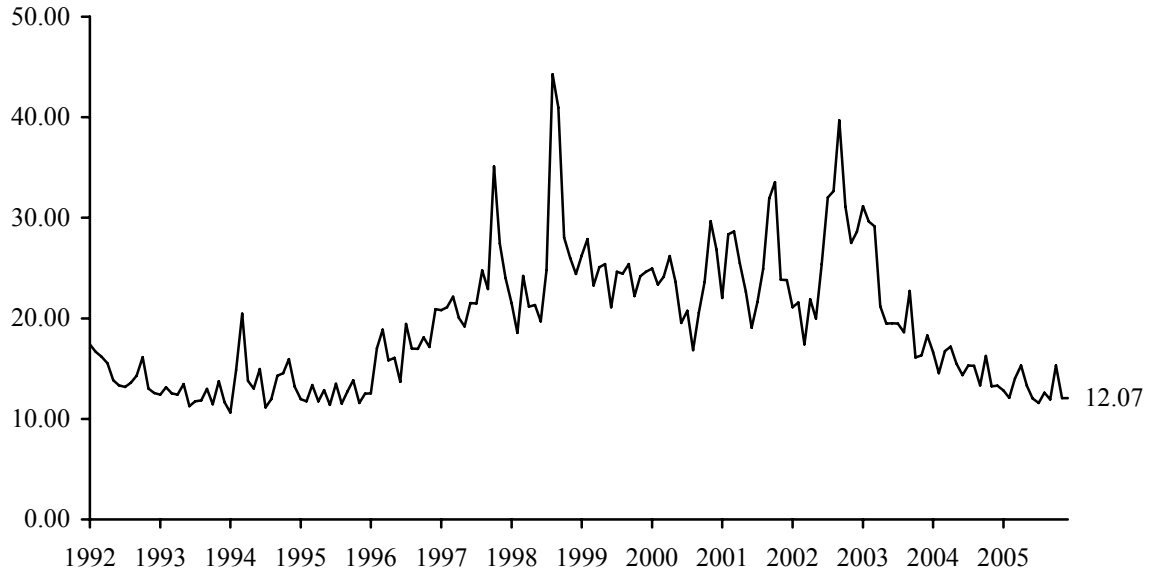
Source: Merrill Lynch & Company.

## Exhibit 42

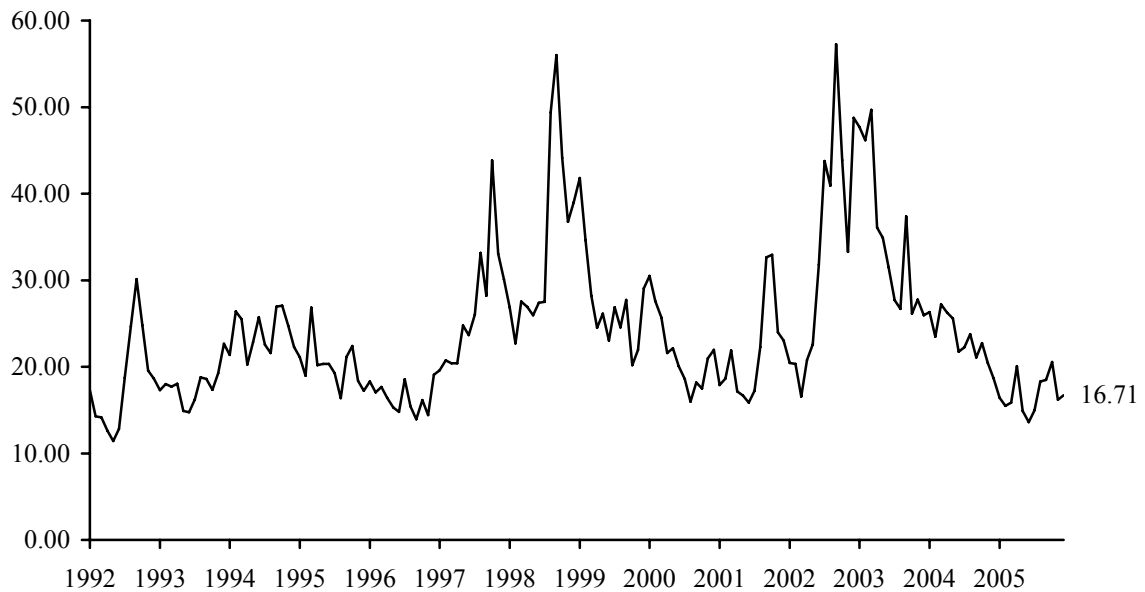
## HISTORICAL VOLATILITY

January 31, 1992 - December 31, 2005

## VIX (United States)



## VDAX (Germany)

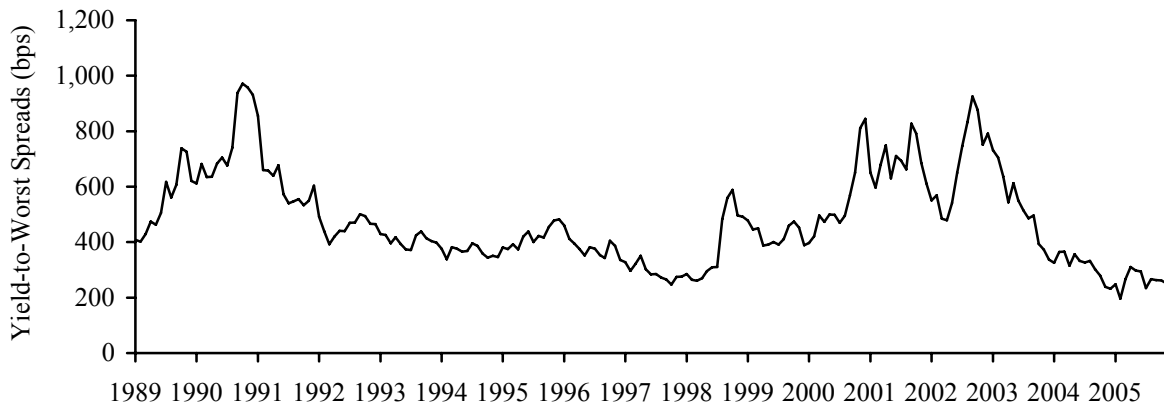
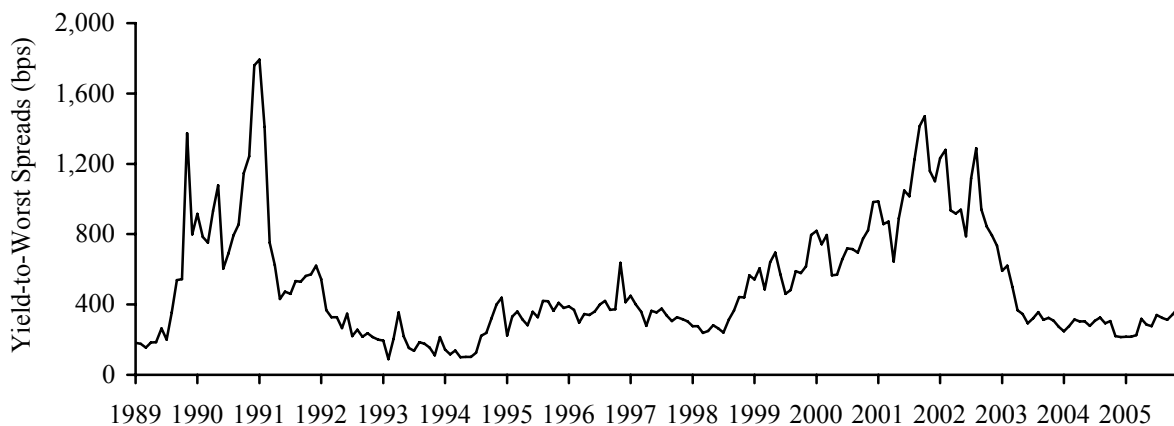
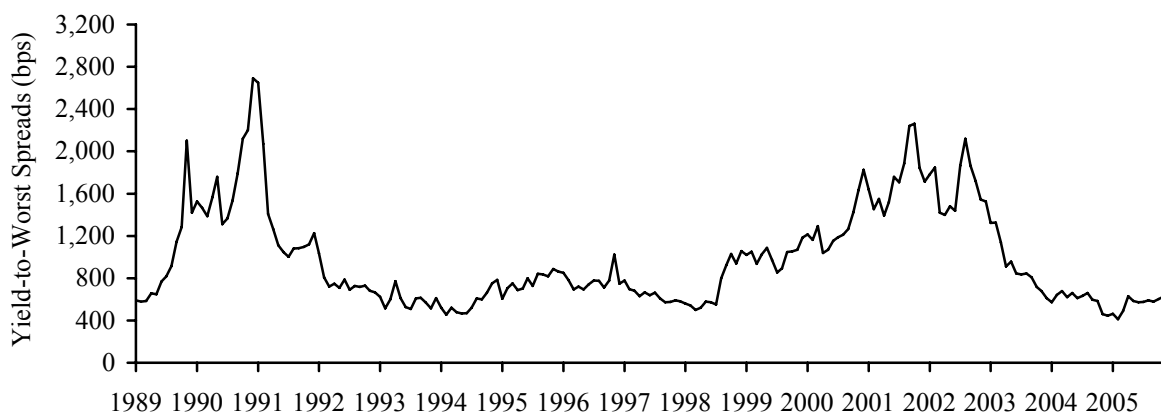


Source: The Bloomberg.

## Exhibit 43

**YIELD SPREADS FOR SELECTED BOND RATING CATEGORIES**

January 31, 1989 - December 31, 2005

**Investment Grade Relative to B Rated High Yield****B Rated High Yield Relative to CCC Rated High Yield****Investment Grade Relative to CCC Rated High Yield**

Source: Lehman Brothers, Inc.

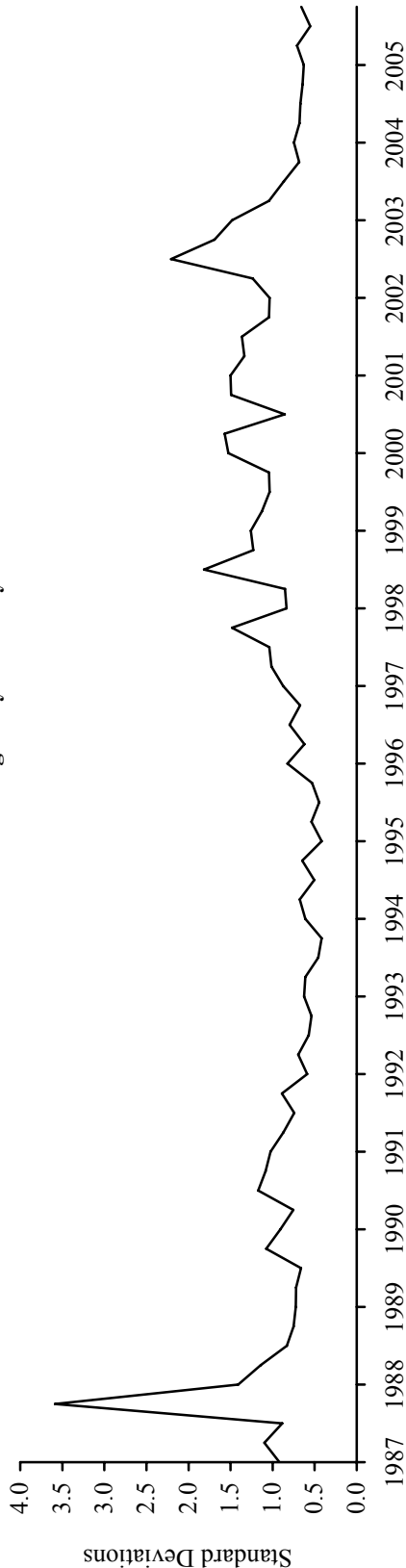
Notes: Yield spreads are based on the difference between the weighted-average yield-to-worst (the lower of yield-to-maturity and yield-to-call) among the various rating categories. Investment-grade bonds are represented by the Lehman Brothers U.S. Intermediate Credit Bond Index.

Exhibit 44

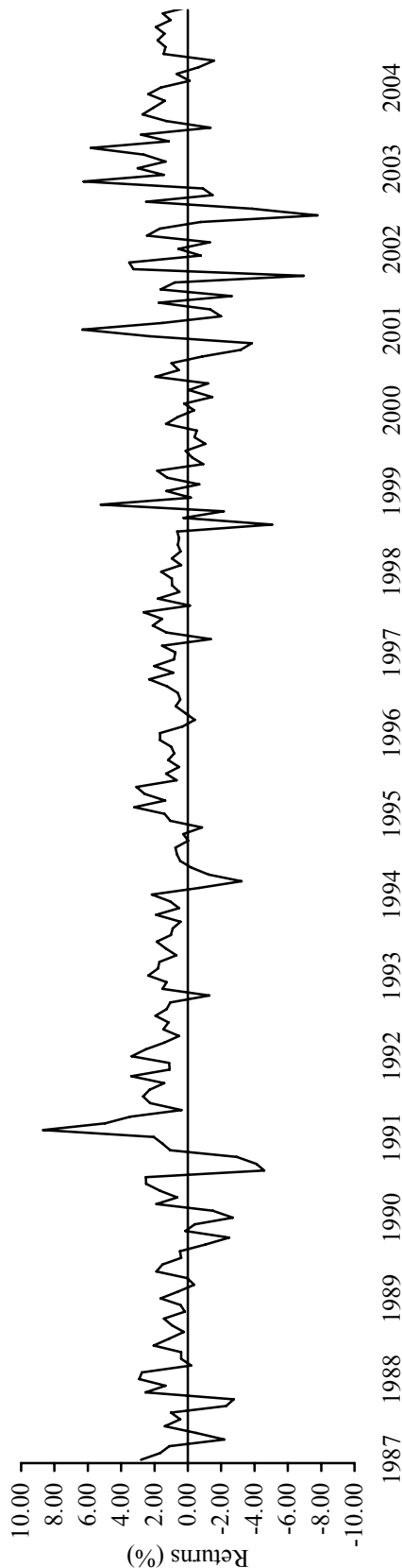
**VOLATILITY OF THE S&P 500 INDEX AND PERFORMANCE OF THE MERRILL LYNCH HIGH-YIELD INDEX**

January 1, 1987 - December 31, 2005

S&P 500 Trailing Daily Volatility



Merrill Lynch High-Yield Monthly Performance



Sources: Merrill Lynch & Company and Thomson Datastream.

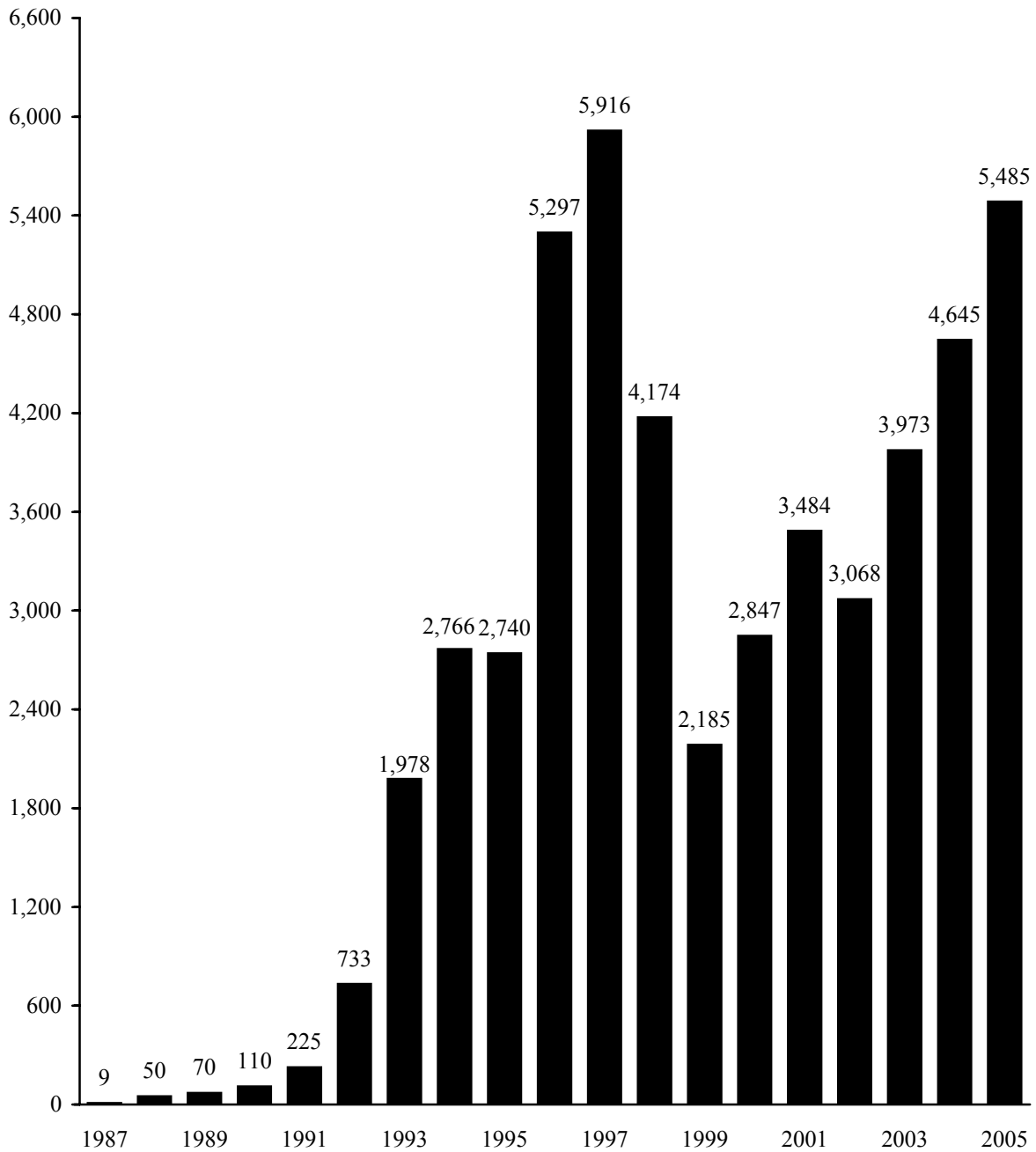
Note: The S&P 500 volatility line graphs the trailing three-month standard deviation of daily changes in the total return of the index.

## Exhibit 45

## TRADING VOLUME IN EMERGING MARKETS DEBT

1987-2005

(US\$ billions)



Sources: Citigroup Global Markets and Emerging Markets Traders Association.

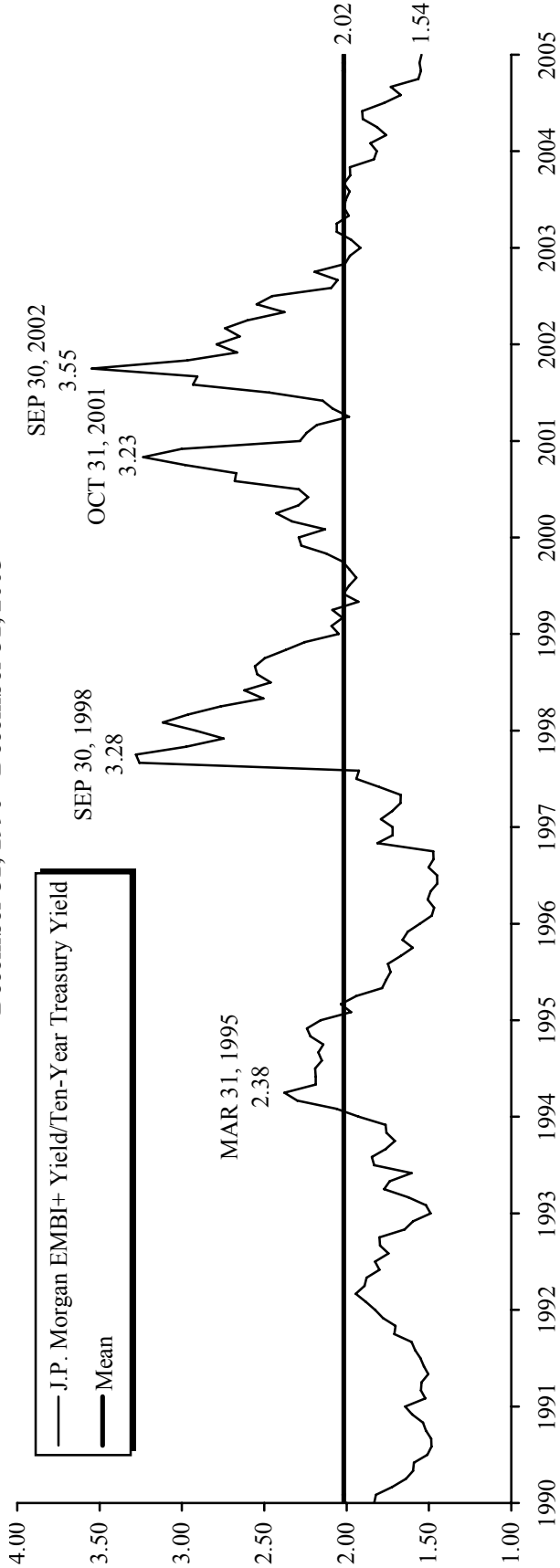
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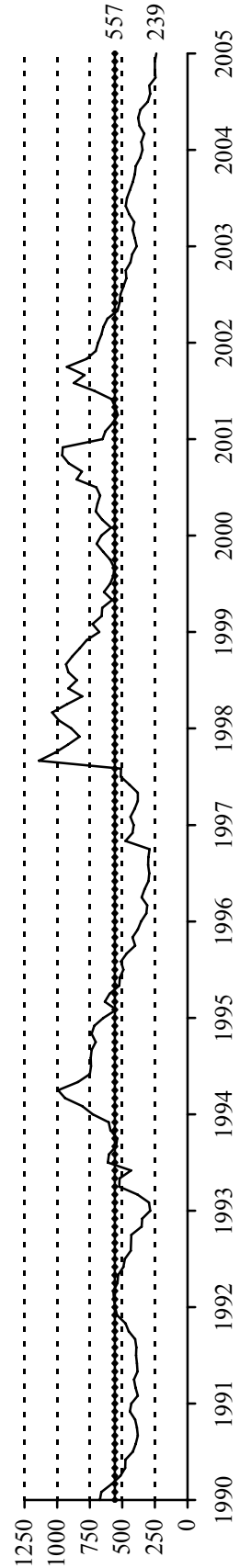
Exhibit 46

**RATIO OF J.P. MORGAN EMERGING MARKETS BOND INDEX PLUS YIELDS TO YIELDS OF TEN-YEAR TREASURIES**

December 31, 1990 - December 31, 2005



**Yield Spread Between Emerging Markets Bond Index Plus and Ten-Year Treasury**



Sources: J.P. Morgan Securities, Inc. and Thomson Datastream.

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## Exhibit 47

## REPRESENTATIVE MULTI-STRATEGY HEDGE FUND STRATEGIES

## Summary of 2005 Annual Total Returns (%)

	<u>Maximum</u>	<u>Minimum</u>	<u>Median</u>	<u>Number of Funds</u>
Merger Arbitrage	8.2	3.1	4.8	15
Convertible Arbitrage	12.8	-14.6	-0.9	22
Capital Structure Arbitrage	14.9	-5.1	5.1	16
Fixed Income Arbitrage	21.2	-6.9	6.7	22
Fund-of-Funds	22.6	-8.1	7.1	179
Multi-Strategy	17.3	-15.0	5.2	44
Open Mandate	40.5	-17.0	10.5	14

## Exhibit 48

## REPRESENTATIVE MERGER ARBITRAGE FUNDS

## Annual Returns (%)

<u>Merger Arbitrage Funds</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Allen & Company - Allen Arbitrage, L.P.	11.5	8.5	9.1	13.8	14.2	3.4	3.3	4.2	6.8	4.8
Arnhold and S. Bleichroeder Advisers, LLC - Iolaire Partners	10.9	21.7	9.1	11.7	13.5	-0.5	-0.6	2.6	4.3	8.2
Brencourt Advisors, LLC - Brencourt Arbitrage, L.P.	---	---	---	---	---	---	2.0	4.1	6.5	5.9
Green & Smith Investment Mgmt - Hudson Valley Partners	13.4	12.6	5.2	16.4	15.7	0.9	-6.8	11.3	2.6	3.1
Gruss Asset Mgmt, L.P. - Gruss Arbitrage Partners, L.P.	---	---	---	---	16.2	4.8	1.8	4.4	5.4	4.5
Harvest Management, LLC - Harvest Capital, L.P.	8.8	22.3	-8.1	18.8	16.5	4.1	0.0	10.1	9.3	5.4
HSBC Asset Mgmt - HSBC Merger Arbitrage Offshore Fund	---	---	---	---	12.3	2.8	1.0	2.1	-1.4	3.7
Kellner DiLeo Cohen & Co. - KDC Merger Arbitrage Fund	15.1	15.2	5.2	14.3	24.9	1.4	-0.6	3.3	4.9	3.2
Longfellow Inv. Mgmt Co. - Longfellow Leveraged Arb	14.7	9.5	12.3	12.6	20.7	7.4	0.6	3.5	-3.1	5.3
Longfellow Inv. Mgmt Co. - Longfellow Unleveraged Arb	12.2	8.6	11.6	11.7	17.4	6.6	0.2	3.4	-2.3	5.1
March Partners - Langdon Street Capital, L.P.	8.0	23.7	4.7	10.0	20.1	2.0	-1.9	6.3	4.7	5.3
March Partners - March Capital Partners, L.P.	13.2	38.5	6.4	14.1	24.7	1.4	-3.2	13.0	6.9	6.5
Paulson & Company - Paulson Partners, L.P.	38.1	12.7	-4.9	23.8	22.4	5.1	4.5	22.7	11.9	3.9
Tiedemann Investment Group - Arbitrage Associates, L.P.	10.3	13.7	11.2	15.7	15.2	2.9	0.6	3.0	2.4	3.5
Weiss, Peck & Greer - WPG Ericott Merger Arbitrage Fund	---	---	---	---	31.3	4.1	2.5	4.5	5.6	3.3
Maximum	38.1	38.5	12.3	23.8	31.3	7.4	4.5	22.7	11.9	8.2
Median	12.2	13.7	6.4	14.1	16.9	3.1	0.6	4.2	4.9	4.8
Minimum	8.0	8.5	-8.1	10.0	12.3	-0.5	-6.8	2.1	-3.1	3.1
Number of Funds	11	11	11	11	14	14	15	15	15	15
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 48 (continued)

## REPRESENTATIVE MERGER ARBITRAGE FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Merger Arbitrage Funds</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
Allen & Company - Allen Arbitrage, L.P.	7.9	7.5	7.4	7.1	6.0	4.5	4.8	5.3	5.8	4.8
Arnhold and S. Bleichroeder Advisers, LLC - Iolaire Partners	7.9	7.6	5.9	5.5	4.5	2.8	3.6	5.0	6.2	8.2
Brencourt Advisors, LLC - Brencourt Arbitrage, L.P.	---	---	---	---	---	---	4.6	5.5	6.2	5.9
Green & Smith Investment Mgmt - Hudson Valley Partners	7.2	6.5	5.8	5.9	4.2	2.1	2.4	5.6	2.8	3.1
Gruss Asset Mgmt, L.P. - Gruss Arbitrage Partners, L.P.	---	---	---	---	6.1	4.2	4.0	4.8	5.0	4.5
Harvest Management, LLC - Harvest Capital, L.P.	8.4	8.3	6.7	9.0	7.4	5.7	6.1	8.2	7.3	5.4
HSBC Asset Mgmt - HSBC Merger Arbitrage Offshore Fund	---	---	---	---	3.3	1.6	1.3	1.4	1.1	3.7
Kellner DiLeo Cohen & Co. - KDC Merger Arbitrage Fund	8.4	7.7	6.8	7.0	5.9	2.4	2.7	3.8	4.0	3.2
Longfellow Inv. Mgmt Co. - Longfellow Leveraged Arb	8.1	7.4	7.2	6.5	5.5	2.7	1.6	1.9	1.0	5.3
Longfellow Inv. Mgmt Co. - Longfellow Unleveraged Arb	7.3	6.8	6.5	5.8	4.9	2.5	1.5	2.0	1.3	5.1
March Partners - Langdon Street Capital, L.P.	8.0	8.1	6.2	6.5	5.9	3.2	3.6	5.4	5.0	5.3
March Partners - March Capital Partners, L.P.	11.6	11.4	8.4	8.7	7.9	4.8	5.6	8.7	6.7	6.5
Paulson & Company - Paulson Partners, L.P.	13.4	10.9	10.7	13.1	11.5	9.4	10.5	12.6	7.8	3.9
Tiedemann Investment Group - Arbitrage Associates, L.P.	7.7	7.4	6.7	6.0	4.5	2.5	2.4	3.0	3.0	3.5
Weiss, Peck & Greer - WPG Ericott Merger Arbitrage Fund	---	---	---	---	8.1	4.0	4.0	4.5	4.5	3.3
Maximum	13.4	11.4	10.7	13.1	11.5	9.4	10.5	12.6	7.8	8.2
Median	8.0	7.6	6.7	6.5	5.9	3.0	3.6	5.0	5.0	4.8
Minimum	7.2	6.5	5.8	5.8	3.3	1.6	1.3	1.4	1.0	3.1
Number of Funds	11	11	11	11	14	14	15	15	15	15
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 49

## REPRESENTATIVE CONVERTIBLE ARBITRAGE FUNDS

## Annual Returns (%)

<u>Convertible Arbitrage Funds</u>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Advent Capital Management, LLC - Convertible Arbitrage	---	---	---	---	---	22.4	14.3	14.0	0.6	-3.3
Alexandra Inv. Mgmt - Alexandra Global Inv. Fund I, Ltd.	34.8	20.7	-6.1	6.9	18.4	27.8	14.3	26.6	8.4	5.4
Angelo, Gordon & Company, L.P. - Michaelangelo, L.P.	18.4	8.1	13.5	11.0	27.5	20.5	2.2	12.7	-0.4	-1.2
Argent Classic Mgmt - Convertible Arb Fund, L.P.	19.6	24.4	12.8	13.8	3.3	30.0	20.3	31.1	5.1	-5.5
Argent Classic Mgmt - LowLev Convertible Arb Fund, Ltd.	---	---	---	---	---	---	10.7	12.7	1.7	-1.6
Basis Capital Funds Mgmt Ltd. - Basis Pac-Rim Opp. Fund	---	---	---	---	---	16.0	12.3	7.0	4.5	12.8
Calamos Advisors LLC - Calamos Multi-Strategy, L.P.	11.3	11.8	12.2	13.3	8.2	11.4	5.4	6.4	3.3	-3.3
Camden Asset Management, L.P. - Yield Strategies I, L.P.	---	---	---	12.6	6.6	16.3	7.9	8.0	1.1	0.1
Carlson Capital, L.P. - Black Diamond Convertible Offshore LDC	---	---	---	---	---	---	5.5	4.1	-1.9	2.8
DKR Mgmt Co. Inc. - DKR SoundShore Opp. Fund, Ltd.	---	---	---	13.5	20.8	16.6	7.2	6.9	1.3	-3.0
DKR Mgmt Co. Inc. - DKR SoundShore Strategic Fund Ltd.	---	---	---	---	20.1	19.3	8.2	9.6	-0.7	3.1
Forest Investment Mgmt - Forest Fulcrum Fund, L.P.	20.2	17.3	0.3	6.9	21.9	14.3	6.1	8.7	1.9	3.7
Gemini Investment Strategies, LLC - Gemini Partners, L.P.	---	---	---	---	---	---	---	---	4.5	0.3
Harbert Fund Advisors, Inc. - Harbert Arbitrage Fund, LP	---	---	---	---	---	---	---	20.6	8.7	-8.5
JD Capital Management LLC - Tempo Fund Ltd.	---	---	---	---	---	---	-6.3	9.3	9.4	7.5
Kellner DiLeo Cohen & Co. - KDC Convertible Arb, L.P.	---	---	---	---	---	---	14.2	5.2	-5.0	-14.6
Lydian Cap. Advisors, LLC - Lydian Overseas Partners	---	---	---	---	19.7	15.1	11.2	18.3	-1.6	1.1
Quattro Investors, L.L.C. - Quattro Domestic Fund, L.P.	---	---	---	11.7	16.0	13.0	10.4	19.1	3.4	-0.2
Rumson Capital - Navesink Investment Limited	---	17.6	-17.8	27.3	27.5	9.2	6.3	8.3	2.3	-1.6
Sage Capital - Sage Capital, L.P.	10.7	8.2	8.1	8.8	11.7	11.4	10.5	5.8	1.9	-0.6
SSI Investment Mgmt - Hedged Convertible Market-Neutral (n)	9.4	8.1	-1.6	4.1	8.4	11.5	9.0	5.3	1.9	-2.7
TQA Investors - TQA Arbitrage Fund, L.P.	11.3	12.0	5.6	10.9	7.3	11.0	6.2	10.1	0.4	-2.8
Maximum	34.8	24.4	13.5	27.3	27.5	30.0	20.3	31.1	9.4	12.8
Median	14.8	12.0	5.6	11.4	17.2	15.6	8.6	9.3	1.9	-0.9
Minimum	9.4	8.1	-17.8	4.1	3.3	9.2	-6.3	4.1	-5.0	-14.6
Number of Funds	8	9	9	12	14	16	20	21	22	22
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 49 (continued)

## REPRESENTATIVE CONVERTIBLE ARBITRAGE FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Convertible Arbitrage Funds</u>	<u>10 Yrs</u>	<u>9 Yrs</u>	<u>8 Yrs</u>	<u>7 Yrs</u>	<u>6 Yrs</u>	<u>5 Yrs</u>	<u>4 Yrs</u>	<u>3 Yrs</u>	<u>2 Yrs</u>	<u>1 Yr</u>
Advent Capital Management, LLC - Convertible Arbitrage	---	---	---	---	---	9.2	6.1	3.5	-1.3	-3.3
Alexandra Inv. Mgmt - Alexandra Global Inv. Fund I, Ltd.	15.1	13.1	12.2	15.1	16.5	16.1	13.4	13.1	6.9	5.4
Angelo, Gordon & Company, L.P. - Michaelangelo, L.P.	10.9	10.1	10.3	9.9	9.7	6.4	3.2	3.5	-0.8	-1.2
Argent Classic Mgmt - Convertible Arb Fund, L.P.	14.9	14.4	13.2	13.3	13.2	15.3	11.8	9.2	-0.4	-5.5
Argent Classic Mgmt - LowLev Convertible Arb Fund, Ltd.	---	---	---	---	---	---	5.7	4.1	0.0	-1.6
Basis Capital Funds Mgmt Ltd. - Basis Pac-Rim Opp. Fund	---	---	---	---	---	10.5	9.1	8.1	8.6	12.8
Calamos Advisors LLC - Calamos Multi-Strategy, L.P.	7.9	7.5	7.0	6.2	5.1	4.5	2.9	2.1	-0.1	-3.3
Camden Asset Management, L.P. - Yield Strategies I, L.P.	---	---	---	7.4	6.5	6.5	4.2	3.0	0.5	0.0
Carlson Capital, L.P. - Black Diamond Convertible Offshore LDC	---	---	---	---	---	---	2.6	1.6	0.4	2.8
DKR Mgmt Co. Inc. - DKR SoundShore Opp. Fund, Ltd.	---	---	---	8.7	8.0	5.6	3.0	1.6	-0.9	-3.0
DKR Mgmt Co. Inc. - DKR SoundShore Strategic Fund Ltd.	---	---	---	---	9.7	7.7	5.0	3.9	1.2	3.1
Forest Investment Mgmt - Forest Fulcrum Fund, L.P.	9.9	8.8	7.8	8.9	9.2	6.8	5.0	4.7	2.8	3.7
Gemini Investment Strategies, LLC - Gemini Partners, L.P.	---	---	---	---	---	---	---	---	2.4	0.3
Harbert Fund Advisors, Inc. - Harbert Arbitrage Fund, LP	---	---	---	---	---	---	---	6.3	-0.3	-8.5
JD Capital Management LLC - Tempo Fund Ltd.	---	---	---	---	---	---	4.8	8.7	8.5	7.5
Kellner DiLeo Cohen & Co. - KDC Convertible Arb, L.P.	---	---	---	---	---	---	-0.6	-5.1	-9.9	-14.6
Lydian Cap. Advisors, LLC - Lydian Overseas Partners	---	---	---	---	10.3	8.5	6.9	5.5	-0.3	1.1
Quattro Investors, L.L.C. - Quattro Domestic Fund, L.P.	---	---	---	10.3	10.1	8.9	7.9	7.1	1.6	-0.2
Rumson Capital - Navesink Investment Limited	---	7.9	6.8	10.8	8.3	4.8	3.8	2.9	0.3	-1.6
Sage Capital - Sage Capital, L.P.	7.6	7.2	7.1	7.0	6.7	5.7	4.3	2.3	0.7	-0.6
SSI Investment Mgmt - Hedged Convertible Market-Neutral (n)	5.2	4.8	4.4	5.2	5.4	4.9	3.3	1.4	-0.4	-2.7
TQA Investors - TQA Arbitrage Fund, L.P.	7.1	6.6	6.0	6.0	5.2	4.8	3.3	2.4	-1.2	-2.8
Maximum	15.1	14.4	13.2	15.1	16.5	16.1	13.4	13.1	8.6	12.8
Median	8.9	7.9	7.1	8.9	8.8	6.7	4.5	3.5	0.2	-0.9
Minimum	5.2	4.8	4.4	5.2	5.1	4.5	-0.6	-5.1	-9.9	-14.6
Number of Funds	8	9	9	13	14	16	20	21	22	22
S&P 500	9.5	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 50

## REPRESENTATIVE CAPITAL STRUCTURE ARBITRAGE FUNDS

## Annual Returns (%)

<u>Capital Structure Arbitrage Funds</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
BlackRock, Inc. - The Galaxite Fund LLC	---	---	---	---	---	---	---	---	---	8.7
Boldwater Cap. Mgmt - Boldwater Credit Opportunities Fund	---	---	---	---	---	---	---	16.9	4.2	5.9
Brookville Cap. Mgmt - Brookville Credit Opportunities, Ltd.	---	---	---	---	---	---	---	8.1	4.9	3.8
Catalyst Inv. Mgmt Co. - Catalyst Credit Opportunities Fund	---	---	---	---	---	---	---	---	25.1	3.4
Golden Tree Asset Mgmt - Solutions Offshore Fund	---	---	---	---	---	---	---	---	---	11.9
Golden Tree Asset Mgmt - Credit Opportunities Fund	---	---	---	---	---	---	---	---	---	12.4
Golden Tree Asset Mgmt - High Yield Master Fund	---	---	---	---	---	18.3	6.3	31.4	9.9	13.3
Golden Tree Asset Mgmt - High Yield Master Fund II	---	---	---	---	---	---	---	---	9.7	14.9
Golden Tree Asset Mgmt - High Yield Value Fund Offshore	---	---	---	---	---	---	8.3	33.1	11.9	5.4
Hammerman Capital Mgmt - Hammerman Capital, L.P.	---	---	---	---	---	---	7.9	36.5	7.1	1.4
Hammerman Capital Mgmt - Hammerman Counterpoint Fund	---	---	---	---	---	---	---	---	-2.2	3.1
Hammerman Capital Mgmt - Hammerman Opportunity Fund	---	---	---	---	---	---	---	---	6.7	-5.1
ING Ghent Asset Mgmt - Select Hedged High-Yield Fund	---	---	---	---	---	---	---	---	4.9	1.1
Oaktree Capital Management - OCM High Yield Plus Fund	---	---	---	---	---	---	---	---	---	5.5
Pequot Capital Mgmt - Pequot Credit Opportunities Fund	---	---	---	---	---	---	---	---	4.0	3.1
Symphony Asset Management LLC - Andante Fund, L.P.	---	---	---	---	17.0	1.8	3.4	23.8	7.6	4.7
Maximum	---	---	---	---	17.0	18.3	8.3	36.5	25.1	14.9
Median	---	---	---	---	17.0	10.0	7.1	27.6	6.9	5.1
Minimum	---	---	---	---	17.0	1.8	3.4	8.1	-2.2	-5.1
Number of Funds	---	---	---	---	1	2	4	6	12	16
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 50 (continued)

## REPRESENTATIVE CAPITAL STRUCTURE ARBITRAGE FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Capital Structure Arbitrage Funds</u>	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
BlackRock, Inc. - The Galaxite Fund LLC	---	---	---	---	---	---	---	---	---	8.7
Boldwater Cap. Mgmt - Boldwater Credit Opportunities Fund	---	---	---	---	---	---	---	8.9	5.0	5.9
Brookville Cap. Mgmt - Brookville Credit Opportunities, Ltd.	---	---	---	---	---	---	---	5.6	4.4	3.8
Catalyst Inv. Mgmt Co. - Catalyst Credit Opportunities Fund	---	---	---	---	---	---	---	---	13.7	3.4
Golden Tree Asset Mgmt - Solutions Offshore Fund	---	---	---	---	---	---	---	---	---	11.9
Golden Tree Asset Mgmt - Credit Opportunities Fund	---	---	---	---	---	---	---	---	---	12.4
Golden Tree Asset Mgmt - High Yield Master Fund	---	---	---	---	---	15.5	14.8	17.9	11.6	13.3
Golden Tree Asset Mgmt - High Yield Master Fund II	---	---	---	---	---	---	---	---	12.3	14.9
Golden Tree Asset Mgmt - High Yield Value Fund Offshore	---	---	---	---	---	---	14.2	16.2	8.6	5.4
Hammerman Capital Mgmt - Hammerman Capital, L.P.	---	---	---	---	---	---	12.5	14.0	4.2	1.4
Hammerman Capital Mgmt - Hammerman Counterpoint Fund	---	---	---	---	---	---	---	---	0.4	3.1
Hammerman Capital Mgmt - Hammerman Opportunity Fund	---	---	---	---	---	---	---	---	0.6	-5.1
ING Ghent Asset Mgmt - Select Hedged High-Yield Fund	---	---	---	---	---	---	---	---	3.0	1.1
Oaktree Capital Management - OCM High Yield Plus Fund	---	---	---	---	---	---	---	---	---	5.5
Pequot Capital Mgmt - Pequot Credit Opportunities Fund	---	---	---	---	---	---	---	---	3.5	3.1
Symphony Asset Management LLC - Andante Fund, L.P.	---	---	---	---	9.4	8.0	9.6	11.7	6.2	4.7
Maximum	---	---	---	---	9.4	15.5	14.8	17.9	13.7	14.9
Median	---	---	---	---	9.4	11.8	13.3	12.9	4.7	5.1
Minimum	---	---	---	---	9.4	8.0	9.6	5.6	0.4	-5.1
Number of Funds	---	---	---	---	1	2	4	6	12	16
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.



## Exhibit 51

## REPRESENTATIVE FIXED INCOME ARBITRAGE FUNDS

## Annual Returns (%)

<b>Fixed Income Arbitrage Funds</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Black River Asset Mgmt - Fixed Income Relative Value	---	---	---	---	---	---	---	---	2.1	8.2
Black River Asset Mgmt - Municipal Relative Value	---	---	---	---	---	---	---	---	---	8.8
Bracebridge Capital, L.L.C. - BIL, Ltd.	---	---	-25.6	28.7	27.0	10.2	8.6	18.8	12.5	9.0
Braddock Financial Corp. - 17th Street Fund, L.P.	---	---	---	---	---	---	---	8.3	6.6	6.5
Braddock Financial Corp. - Galena Street Fund, L.P.	---	---	---	---	---	---	---	22.2	18.9	14.7
Braddock Financial Corp. - Mortgage Opportunity Fund VI	---	---	---	---	---	---	---	---	24.7	21.2
Coast Asset Management - Enhanced Income Fund II, L.P.	8.1	8.7	7.7	8.6	8.3	5.9	3.8	3.2	3.8	4.5
Ellington Capital Management - Ellington Mortgage Partners	47.6	23.2	-16.7	19.1	11.0	11.0	20.1	10.9	10.9	10.5
Euclid Financial Group - Euclid Fixed Income Arb Fund	---	---	---	---	---	---	---	---	---	6.7
Fischer Francis Trees & Watts - Diversified Alpha Fund Ltd.	---	---	---	13.3	11.8	5.7	3.3	4.7	5.4	-4.2
GMO - GMO Emerging Country Debt L/S Strategy (n)	---	37.8	-50.1	49.0	33.0	17.8	18.6	13.4	11.7	8.3
Havell Capital Management - The Universal Bond Fund Ltd.	---	1.7	-9.5	30.5	7.4	2.7	-4.6	2.9	9.3	5.2
Highland Financial Holdings - Highland Opportunity Fund	---	---	---	13.6	11.3	11.9	0.4	7.0	7.7	6.8
III Associates - III Fund, L.P.	19.3	11.4	-9.2	8.4	19.3	8.4	9.0	18.8	9.0	2.3
III Associates - III Relative Value/Macro Fund L.P.	---	---	---	---	---	---	---	14.7	1.2	5.7
Marathon Asset Management - Marathon Master Fund	---	---	---	25.5	16.4	6.0	12.3	16.2	15.4	11.9
Metacapital Mgmt - Fixed Income Relative Value Fund, L.P.	---	---	---	---	---	---	---	8.2	7.7	3.3
Oak Hill Platinum Partners - Oak Hill Contingent Capital Fund	---	---	---	---	---	3.8	12.7	5.2	5.8	8.8
Pacific Asset Mgmt. - Fixed Income & Currency Fund	---	-13.4	14.4	3.8	0.4	1.8	4.8	17.6	8.3	-6.9
Smith Breeden Associates - Mortgage Partners, L.P.	---	---	---	5.5	1.7	23.8	17.3	16.5	4.8	3.7
Stanfield Capital Partners - Offshore Leveraged Assets, Ltd.	---	---	---	---	---	---	65.9	93.2	23.2	9.2
West Side Manager, LLC - West Side Partners, L.P.	---	---	7.6	19.5	10.6	22.8	18.6	-0.9	6.6	5.7
Maximum	47.6	37.8	14.4	49.0	33.0	23.8	65.9	93.2	24.7	21.2
Median	19.3	10.1	-9.3	16.3	11.1	8.4	10.6	12.1	8.0	6.7
Minimum	8.1	-13.4	-50.1	3.8	0.4	1.8	-4.6	2.9	1.2	-6.9
Number of Funds	3	6	8	12	12	13	14	18	20	22
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 51 (continued)

## REPRESENTATIVE FIXED INCOME ARBITRAGE FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Fixed Income Arbitrage Funds</b>	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Black River Asset Mgmt - Fixed Income Relative Value	---	---	---	---	---	---	---	---	5.1	8.2
Black River Asset Mgmt - Municipal Relative Value	---	---	---	---	---	---	---	---	---	8.8
Bracebridge Capital, L.L.C. - BIL, Ltd.	---	---	9.9	16.1	14.2	11.8	12.2	13.4	10.8	9.0
Braddock Financial Corp. - 17th Street Fund, L.P.	---	---	---	---	---	---	---	7.1	6.5	6.5
Braddock Financial Corp. - Galena Street Fund, L.P.	---	---	---	---	---	---	---	18.6	16.8	14.7
Braddock Financial Corp. - Mortgage Opportunity Fund VI	---	---	---	---	---	---	---	---	22.9	21.2
Coast Asset Management - Enhanced Income Fund II, L.P.	6.2	6.0	5.7	5.4	4.9	4.2	3.8	3.8	4.1	4.5
Ellington Capital Management - Ellington Mortgage Partners	13.7	10.5	9.0	13.3	12.3	12.6	13.0	10.8	10.7	10.5
Euclid Financial Group - Euclid Fixed Income Arb Fund	---	---	---	---	---	---	---	---	---	6.7
Fischer Francis Trees & Watts - Diversified Alpha Fund Ltd.	---	---	---	5.6	4.3	2.9	2.2	1.9	0.5	-4.2
GMO - GMO Emerging Country Debt L/S Strategy (n)	---	11.2	8.3	21.0	16.9	13.9	12.9	11.1	10.0	8.3
Havell Capital Management - The Universal Bond Fund Ltd.	---	4.6	4.9	7.2	3.7	3.0	3.1	5.8	7.2	5.2
Highland Financial Holdings - Highland Opportunity Fund	---	---	---	8.3	7.5	6.7	5.4	7.2	7.3	6.8
III Associates - III Fund, L.P.	9.3	8.3	7.9	10.6	11.0	9.4	9.6	9.8	5.6	2.3
III Associates - III Relative Value/Macro Fund L.P.	---	---	---	---	---	---	---	7.1	3.4	5.7
Marathon Asset Management - Marathon Master Fund	---	---	---	14.7	13.0	12.3	13.9	14.5	13.6	11.9
Metacapital Mgmt - Fixed Income Relative Value Fund, L.P.	---	---	---	---	---	---	---	6.4	5.5	3.3
Oak Hill Platinum Partners - Oak Hill Contingent Capital Fund	---	---	---	---	---	7.2	8.1	6.6	7.3	8.8
Pacific Asset Mgmt. - Fixed Income & Currency Fund	---	3.0	5.3	4.0	4.1	4.8	5.6	5.9	0.4	-6.9
Smith Breeden Associates - Mortgage Partners, L.P.	---	---	---	10.2	11.0	12.9	10.4	8.2	4.2	3.7
Stanfield Capital Partners - Offshore Leveraged Assets, Ltd.	---	---	---	---	---	---	44.1	37.5	16.0	9.2
West Side Manager, LLC - West Side Partners, L.P.	---	---	11.1	11.6	10.3	10.2	7.3	3.8	6.1	5.7
Maximum	13.7	11.2	11.1	21.0	16.9	13.9	44.1	37.5	22.9	21.2
Median	9.3	7.2	8.1	10.4	10.6	9.4	8.8	7.1	6.9	6.7
Minimum	6.2	3.0	4.9	4.0	3.7	2.9	2.2	1.9	0.4	-6.9
Number of Funds	3	6	8	12	12	13	14	18	20	22
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52

## REPRESENTATIVE FUNDS-OF-FUNDS

## Annual Returns (%)

<b>Funds-of-Funds</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ABS Investment Mgmt - ABS Limited Partnership	---	---	---	---	---	---	---	---	11.6	11.3
Acorn Capital Management - Acorn Partners	19.4	13.0	-14.3	18.0	5.0	9.4	-2.5	26.0	10.1	11.8
Adair Capital LLC - Adair Multi-Manager Fund, Ltd.	---	---	---	---	---	9.0	5.5	7.5	7.0	9.4
Adamas Partners LLC - Adamas Opportunities, L.P.	---	---	---	---	---	7.7	-1.5	15.6	14.1	13.3
Adamas Partners LLC - Adamas Partners, L.P.	---	---	---	---	---	14.1	2.0	14.9	10.7	10.9
Advanced Portfolio Mgmt - Advanced Portfolio Mgmt	---	---	---	---	---	---	---	8.8	4.6	5.6
Aetos Capital - Aetos Capital Balanced Investment Portfolio	---	---	---	---	---	---	---	10.8	4.6	6.2
Aetos Capital - Aetos Capital Conservative Portfolio	---	---	---	---	---	---	---	10.3	3.7	5.6
Aetos Capital - Aetos Capital Distressed Investment Strategies	---	---	---	---	---	---	---	20.1	12.1	6.8
Aetos Capital - Aetos Capital Growth Investment Portfolio	---	---	---	---	---	---	---	11.2	5.7	7.1
Aetos Capital - Aetos Capital Market Neutral Strategies Fund	---	---	---	---	---	---	---	2.4	0.5	5.5
Aetos Capital - Aetos Capital Multi-Strategy Arbitrage Fund	---	---	---	---	---	---	---	13.1	4.0	4.8
Alstra Capital Management - Absolute Return Strategies	---	---	---	---	---	---	---	15.6	8.4	4.4
Alternative Investment Group- Institutional Fund	---	---	4.3	28.6	14.6	6.5	0.2	13.0	9.7	15.5
Alternative Investment Group - Limited Partnership	20.0	21.9	10.0	47.8	10.0	7.1	-3.1	8.2	9.7	16.0
Archstone Partners (The) - A.P. Opportunities Fund, L.P.	17.1	22.4	7.8	35.1	23.2	1.8	-4.4	16.0	11.1	12.0
Archstone Partners (The) - Archstone Partners, L.P.	16.1	22.5	6.0	27.8	20.0	1.6	-2.3	12.9	11.4	11.6
Archstone Partners (The) - Market Neutral Strategies	---	---	---	---	---	---	-1.8	14.4	8.6	6.4
Arden Asset Management - Arden Advisers, L.P.	13.1	15.9	6.1	17.3	15.8	5.8	2.6	12.2	8.5	5.3
Arden Asset Management - Arden Institutional Advisers	---	---	12.1	17.0	18.9	5.5	2.3	11.5	7.4	9.8
Arden Asset Management - Arden Institutional Advisers II	---	---	12.1	17.0	18.9	5.5	2.3	11.5	6.8	5.7
Arden Asset Management - Arden Strategic Advisers, L.P.	---	---	---	---	---	---	1.9	12.1	9.5	4.7
Arnhold and S. Bleichroeder Advisers - Absolute Eagles Fund	---	---	---	---	---	---	---	9.1	8.5	6.5
Attalus Capital - Attalus Multi-Strategy Fund, Ltd.	---	---	---	---	---	8.1	4.2	10.9	8.0	4.9
Baring Asset Management - Baring Hedge Select Fund Ltd.	---	---	---	---	16.2	6.4	1.0	8.2	3.1	6.0
Barlow Partners - Barlow Partners Group Trust	26.9	17.5	-1.0	43.6	18.5	-1.1	-2.3	14.4	8.6	10.0
Barlow Partners - Barlow Partners Offshore Ltd.	---	---	---	---	14.0	-0.3	-0.6	13.3	9.1	11.2
Barlow Partners - Fundamental Managers Fund, L.P.	25.3	21.8	0.0	41.1	20.0	2.6	2.3	17.6	7.9	11.2
Belmont Opportunity Partners - Belmont Opportunity Fund	---	---	---	---	---	---	---	---	---	20.9
Berens Capital Mgmt - Berens Distressed Opportunities Fund	---	---	---	---	---	---	---	---	17.7	6.0
Berens Capital Management - Berens Capital Partners, L.P.	---	---	---	---	---	2.4	1.9	9.7	5.3	11.1
Blackstone Alternative Asset Mgmt - Berkeley Square Fund	---	---	---	---	---	---	---	---	2.2	5.0
Maximum	36.1	33.2	40.2	50.0	26.0	29.0	25.4	36.8	26.0	22.6
Median	18.9	18.0	0.8	24.3	14.4	7.3	2.3	11.5	7.6	7.1
Minimum	7.1	11.1	-20.1	2.8	-6.0	-10.8	-22.4	2.4	-1.7	-8.1
Number of Funds	41	44	53	65	81	102	126	156	172	179
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Funds-of-Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
ABS Investment Mgmt - ABS Limited Partnership	---	---	---	---	---	---	---	---	11.4	11.3
Acorn Capital Management - Acorn Partners	9.0	7.9	7.3	10.8	9.6	10.6	10.9	15.7	10.9	11.8
Adair Capital LLC - Adair Multi-Manager Fund, Ltd.	---	---	---	---	---	7.7	7.3	7.9	8.2	9.4
Adamas Partners LLC - Adamas Opportunities, L.P.	---	---	---	---	---	9.6	10.2	14.3	13.7	13.3
Adamas Partners LLC - Adamas Partners, L.P.	---	---	---	---	---	10.4	9.5	12.1	10.8	10.9
Advanced Portfolio Mgmt - Advanced Portfolio Mgmt	---	---	---	---	---	---	---	6.3	5.1	5.6
Aetos Capital - Aetos Capital Balanced Investment Portfolio	---	---	---	---	---	---	---	7.2	5.4	6.2
Aetos Capital - Aetos Capital Conservative Portfolio	---	---	---	---	---	---	---	6.5	4.6	5.6
Aetos Capital - Aetos Capital Distressed Investment Strategies	---	---	---	---	---	---	---	12.9	9.4	6.8
Aetos Capital - Aetos Capital Growth Investment Portfolio	---	---	---	---	---	---	---	8.0	6.4	7.1
Aetos Capital - Aetos Capital Market Neutral Strategies Fund	---	---	---	---	---	---	---	2.7	2.9	5.5
Aetos Capital - Aetos Capital Multi-Strategy Arbitrage Fund	---	---	---	---	---	---	---	7.2	4.4	4.8
Alstra Capital Management - Absolute Return Strategies	---	---	---	---	---	---	---	9.4	6.4	4.4
Alternative Investment Group- Institutional Fund	---	---	11.3	12.3	9.8	8.8	9.4	12.7	12.6	15.5
Alternative Investment Group - Limited Partnership	14.1	13.5	12.5	12.8	7.8	7.4	7.5	11.3	12.8	16.0
Archstone Partners (The) - A.P. Opportunities Fund, L.P.	13.7	13.3	12.2	12.9	9.6	7.0	8.4	13.0	11.5	12.0
Archstone Partners (The) - Archstone Partners, L.P.	12.4	12.0	10.8	11.4	8.9	6.8	8.2	12.0	11.5	11.6
Archstone Partners (The) - Market Neutral Strategies	---	---	---	---	---	---	6.7	9.7	7.5	6.4
Arden Asset Management - Arden Advisers, L.P.	10.1	9.8	9.1	9.5	8.3	6.8	7.1	8.6	6.9	5.3
Arden Asset Management - Arden Institutional Advisers	---	---	10.4	10.2	9.1	7.2	7.7	9.5	8.6	9.8
Arden Asset Management - Arden Institutional Advisers II	---	---	9.8	9.5	8.3	6.3	6.5	8.0	6.3	5.7
Arden Asset Management - Arden Strategic Advisers, L.P.	---	---	---	---	---	---	7.0	8.7	7.1	4.7
Arnhold and S. Bleichroeder Advisers - Absolute Eagles Fund	---	---	---	---	---	---	---	8.0	7.5	6.5
Attalus Capital - Attalus Multi-Strategy Fund, Ltd.	---	---	---	---	---	7.2	7.0	7.9	6.4	4.9
Baring Asset Management - Baring Hedge Select Fund Ltd.	---	---	---	---	6.7	4.9	4.5	5.7	4.5	6.0
Barlow Partners - Barlow Partners Group Trust	12.7	11.3	10.5	12.3	7.7	5.7	7.5	11.0	9.3	9.9
Barlow Partners - Barlow Partners Offshore Ltd.	---	---	---	---	7.6	6.3	8.1	11.2	10.1	11.2
Barlow Partners - Fundamental Managers Fund, L.P.	14.4	13.2	12.2	14.0	10.1	8.2	9.6	12.1	9.5	11.2
Belmont Opportunity Partners - Belmont Opportunity Fund	---	---	---	---	---	---	---	---	---	20.9
Berens Capital Mgmt - Berens Distressed Opportunities Fund	---	---	---	---	---	---	---	---	11.7	6.0
Berens Capital Management - Berens Capital Partners, L.P.	---	---	---	---	---	6.0	6.9	8.7	8.1	11.1
Blackstone Alternative Asset Mgmt - Berkeley Square Fund	---	---	---	---	---	---	---	---	3.6	5.0
Maximum	18.7	17.3	15.5	15.0	11.7	13.8	18.7	19.0	17.5	22.6
Median	11.4	11.1	9.7	10.6	8.2	7.2	7.2	9.2	7.7	7.1
Minimum	7.8	7.1	6.0	6.6	4.2	2.4	2.8	2.4	0.8	-8.1
Number of Funds	42	45	54	65	81	102	126	156	172	179
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

## Annual Returns (%)

<b>Funds-of-Funds</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Blackstone Alternative Asset Mgmt - Columbus Avenue Fund	---	---	---	---	---	---	---	9.7	4.4	2.6
Blackstone Alternative Asset Mgmt - Event Driven Fund	---	---	0.1	14.1	14.4	6.7	0.1	17.5	10.7	6.4
Blackstone Alternative Asset Mgmt - Fifth Avenue Fund	---	---	---	---	---	---	---	14.0	6.4	9.1
Blackstone Alternative Asset Mgmt - Global Park Avenue Fund	15.4	24.8	7.8	23.5	13.8	7.4	3.1	9.3	7.8	12.7
Blackstone Alternative Asset Mgmt - Madison Avenue Fund	---	---	---	---	---	---	2.8	8.5	2.9	3.8
Blackstone Alternative Asset Mgmt - Park Avenue Fund	16.7	24.4	7.3	20.6	17.0	8.2	1.4	9.5	7.9	11.4
Blackstone Alternative Asset Mgmt - Partners Investment Fund	15.9	20.4	4.5	17.2	17.9	12.7	2.8	10.8	6.5	6.9
Blue Orchid Capital, LLC - Blue Orchid Select, LLC	---	---	---	---	---	---	---	---	11.9	11.2
CA Partners - CAM Fund LP	20.3	17.6	2.5	29.5	5.2	6.6	-3.8	10.8	9.7	8.2
Cadogan Management, L.L.C. - Cadogan Partners, L.P.	18.3	14.6	-0.6	11.7	8.6	21.2	5.8	10.4	4.6	5.7
Campbell G.P. - Pan Ross, L.P.	12.5	19.6	6.7	28.1	8.0	4.5	-1.2	18.2	9.9	10.4
Capital Partnership Limited (The) - Class F Fund	---	---	---	---	9.3	4.4	-4.9	7.8	6.7	12.1
Capital Partnership Limited (The) - Class T Fund	---	---	---	---	11.7	6.9	2.1	5.4	5.5	6.2
Capital Partnership Limited (The) - SuperCash Fund	---	---	---	---	5.8	6.2	2.6	2.6	4.8	5.0
Centennial Partners - Heritage Hedged Equity Fund, L.P.	---	---	---	---	14.1	3.6	-6.4	15.0	8.1	7.8
Centennial Partners - Centennial Absolute Return Fund, L.P.	---	---	---	---	---	---	---	---	4.8	8.4
Citigroup Alternative Investments - Legion Strategies, Ltd.	19.5	12.6	2.8	19.5	6.4	4.5	2.0	7.5	2.8	8.5
CMS Companies - CMS Manager Select Master Fund	---	---	---	27.2	14.6	10.3	5.2	12.6	7.1	4.2
Coast Asset Management - Coast Diversified Fund	32.7	32.8	8.6	20.7	17.9	7.3	4.3	8.8	8.3	5.5
Collingham Capital Management - Collingham Investment Fund	---	---	---	26.1	8.2	8.6	6.5	7.7	7.4	7.1
Commonfund Group - Absolute Return Investors Company	---	---	---	---	---	6.4	2.8	7.7	4.7	6.6
Commonfund Group - Distressed Debt Partners, L.P.	---	---	---	---	---	---	5.0	32.3	18.7	5.3
Commonfund Group - Equity Index Plus Company	---	---	---	---	---	-10.8	-22.4	34.2	13.2	7.1
Corbin Capital Partners - The Overlook Performance Fund	16.5	22.1	-1.1	39.3	9.2	11.1	-1.0	9.2	7.2	11.9
Crestline Investors, Inc. - Crestline Event Arbitrage, L.P.	---	---	---	16.5	14.6	3.2	4.1	21.5	11.4	5.1
Crestline Investors, Inc. - Crestline Partners, L.P.	---	---	0.6	11.5	9.7	7.5	5.0	13.0	7.7	8.0
Crestline Investors, Inc. - Crestline Plus, L.P.	---	---	---	---	---	---	---	32.7	13.8	7.2
Cross Shore Capital Management - Cross Shore QP Partners	---	---	---	---	---	---	---	---	11.2	13.8
Culross Global Mgmt Ltd. - Culross Global Arbitrage Fund	---	---	---	---	---	10.6	4.4	9.3	4.9	0.4
Culross Global Mgmt Ltd. - Culross Global Fund	---	---	---	---	5.8	5.5	2.8	13.2	5.3	10.4
D.E Shaw & Company - D.E. Shaw Composite Portfolios	---	---	---	---	---	---	25.4	14.7	17.2	17.8
Deutsche Asset Management - The Topiary Fund	---	---	-3.2	16.4	12.0	6.8	3.7	10.3	6.5	6.0
Maximum	36.1	33.2	40.2	50.0	26.0	29.0	25.4	36.8	26.0	22.6
Median	18.9	18.0	0.8	24.3	14.4	7.3	2.3	11.5	7.6	7.1
Minimum	7.1	11.1	-20.1	2.8	-6.0	-10.8	-22.4	2.4	-1.7	-8.1
Number of Funds	41	44	53	65	81	102	126	156	172	179
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Funds-of-Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
Blackstone Alternative Asset Mgmt - Columbus Avenue Fund	---	---	---	---	---	---	---	5.5	3.5	2.6
Blackstone Alternative Asset Mgmt - Event Driven Fund	---	---	8.6	9.8	9.1	8.1	8.5	11.4	8.5	6.4
Blackstone Alternative Asset Mgmt - Fifth Avenue Fund	---	---	---	---	---	---	---	9.8	7.8	9.1
Blackstone Alternative Asset Mgmt - Global Park Avenue Fund	12.4	12.0	10.5	10.9	9.0	8.0	8.2	9.9	10.3	12.7
Blackstone Alternative Asset Mgmt - Madison Avenue Fund	---	---	---	---	---	---	4.5	5.0	3.3	3.8
Blackstone Alternative Asset Mgmt - Park Avenue Fund	12.2	11.8	10.3	10.7	9.1	7.6	7.5	9.6	9.6	11.4
Blackstone Alternative Asset Mgmt - Partners Investment Fund	11.4	10.9	9.8	10.6	9.5	7.9	6.7	8.0	6.7	6.9
Blue Orchid Capital, LLC - Blue Orchid Select, LLC	---	---	---	---	---	---	---	---	11.5	11.2
CA Partners - CAM Fund LP	10.3	9.2	8.2	9.1	6.0	6.2	6.0	9.6	8.9	8.2
Cadogan Management, L.L.C. - Cadogan Partners, L.P.	9.8	8.9	8.2	9.6	9.2	9.3	6.6	6.9	5.1	5.7
Campbell G.P. - Pan Ross, L.P.	11.4	11.3	10.3	10.8	8.1	8.2	9.1	12.8	10.2	10.4
Capital Partnership Limited (The) - Class F Fund	---	---	---	---	5.8	5.1	5.2	8.8	9.3	12.1
Capital Partnership Limited (The) - Class T Fund	---	---	---	---	6.3	5.2	4.8	5.7	5.8	6.2
Capital Partnership Limited (The) - SuperCash Fund	---	---	---	---	4.5	4.2	3.7	4.1	4.9	5.0
Centennial Partners - Heritage Hedged Equity Fund, L.P.	---	---	---	---	6.8	5.4	5.8	10.3	8.0	7.8
Centennial Partners - Centennial Absolute Return Fund, L.P.	---	---	---	---	---	---	---	---	6.6	8.4
Citigroup Alternative Investments - Legion Strategies, Ltd.	8.4	7.3	6.6	7.2	5.3	5.0	5.2	6.2	5.6	8.5
CMS Companies - CMS Manager Select Master Fund	11.3	11.3	11.3	11.3	8.9	7.8	7.2	7.9	5.6	4.2
Coast Asset Management - Coast Diversified Fund	14.3	12.4	10.0	10.3	8.6	6.8	6.7	7.5	6.9	5.5
Collingham Capital Management - Collingham Investment Fund	---	---	---	10.0	7.6	7.5	7.2	7.4	7.2	7.1
Commonfund Group - Absolute Return Investors Company	---	---	---	---	---	5.6	5.4	6.3	5.6	6.6
Commonfund Group - Distressed Debt Partners, L.P.	---	---	---	---	---	---	14.8	18.2	11.8	5.3
Commonfund Group - Equity Index Plus Company	---	---	---	---	---	2.4	6.0	17.6	10.1	7.1
Corbin Capital Partners - The Overlook Performance Fund	11.9	11.4	10.1	11.8	7.8	7.6	6.7	9.4	9.5	11.9
Crestline Investors, Inc. - Crestline Event Arbitrage, L.P.	---	---	---	10.7	9.8	8.8	10.3	12.4	8.2	5.1
Crestline Investors, Inc. - Crestline Partners, L.P.	---	---	7.8	8.9	8.4	8.2	8.4	9.5	7.8	8.0
Crestline Investors, Inc. - Crestline Plus, L.P.	---	---	---	---	---	---	---	17.4	10.5	7.2
Cross Shore Capital Management - Cross Shore QP Partners	---	---	---	---	---	---	---	---	12.5	13.8
Culross Global Mgmt Ltd. - Culross Global Arbitrage Fund	---	---	---	---	---	5.8	4.7	4.8	2.6	0.4
Culross Global Mgmt Ltd. - Culross Global Fund	---	---	---	---	7.1	7.4	7.8	9.6	7.8	10.4
D.E Shaw & Company - D.E. Shaw Composite Portfolios	---	---	---	---	---	---	18.7	16.6	17.5	17.8
Deutsche Asset Management - The Topiary Fund	---	---	7.2	8.7	7.5	6.6	6.6	7.6	6.2	6.0
Maximum	18.7	17.3	15.5	15.0	11.7	13.8	18.7	19.0	17.5	22.6
Median	11.4	11.1	9.7	10.6	8.2	7.2	7.2	9.2	7.7	7.1
Minimum	7.8	7.1	6.0	6.6	4.2	2.4	2.8	2.4	0.8	-8.1
Number of Funds	42	45	54	65	81	102	126	156	172	179
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

## Annual Returns (%)

<b>Funds-of-Funds</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Deutsche Asset Management - The Topiary Fund II	---	---	---	---	---	---	---	---	---	6.2
Deutsche Asset Management - The Topiary Select Fund I	---	---	---	---	---	4.8	3.7	10.0	4.3	8.1
Dorchester Capital Advisors - Dorchester Capital Partners	---	---	---	---	---	---	4.5	23.5	12.2	7.2
EIM Management Inc. - Tailor-Made Hedge Fund-of-Funds	---	---	---	---	15.6	8.4	3.3	7.5	7.2	10.0
EnTrust Capital Inc. - EnTrust Capital Diversified Fund L.P.	---	---	---	---	---	---	-4.0	15.7	13.5	6.2
Evanston Capital Management - The Orrington Fund	---	---	---	---	---	---	---	---	---	5.7
Evanston Capital Management - The Weatherlow Fund I	---	---	---	---	---	---	6.2	12.2	8.0	10.5
Fauchier Partners LLP - Oxford Fauchier Limited Partnership	---	---	---	---	---	---	7.8	24.9	16.8	-2.2
Fauchier Partners LLP - Paragon Capital Appreciation Fund	13.8	15.0	-3.0	20.4	8.0	2.3	-0.8	10.9	5.7	7.6
Federal Street Partners - Federal Street Associates I, LLC	---	---	---	---	3.6	5.2	2.3	15.2	11.6	16.3
Federal Street Partners - Federal Street Associates Offshore	---	---	---	---	---	---	---	17.6	9.9	15.4
Fischer & Co. LLC - Fischer Garrison Fund, L.P.	---	---	---	---	---	---	1.7	12.2	9.3	6.8
Focus Investment Group - Focus Asia Fund	---	---	---	9.8	-1.2	7.2	0.4	7.1	1.9	22.6
Focus Investment Group - Focus Europa Fund	---	14.1	24.9	34.8	14.8	-0.8	-2.5	5.9	7.6	12.6
Focus Investment Group - Focus Opportunity Fund	7.1	14.3	0.8	31.2	7.4	-2.3	1.6	7.0	5.1	9.6
Focus Investment Group - Focus Star Fund	---	---	---	---	2.0	10.3	2.8	11.0	6.4	11.8
Forest Hill Capital - Forest Hill Partners, L.P.	---	---	---	---	---	14.3	-7.0	20.4	14.5	14.5
Forester Capital, LLC - Forester Offshore, Ltd.	---	---	---	---	---	---	---	---	9.9	11.9
Forester Capital, LLC - Forester Opportunities, L.P.	---	---	---	---	---	---	---	---	7.4	10.0
Forester Capital, LLC - Forester Partners, L.P.	---	---	---	---	---	19.4	5.7	9.0	10.2	13.0
Franklin Street Partners - Franklin Street Multi-Strategy Fund	---	---	---	---	---	---	---	11.8	5.9	5.0
FrontPoint Partners LLC - FrontPoint Multi-Strategy Fund	---	---	---	---	---	---	---	---	---	8.7
Fullerton Fund Mgmt Co. - Absolute Returns Inv. Strategies	---	---	---	---	---	---	---	---	---	8.0
Galleon Management, L.L.C. - Galleon Diversified Fund, Ltd.	---	---	---	---	---	---	---	20.6	5.6	7.1
Gems Advisors Limited - Gems Progressive Fund Limited	16.2	11.1	6.2	12.5	13.3	8.9	4.6	9.6	8.2	4.4
Genesee Investments - Genesee Eagle Fund, L.P.	22.8	18.2	-11.8	15.6	13.6	5.2	0.9	9.9	8.1	12.6
Gerber/Taylor Management Company - GT Partners, L.P.	---	---	---	---	---	8.0	5.3	17.9	13.0	8.3
Glenwood Capital Investments - Glenwood Partners, L.P.	23.3	21.5	-1.8	26.0	15.8	8.9	3.7	6.7	4.0	8.9
Goldman Sachs Princeton - Global Event Driven	---	---	---	---	---	---	0.4	14.6	10.4	6.3
Goldman Sachs Princeton - Global Relative Value	---	---	---	---	---	---	3.3	5.8	4.0	3.4
Goldman Sachs Princeton - Hedge Fund Partners	---	---	---	---	---	---	---	9.1	4.6	4.5
GMO - GMO Multi-Strategy	---	---	---	---	---	---	---	5.1	4.5	2.3
Maximum	36.1	33.2	40.2	50.0	26.0	29.0	25.4	36.8	26.0	22.6
Median	18.9	18.0	0.8	24.3	14.4	7.3	2.3	11.5	7.6	7.1
Minimum	7.1	11.1	-20.1	2.8	-6.0	-10.8	-22.4	2.4	-1.7	-8.1
Number of Funds	41	44	53	65	81	102	126	156	172	179
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Funds-of-Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
Deutsche Asset Management - The Topiary Fund II	---	---	---	---	---	---	---	---	---	6.2
Deutsche Asset Management - The Topiary Select Fund I	---	---	---	---	---	6.1	6.5	7.5	6.2	8.1
Dorchester Capital Advisors - Dorchester Capital Partners	---	---	---	---	---	---	11.6	14.1	9.7	7.2
EIM Management Inc. - Tailor-Made Hedge Fund-of-Funds	---	---	---	---	8.6	7.3	7.0	8.2	8.6	10.0
EnTrust Capital Inc. - EnTrust Capital Diversified Fund L.P.	---	---	---	---	---	---	7.6	11.7	9.8	6.2
Evanston Capital Management - The Orrington Fund	---	---	---	---	---	---	---	---	---	5.7
Evanston Capital Management - The Weatherlow Fund I	---	---	---	---	---	---	9.2	10.2	9.2	10.5
Fauchier Partners LLP - Oxford Fauchier Limited Partnership	---	---	---	---	---	---	11.4	12.6	6.8	-2.2
Fauchier Partners LLP - Paragon Capital Appreciation Fund	7.8	7.1	6.2	7.6	5.6	5.1	5.8	8.0	6.7	7.6
Federal Street Partners - Federal Street Associates I, LLC	---	---	---	---	8.9	10.0	11.2	14.4	13.9	16.3
Federal Street Partners - Federal Street Associates Offshore	---	---	---	---	---	---	---	14.2	12.6	15.4
Fischer & Co. LLC - Fischer Garrison Fund, L.P.	---	---	---	---	---	---	7.4	9.4	8.0	6.8
Focus Investment Group - Focus Asia Fund	---	---	---	6.6	6.0	7.6	7.7	10.2	11.8	22.6
Focus Investment Group - Focus Europa Fund	---	11.8	11.6	9.8	6.1	4.4	5.8	8.7	10.1	12.6
Focus Investment Group - Focus Opportunity Fund	7.8	7.9	7.2	8.1	4.7	4.1	5.8	7.2	7.3	9.6
Focus Investment Group - Focus Star Fund	---	---	---	---	7.3	8.4	7.9	9.7	9.1	11.8
Forest Hill Capital - Forest Hill Partners, L.P.	---	---	---	---	---	10.9	10.1	16.4	14.5	14.5
Forester Capital, LLC - Forester Offshore, Ltd.	---	---	---	---	---	---	---	---	10.9	11.9
Forester Capital, LLC - Forester Opportunities, L.P.	---	---	---	---	---	---	---	---	---	8.7
Forester Capital, LLC - Forester Partners, L.P.	---	---	---	---	---	11.3	9.4	10.7	11.6	13.0
Franklin Street Partners - Franklin Street Multi-Strategy Fund	---	---	---	---	---	---	---	7.5	5.4	5.0
FrontPoint Partners LLC - FrontPoint Multi-Strategy Fund	---	---	---	---	---	---	---	---	---	8.7
Fullerton Fund Mgmt Co. - Absolute Returns Inv. Strategies	---	---	---	---	---	---	---	---	---	8.0
Galleon Management, L.L.C. - Galleon Diversified Fund, Ltd.	---	---	---	---	---	---	---	10.9	6.3	7.1
Gems Advisors Limited - Gems Progressive Fund Limited	9.5	8.7	8.4	8.7	8.1	7.1	6.7	7.4	6.3	4.4
Genesee Investments - Genesee Eagle Fund, L.P.	9.1	7.7	6.4	9.3	8.3	7.3	7.8	10.2	10.4	12.6
Gerber/Taylor Management Company - GT Partners, L.P.	---	---	---	---	---	10.4	11.0	13.0	10.6	8.3
Glenwood Capital Investments - Glenwood Partners, L.P.	11.4	10.1	8.8	10.4	7.9	6.4	5.8	6.5	6.5	8.9
Goldman Sachs Princeton - Global Event Driven	---	---	---	---	---	---	7.8	10.4	8.4	6.3
Goldman Sachs Princeton - Global Relative Value	---	---	---	---	---	---	4.1	4.4	3.7	3.4
Goldman Sachs Princeton - Hedge Fund Partners	---	---	---	---	---	---	---	6.1	4.6	4.5
GMO - GMO Multi-Strategy	---	---	---	---	---	---	---	3.9	3.4	2.3
Maximum	18.7	17.3	15.5	15.0	11.7	13.8	18.7	19.0	17.5	22.6
Median	11.4	11.1	9.7	10.6	8.2	7.2	7.2	9.2	7.7	7.1
Minimum	7.8	7.1	6.0	6.6	4.2	2.4	2.8	2.4	0.8	-8.1
Number of Funds	42	45	54	65	81	102	126	156	172	179
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.



## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

## Annual Returns (%)

<b>Funds-of-Funds</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Greenlight Capital - Greenlight Masters Offshore, Ltd.	---	---	---	---	---	---	5.3	17.6	13.2	12.1
Grosvenor Capital Mgmt - Grosvenor Institutional Partners	---	---	---	---	15.6	8.3	2.3	11.2	6.9	6.8
Grosvenor Capital Mgmt - Grosvenor Multi-Strategy Fund	17.1	15.9	-6.8	25.9	20.8	8.5	2.0	13.5	7.4	6.6
Grosvenor Capital Mgmt - Grosvenor Multi-Strategy Fund II	---	---	---	---	---	---	---	---	5.5	6.0
Guidance Capital, LLC - Guidance Blue Terrain, L.P.	---	---	---	---	---	---	---	16.4	7.9	8.7
Guidance Capital, LLC - Guidance Green Terrain, L.P.	---	---	---	---	---	---	3.8	6.5	5.0	3.5
Harris Alternatives - Aurora Global Opportunities L.P.	26.1	17.5	-12.0	50.0	3.0	10.8	2.1	20.0	11.5	13.0
Harris Alternatives - Aurora L.P.	23.3	22.4	-2.2	20.8	16.1	11.4	1.7	15.2	10.0	9.9
Harris Alternatives - Aurora Relative Value, L.P.	15.3	12.5	0.3	19.2	20.2	9.1	4.2	7.2	3.4	4.2
Ironwood Capital Management - Ironwood Partners, L.P.	17.3	18.8	8.8	23.6	22.5	10.2	3.8	14.3	10.1	6.5
Ivy Asset Mgmt - BNY Partners Multi-Manager Hedge Fund	---	---	---	---	---	7.8	3.3	9.2	7.2	4.9
Ivy Asset Mgmt - Clarus Associates, L.P.	---	---	---	---	---	6.9	0.4	14.3	7.4	7.8
Ivy Asset Mgmt - The Defenders Fund, L.P.	---	---	---	---	16.8	8.3	2.5	9.4	7.7	5.1
Ivy Asset Mgmt - Ivy Maplewood Associates II, L.P.	---	---	---	---	---	---	2.2	9.8	7.1	4.8
Ivy Asset Mgmt - Rosewood Associates	---	---	---	---	---	9.0	5.5	5.0	3.5	3.4
Ivy Asset Mgmt - The Seedling Fund, L.P.	19.4	23.2	2.6	28.1	15.0	12.6	-6.5	16.2	8.3	4.7
James River Capital Corp. - Multi-Strategy Fund, L.P.	---	---	---	---	---	7.1	3.9	15.1	5.5	5.3
JPMorgan Alternative Asset Mgmt - Multi-Strategy Fund II	---	---	---	---	---	9.2	2.5	7.5	5.0	7.9
K2 Advisors - K2 Investment Partners, L.P.	36.1	32.3	-2.3	35.0	17.6	6.7	-3.1	10.7	8.0	7.1
K2 Advisors - K2 Overseas Diversified Fund, Ltd.	---	---	---	---	---	---	---	---	5.0	5.2
Lehman Brothers Alt. Inv. Mgmt - Diversified Arb Fund II	---	---	---	---	---	---	2.6	10.6	7.1	5.7
Lighthouse Partners - Lighthouse Diversified Fund, LP	---	21.9	2.4	24.3	13.4	7.4	7.5	8.0	7.1	8.4
Lone Pine Capital, LLC - Lone Juniper, L.P.	---	---	---	---	---	13.2	3.4	11.4	11.0	12.8
Lyster Watson Mgmt - Composite: Moderate Volatility	---	---	---	---	4.7	8.9	5.9	15.6	8.1	5.1
Lyster Watson Mgmt - Conservative Alt. Strategies Fund	---	---	---	---	4.5	5.3	7.8	13.8	7.3	6.0
Lyster Watson Mgmt - Distressed Opportunity Fund, L.P.	---	---	---	---	---	---	2.8	22.7	14.5	6.6
Mariner Investment Group, Inc. - Mariner Select, L.P.	10.1	15.5	5.1	35.8	8.9	9.8	5.2	11.4	5.0	6.1
Martello Investment Mgmt - Martello Diversified Trading	---	---	---	---	---	---	---	10.4	5.0	4.4
Maverick Capital - Maverick Stable Partners, L.P.	---	---	---	---	---	---	---	9.6	13.7	11.7
Meridian Capital Partners, Inc. - Diversified Fund, L.P.	---	---	---	---	---	6.6	0.3	7.2	6.6	8.7
Meridian Capital Partners, Inc. - Horizon Fund, L.P.	18.9	17.6	17.2	32.2	18.9	7.5	2.0	6.4	6.8	8.0
Meridian Capital Partners, Inc. - Performance Partners, L.P.	---	---	10.9	48.5	22.9	1.8	1.7	9.0	6.7	8.6
Maximum	36.1	33.2	40.2	50.0	26.0	29.0	25.4	36.8	26.0	22.6
Median	18.9	18.0	0.8	24.3	14.4	7.3	2.3	11.5	7.6	7.1
Minimum	7.1	11.1	-20.1	2.8	-6.0	-10.8	-22.4	2.4	-1.7	-8.1
Number of Funds	41	44	53	65	81	102	126	156	172	179
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Funds-of-Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
Greenlight Capital - Greenlight Masters Offshore, Ltd.	---	---	---	---	---	---	12.0	14.3	12.6	12.1
Grosvenor Capital Mgmt - Grosvenor Institutional Partners	---	---	---	---	8.4	7.0	6.7	8.3	6.8	6.8
Grosvenor Capital Mgmt - Grosvenor Multi-Strategy Fund	10.7	10.0	9.3	11.8	9.6	7.5	7.3	9.1	7.0	6.6
Grosvenor Capital Mgmt - Grosvenor Multi-Strategy Fund II	---	---	---	---	---	---	---	---	5.7	6.0
Guidance Capital, LLC - Guidance Blue Terrain, L.P.	---	---	---	---	---	---	---	10.9	8.3	8.7
Guidance Capital, LLC - Guidance Green Terrain, L.P.	---	---	---	---	---	---	4.7	5.0	4.2	3.5
Harris Alternatives - Aurora Global Opportunities L.P.	13.2	11.8	11.1	14.9	9.9	11.3	11.5	14.8	12.2	13.0
Harris Alternatives - Aurora L.P.	12.5	11.4	10.1	12.0	10.6	9.5	9.1	11.7	9.9	9.9
Harris Alternatives - Aurora Relative Value, L.P.	9.4	8.7	8.2	9.4	7.9	5.6	4.7	4.9	3.8	4.2
Ironwood Capital Management - Ironwood Partners, L.P.	13.4	13.0	12.3	12.8	11.1	8.9	8.6	10.3	8.3	6.5
Ivy Asset Mgmt - BNY Partners Multi-Manager Hedge Fund	---	---	---	---	---	6.5	6.1	7.1	6.0	4.9
Ivy Asset Mgmt - Clarus Associates, L.P.	---	---	---	---	---	7.2	7.3	9.7	7.6	7.8
Ivy Asset Mgmt - The Defenders Fund, L.P.	---	---	---	---	8.2	6.6	6.1	7.4	6.4	5.1
Ivy Asset Mgmt - Ivy Maplewood Associates II, L.P.	---	---	---	---	---	---	6.0	7.2	6.0	4.8
Ivy Asset Mgmt - Rosewood Associates	---	---	---	---	---	5.2	4.3	3.9	3.4	3.4
Ivy Asset Mgmt - The Seedling Fund, L.P.	11.9	11.1	9.7	10.7	8.1	6.8	5.4	9.6	6.5	4.7
James River Capital Corp. - Multi-Strategy Fund, L.P.	---	---	---	---	---	7.3	7.4	8.5	5.4	5.3
JPMorgan Alternative Asset Mgmt - Multi-Strategy Fund II	---	---	---	---	---	6.4	5.7	6.8	6.4	7.9
K2 Advisors - K2 Investment Partners, L.P.	14.0	11.7	9.4	11.2	7.7	5.8	5.5	8.6	7.5	7.1
K2 Advisors - K2 Overseas Diversified Fund, Ltd.	---	---	---	---	---	---	---	---	5.1	5.2
Lehman Brothers Alt. Inv. Mgmt - Diversified Arb Fund II	---	---	---	---	---	---	6.5	7.8	6.4	5.7
Lighthouse Partners - Lighthouse Diversified Fund, LP	---	10.9	9.6	10.7	8.6	7.7	7.7	7.8	7.7	8.4
Lone Pine Capital, LLC - Lone Juniper, L.P.	---	---	---	---	---	10.3	9.6	11.7	11.9	12.8
Lyster Watson Mgmt - Composite: Moderate Volatility	---	---	---	---	8.0	8.7	8.6	9.5	6.6	5.1
Lyster Watson Mgmt - Conservative Alt. Strategies Fund	---	---	---	---	7.4	8.0	8.7	9.0	6.6	6.0
Lyster Watson Mgmt - Distressed Opportunity Fund, L.P.	---	---	---	---	---	---	11.4	14.4	10.5	6.6
Mariner Investment Group, Inc. - Mariner Select, L.P.	11.0	11.1	10.5	11.3	7.7	7.5	6.9	7.5	5.6	6.1
Martello Investment Mgmt - Martello Diversified Trading	---	---	---	---	---	---	---	6.6	4.7	4.4
Maverick Capital - Maverick Stable Partners, L.P.	---	---	---	---	---	---	---	11.6	12.7	11.7
Meridian Capital Partners, Inc. - Diversified Fund, L.P.	---	---	---	---	---	5.8	5.7	7.5	7.7	8.7
Meridian Capital Partners, Inc. - Horizon Fund, L.P.	13.2	12.6	12.0	11.3	8.1	6.1	5.7	7.0	7.4	8.0
Meridian Capital Partners, Inc. - Performance Partners, L.P.	---	---	12.9	13.2	8.2	5.5	6.5	8.1	7.7	8.6
Maximum	18.7	17.3	15.5	15.0	11.7	13.8	18.7	19.0	17.5	22.6
Median	11.4	11.1	9.7	10.6	8.2	7.2	7.2	9.2	7.7	7.1
Minimum	7.8	7.1	6.0	6.6	4.2	2.4	2.8	2.4	0.8	-8.1
Number of Funds	42	45	54	65	81	102	126	156	172	179
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

## Annual Returns (%)

<b>Funds-of-Funds</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Mezzacappa Management LLC - Mezzacappa Partners, L.P.	---	---	---	41.8	13.5	3.5	-4.5	3.5	10.2	9.6
Milbank Winthrop & Company - Special Situations, L.P.	16.1	15.3	7.5	10.4	16.2	9.2	2.2	19.7	10.4	7.6
Millbrook Investment Mgmt Co. - Millbrook Partners, LLC	---	---	---	---	---	---	7.3	13.5	8.7	5.7
Millburn Ridgefield Corp. - Multi-Strategy Portfolio, L.P.	20.8	26.4	-1.7	17.3	4.4	1.9	0.4	16.1	9.2	8.0
Morgan Stanley Alt. Inv. Partners - Institutional FoF LP	---	---	---	---	---	---	---	9.8	5.6	6.0
Muirfield Capital Management, LLC - Low Volatility Fund	---	---	---	---	---	---	---	11.3	6.2	1.6
Nantucket Multi Managers, LLC - Nantucket Fund, LP	24.0	25.8	-3.8	22.7	-6.0	4.8	0.6	14.7	11.8	6.3
NewMarket Capital Partners - Select Fund	---	---	---	---	---	---	---	12.6	7.1	4.3
Offit Hall Capital Management - Absolute Return Fund	---	---	---	---	---	---	---	15.8	11.3	8.9
OppenheimerFunds - Tremont Market Neutral Fund, LLC	---	---	---	---	---	---	1.5	5.2	1.9	2.8
OppenheimerFunds - Tremont Opportunity Fund, LLC	---	---	---	---	---	---	0.4	10.8	3.4	5.4
Pacific Alt. Asset Mgmt Co. - Pacific Capital Growth, LLC	---	---	---	---	---	---	1.4	13.4	6.7	4.4
Pacific Alt. Asset Mgmt Co. - Pacific Hedged Strategies, LLC	---	---	---	---	---	---	1.5	14.1	6.4	4.7
Pacific Alt. Asset Mgmt Co. - Pacific Tradewinds, Ltd.	---	---	---	---	---	---	---	---	6.1	4.6
Pacific Strategic Mgmt - Strategic Investors (Hedge Funds)	---	---	---	---	---	---	---	---	21.3	6.4
Paradigm Global Advisors - Equities, Ltd.	31.5	33.2	40.2	34.2	24.4	5.0	-2.0	11.6	13.1	4.3
Paradigm Global Advisors - Futures Fund I, LLC	---	---	---	2.8	-3.4	29.0	17.7	23.4	-1.7	3.5
Pequot Capital Mgmt Inc. - Pequot Diversified Fund, L.P.	---	---	---	---	---	---	---	---	---	7.1
Persistent Edge Mgmt - Persistent Edge Asia Partners, L.P.	---	---	---	---	---	---	---	---	14.1	19.8
Pine Grove Associates - Pine Grove Institutional Partners	---	11.9	0.1	11.3	17.0	8.0	4.5	14.2	7.2	5.3
Pine Grove Associates - Pine Grove Partners	17.7	12.4	-0.3	12.2	16.7	10.5	6.1	15.1	7.5	5.5
Pine Street Advisors - Pine Street Institutional Partners L.P.	---	---	---	14.2	26.0	3.7	2.4	11.0	4.9	6.8
Private Advisors - Private Advisors Alternative Asset Fund	---	---	---	17.0	17.1	8.9	3.6	17.0	9.0	5.2
Protégé Partners, LLC - Protégé Partners, L.P.	---	---	---	---	---	---	---	15.5	8.0	9.3
Quellos Capital Mgmt - Quellos Alpha Transport Trust	---	---	---	35.9	4.0	-8.2	-20.3	36.8	15.7	6.5
Ramius Capital Group, LLC - Tapestry Fund, L.P.	---	---	0.6	13.7	16.8	7.2	0.4	12.2	7.8	3.9
Research Affiliates LLC - Research Affiliates Capital	---	---	---	---	---	---	---	15.4	26.0	-8.1
Robeco-Sage Associates, L.L.C. - Robeco-Sage Capital, L.P.	21.7	17.9	-0.9	33.8	12.5	10.3	2.5	13.8	7.8	8.8
Rohatyn Group (The) - Asia Opportunity Fund, Ltd.	---	---	---	---	---	---	---	---	---	-3.4
Schroder Inv. Mgmt - Schroder Alt. Fund - Concentrated	---	---	---	---	---	---	---	---	5.8	1.2
Schroder Inv. Mgmt - Schroder Alt. Fund - Diversified	---	---	---	---	---	7.4	4.1	9.9	2.6	3.8
Schroder Inv. Mgmt - Schroder Alt. Fund - Global L/S Equity	---	---	---	---	---	3.0	-4.0	10.3	5.6	10.5
Maximum	36.1	33.2	40.2	50.0	26.0	29.0	25.4	36.8	26.0	22.6
Median	18.9	18.0	0.8	24.3	14.4	7.3	2.3	11.5	7.6	7.1
Minimum	7.1	11.1	-20.1	2.8	-6.0	-10.8	-22.4	2.4	-1.7	-8.1
Number of Funds	41	44	53	65	81	102	126	156	172	179
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Funds-of-Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
Mezzacappa Management LLC - Mezzacappa Partners, L.P.	---	---	---	10.3	5.8	4.3	4.5	7.7	9.9	9.6
Milbank Winthrop & Company - Special Situations, L.P.	11.3	10.8	10.3	10.7	10.7	9.7	9.8	12.4	9.0	7.6
Millbrook Investment Mgmt Co. - Millbrook Partners, LLC	---	---	---	---	---	---	8.8	9.2	7.1	5.7
Millburn Ridgefield Corp. - Multi-Strategy Portfolio, L.P.	9.9	8.8	6.7	8.0	6.5	7.0	8.3	11.0	8.6	8.0
Morgan Stanley Alt. Inv. Partners - Institutional FoF LP	---	---	---	---	---	---	---	7.1	5.8	6.0
Muirfield Capital Management, LLC - Low Volatility Fund	---	---	---	---	---	---	---	6.3	3.9	1.6
Nantucket Multi Managers, LLC - Nantucket Fund, LP	9.5	8.0	6.0	7.5	5.1	7.5	8.2	10.9	9.0	6.3
NewMarket Capital Partners - Select Fund	---	---	---	---	---	---	---	7.9	5.7	4.3
Offit Hall Capital Management - Absolute Return Fund	---	---	---	---	---	---	---	12.0	10.1	8.9
OppenheimerFunds - Tremont Market Neutral Fund, LLC	---	---	---	---	---	---	2.8	3.3	2.3	2.8
OppenheimerFunds - Tremont Opportunity Fund, LLC	---	---	---	---	---	---	4.9	6.5	4.4	5.4
Pacific Alt. Asset Mgmt Co. - Pacific Capital Growth, LLC	---	---	---	---	---	---	6.4	8.1	5.5	4.4
Pacific Alt. Asset Mgmt Co. - Pacific Hedged Strategies, LLC	---	---	---	---	---	---	6.6	8.3	5.5	4.7
Pacific Alt. Asset Mgmt Co. - Pacific Tradewinds, Ltd.	---	---	---	---	---	---	---	---	5.4	4.6
Pacific Strategic Mgmt - Strategic Investors (Hedge Funds)	---	---	---	---	---	---	---	---	13.6	6.4
Paradigm Global Advisors - Equities, Ltd.	18.7	17.3	15.5	12.3	9.1	6.2	6.6	9.6	8.6	4.3
Paradigm Global Advisors - Futures Fund I, LLC	---	---	---	9.6	10.7	13.8	10.3	7.9	0.9	3.5
Pequot Capital Mgmt Inc. - Pequot Diversified Fund, L.P.	---	---	---	---	---	---	---	---	---	7.1
Persistent Edge Mgmt - Persistent Edge Asia Partners, L.P.	---	---	---	---	---	---	---	---	17.0	19.8
Pine Grove Associates - Pine Grove Institutional Partners	---	8.7	8.3	9.6	9.3	7.8	7.7	8.8	6.2	5.3
Pine Grove Associates - Pine Grove Partners	10.2	9.4	9.0	10.4	10.2	8.9	8.5	9.3	6.5	5.5
Pine Street Advisors - Pine Street Institutional Partners L.P.	---	---	---	9.6	8.8	5.7	6.2	7.5	5.9	6.8
Private Advisors - Private Advisors Alternative Asset Fund	---	---	---	11.0	10.0	8.6	8.6	10.3	7.1	5.2
Protégé Partners, LLC - Protégé Partners, L.P.	---	---	---	---	---	---	---	10.9	8.6	9.3
Quellos Capital Mgmt - Quellos Alpha Transport Trust	---	---	---	8.3	4.2	4.3	7.7	19.0	11.0	6.5
Ramius Capital Group, LLC - Tapestry Fund, L.P.	---	---	7.7	8.7	7.9	6.2	6.0	7.9	5.8	3.9
Research Affiliates LLC - Research Affiliates Capital	---	---	---	---	---	---	---	10.1	7.6	-8.1
Robeco-Sage Associates, L.L.C. - Robeco-Sage Capital, L.P.	12.4	11.4	10.7	12.4	9.2	8.6	8.1	10.1	8.3	8.8
Rohatyn Group (The) - Asia Opportunity Fund, Ltd.	---	---	---	---	---	---	---	---	---	-3.4
Schroder Inv. Mgmt - Schroder Alt. Fund - Concentrated	---	---	---	---	---	---	---	---	3.5	1.2
Schroder Inv. Mgmt - Schroder Alt. Fund - Diversified	---	---	---	---	---	5.5	5.1	5.4	3.2	3.8
Schroder Inv. Mgmt - Schroder Alt. Fund - Global L/S Equity	---	---	---	---	---	4.9	5.4	8.8	8.0	10.5
Maximum	18.7	17.3	15.5	15.0	11.7	13.8	18.7	19.0	17.5	22.6
Median	11.4	11.1	9.7	10.6	8.2	7.2	7.2	9.2	7.7	7.1
Minimum	7.8	7.1	6.0	6.6	4.2	2.4	2.8	2.4	0.8	-8.1
Number of Funds	42	45	54	65	81	102	126	156	172	179
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

## Annual Returns (%)

<b>Funds-of-Funds</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Sire Management Partners - Sire Discovery Group, L.P.	20.5	25.5	-9.1	38.1	23.4	11.7	3.9	10.0	9.6	11.5
Sire Management Partners - Sire Global Partners, L.P.	30.1	25.0	-20.1	26.1	1.9	3.5	2.8	16.7	15.0	19.7
SSARIS Advisors - Multi-Manager Absolute Return Program	---	---	---	---	---	---	---	5.8	1.2	0.4
The 1794 Commodore Funds - The 1794 Commodore Fund	---	---	---	---	---	---	---	13.4	8.8	7.3
The Rock Creek Group - Rock Creek Commingled Fund (E)	---	---	---	---	---	---	---	---	7.1	7.4
TIFF Investment Program - TIFF Absolute Return Pool	---	---	---	---	22.1	8.2	2.4	15.7	11.2	11.7
TIFF Investment Program - TIFF Absolute Return Pool II	---	---	---	---	---	---	---	13.1	9.0	10.3
Treesdale Partners, LLC - Treesdale Fixed Income Fund, Ltd.	---	---	---	---	---	---	---	6.2	9.9	6.0
Treflie Capital Management, LLC - Treflie Absolute, L.P.	---	---	---	25.5	16.6	7.0	1.2	12.1	10.4	9.4
Tremont Capital Management - Core Diversified Composite	17.7	16.6	-0.6	26.2	16.0	8.1	2.4	9.6	6.4	7.5
Tremont Capital Management - Market Neutral Composite	---	---	---	9.4	12.2	8.6	3.2	7.4	3.9	5.8
Union Bancaire Privee - Selectinvest Arb/Relative Value	---	---	---	10.5	15.2	8.1	1.3	13.1	7.6	8.4
Union Bancaire Privee - Selectinvest MultiStrategy	---	---	---	---	---	---	---	---	7.4	9.8
Wellington Hedge Management - Archipelago Partners, L.P. (n)	---	---	---	---	---	---	0.3	22.7	9.7	14.2
Winston Capital Mgmt - Winston Global Fund, L.P.	---	---	---	---	---	---	-2.0	9.6	9.0	10.3
Winston Capital Mgmt - Winston Growth Fund, L.P.	22.8	17.7	9.8	38.9	12.8	9.5	1.8	11.8	6.7	9.2
Winston Capital Mgmt - Winston Hedged Equity Fund, Ltd.	---	---	---	---	15.6	6.0	-4.4	10.1	7.4	8.4
Winston Capital Mgmt - Winston Small Cap Growth Fund, L.P.	---	---	0.6	30.5	5.8	8.3	-6.1	15.7	12.0	5.8
Yankee Advisers, LLC - Yankee Multi-Manager Fund	14.6	12.7	12.3	28.5	13.1	-1.0	4.5	7.4	5.9	4.3
Maximum	36.1	33.2	40.2	50.0	26.0	29.0	25.4	36.8	26.0	22.6
Median	18.9	18.0	0.8	24.3	14.4	7.3	2.3	11.5	7.6	7.1
Minimum	7.1	11.1	-20.1	2.8	-6.0	-10.8	-22.4	2.4	-1.7	-8.1
Number of Funds	41	44	53	65	81	102	126	156	172	179
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 52 (continued)

## REPRESENTATIVE FUNDS-OF-FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Funds-of-Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
Sire Management Partners - Sire Discovery Group, L.P.	13.8	13.1	11.7	15.0	11.5	9.3	8.7	10.4	10.5	11.5
Sire Management Partners - Sire Global Partners, L.P.	11.0	9.1	7.3	11.9	9.7	11.3	13.4	17.1	17.3	19.7
SSARIS Advisors - Multi-Manager Absolute Return Program	---	---	---	---	---	---	---	2.4	0.8	0.4
The 1794 Commodore Funds - The 1794 Commodore Fund	---	---	---	---	---	---	---	9.8	8.0	7.3
The Rock Creek Group - Rock Creek Commingled Fund (E)	---	---	---	---	---	---	---	---	7.2	7.4
TIFF Investment Program - TIFF Absolute Return Pool	---	---	---	---	11.7	9.7	10.1	12.8	11.4	11.7
TIFF Investment Program - TIFF Absolute Return Pool II	---	---	---	---	---	---	---	10.8	9.6	10.3
Treesdale Partners, LLC - Treesdale Fixed Income Fund, Ltd.	---	---	---	---	---	---	---	7.3	7.9	6.0
Treflie Capital Management, LLC - Treflie Absolute, L.P.	---	---	---	11.5	9.3	7.9	8.2	10.6	9.9	9.4
Tremont Capital Management - Core Diversified Composite	10.7	10.0	9.2	10.6	8.2	6.8	6.4	7.8	6.9	7.5
Tremont Capital Management - Market Neutral Composite	---	---	---	7.1	6.8	5.7	5.0	5.7	4.8	5.8
Union Bancaire Privee - Selectinvest Arb/Relative Value	---	---	---	9.1	8.9	7.6	7.5	9.6	8.0	8.4
Union Bancaire Privee - Selectinvest MultiStrategy	---	---	---	---	---	---	---	---	8.6	9.8
Wellington Hedge Management - Archipelago Partners, L.P. (n)	---	---	---	---	---	---	11.4	15.4	11.9	14.2
Winston Capital Mgmt - Winston Global Fund, L.P.	---	---	---	---	---	---	6.6	9.6	9.6	10.3
Winston Capital Mgmt - Winston Growth Fund, L.P.	13.7	12.7	12.1	12.5	8.6	7.7	7.3	9.2	7.9	9.2
Winston Capital Mgmt - Winston Hedged Equity Fund, Ltd.	---	---	---	---	7.0	5.4	5.2	8.6	7.9	8.4
Winston Capital Mgmt - Winston Small Cap Growth Fund, L.P.	---	---	8.6	9.8	6.7	6.9	6.5	11.1	8.9	5.8
Yankee Advisers, LLC - Yankee Multi-Manager Fund	10.0	9.5	9.1	8.6	5.6	4.2	5.5	5.9	5.1	4.3
Maximum	18.7	17.3	15.5	15.0	11.7	13.8	18.7	19.0	17.5	22.6
Median	11.4	11.1	9.7	10.6	8.2	7.2	7.2	9.2	7.7	7.1
Minimum	7.8	7.1	6.0	6.6	4.2	2.4	2.8	2.4	0.8	-8.1
Number of Funds	42	45	54	65	81	102	126	156	172	179
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 53

## REPRESENTATIVE MULTI-STRATEGY FUNDS

## Annual Returns (%)

<u>Multi-Strategy Funds</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Angelo, Gordon & Company, L.P. - AG Super Fund, L.P.	15.9	18.1	11.2	18.3	10.4	9.6	-0.6	39.6	11.3	13.7
BlackRock, Inc. - The Obsidian Fund LLC	---	---	11.5	15.4	25.4	9.8	-7.5	8.5	10.3	2.8
Brencourt Advisors, LLC - Brencourt Multi-Strategy, L.P.	---	---	---	---	---	---	2.3	12.3	14.3	8.9
Carlson Capital - Black Diamond Arbitrage Offshore	---	---	---	18.8	25.4	3.3	6.2	7.3	3.0	2.5
Carlson Capital - Black Diamond Partners Offshore	12.0	14.7	5.2	11.6	16.8	7.5	1.5	5.4	3.0	3.6
Carlson Capital - Black Diamond Relative Value Offshore	---	---	---	16.5	26.5	16.1	1.7	5.7	3.0	2.4
Carlson Capital - Double Black Diamond Offshore	---	---	8.7	15.0	27.4	12.4	2.4	7.8	5.0	5.3
Concordia Mgmt Corp. - Multi-Strategy Class A, Concordia I	14.1	18.3	7.7	5.7	19.9	8.9	5.4	5.8	4.3	7.1
Deephaven Capital Mgmt - Deephaven Market Neutral Fund	---	---	---	21.1	33.6	11.5	7.8	13.9	6.1	6.2
DKR Mgmt Co. Inc. - Int'l Relative Value Fund - Class A	12.4	11.7	3.2	11.5	18.3	14.4	8.6	10.2	6.6	1.1
DKR Mgmt Co. Inc. - Int'l Relative Value Fund - Class Plus B	---	---	---	---	15.4	8.9	9.9	7.8	4.4	0.3
Elliott Associates - Elliott Associates, L.P.	19.0	12.1	-7.0	18.1	24.3	8.3	6.6	14.2	13.2	12.7
Fairfield International Managers - Greenwich Sentry, L.P.	14.6	16.2	13.5	14.4	11.5	10.4	8.4	7.3	6.5	7.3
Farallon Capital Mgmt - Farallon Capital Institutional Partners	16.4	18.5	9.5	12.6	11.3	9.8	6.3	21.2	12.4	10.6
Farallon Capital Mgmt - Farallon Capital Partners, L.P.	21.1	19.7	10.9	16.6	15.7	6.2	5.0	20.8	16.5	13.3
Fletcher Asset Management, Inc. - The Fletcher Fund, L.P.	55.9	28.4	25.3	25.5	6.1	1.3	-8.9	8.6	-13.7	17.3
Glenview Capital GP, LLC - Little Arbor Funds	---	---	---	---	---	---	---	---	---	10.1
Gruss Asset Management - Gruss Global Investors, L.P.	---	---	---	---	---	---	---	---	13.8	1.8
HBK Investments - HBK Investments, L.P.	18.4	16.9	3.9	24.6	26.7	10.0	5.5	10.8	11.5	8.2
Highbridge Capital Mgmt - Highbridge Capital Corporation	18.3	19.7	6.0	32.4	27.3	12.0	8.2	10.6	7.5	5.0
Kellner DiLeo Cohen & Company - Multi-Strategy Fund	---	---	---	---	---	---	2.3	11.1	3.5	1.4
Longfellow Investment Mgmt Co. - Leveraged Merger Arbitrage	14.7	9.5	12.3	12.6	20.7	7.4	0.6	3.5	-3.1	5.3
Longfellow Investment Mgmt Co. - Unleveraged Arbitrage	12.2	8.6	11.6	11.7	17.4	6.6	0.2	3.4	-2.3	5.1
Lynx Arbitrage Limited - Lynx Arbitrage Fund Limited	---	---	---	---	---	---	---	---	---	2.8
Mariner Investment Group, Inc. - Mariner Partners, L.P.	7.9	10.9	-0.7	16.4	15.2	11.3	8.2	9.1	4.5	5.5
Merrill Lynch Inv. Managers - QA Equity Arbitrage Ltd.	---	---	---	---	10.3	0.9	0.4	1.3	-1.4	-3.2
Metropolitan Capital Advisors - Bedford Falls Investors, L.P.	27.3	22.6	-21.6	35.6	26.5	6.1	-9.7	19.5	7.0	10.8
Millennium Management - Millennium International, Ltd.	---	---	15.9	32.4	36.0	15.5	9.7	11.0	14.9	11.5
OZ Advisors - OZ Asia Master Fund, Ltd.	---	---	---	---	---	---	6.7	17.3	14.6	14.2
OZ Advisors - OZ Master Feeder Funds	---	---	11.2	18.8	20.6	6.3	-1.6	24.0	11.2	8.8
Paulson & Company - Paulson Advantage, L.P.	---	---	---	---	---	---	---	---	---	0.1
Perry Partners - Perry Partners, L.P.	21.1	28.5	8.6	16.2	21.2	13.7	5.4	22.7	21.2	5.0
Maximum	55.9	43.1	25.3	67.3	36.0	16.1	20.5	39.6	31.7	17.3
Median	16.4	18.1	7.7	16.5	19.4	9.7	5.1	10.2	6.5	5.2
Minimum	7.9	7.7	-21.6	5.7	1.4	-5.2	-9.7	1.2	-13.7	-15.0
Number of Funds	19.0	19.0	25.0	29.0	32.0	32.0	38.0	39.0	40.0	44.0
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 53 (continued)

## REPRESENTATIVE MULTI-STRATEGY FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Multi-Strategy Funds</b>	<b>10 Yrs</b>	<b>9 Yrs</b>	<b>8 Yrs</b>	<b>7 Yrs</b>	<b>6 Yrs</b>	<b>5 Yrs</b>	<b>4 Yrs</b>	<b>3 Yrs</b>	<b>2 Yrs</b>	<b>1 Yr</b>
Angelo, Gordon & Company, L.P. - AG Super Fund, L.P.	14.4	14.2	13.7	14.1	13.4	14.0	15.1	20.9	12.5	13.7
BlackRock, Inc. - The Obsidian Fund LLC	---	---	9.1	8.8	7.8	4.5	3.3	7.1	6.5	2.8
Brencourt Advisors, LLC - Brencourt Multi-Strategy, L.P.	---	---	---	---	---	---	9.3	11.8	11.5	8.9
Carlson Capital - Black Diamond Arbitrage Offshore	---	---	---	9.2	7.7	4.4	4.7	4.2	2.8	2.5
Carlson Capital - Black Diamond Partners Offshore	8.0	7.6	6.7	6.9	6.2	4.2	3.4	4.0	3.3	3.6
Carlson Capital - Black Diamond Relative Value Offshore	---	---	---	9.9	8.9	5.6	3.2	3.7	2.7	2.4
Carlson Capital - Double Black Diamond Offshore	---	---	10.3	10.5	9.7	6.5	5.1	6.0	5.1	5.3
Concordia Mgmt Corp. - Multi-Strategy Class A, Concordia I	9.6	9.1	8.0	8.0	8.4	6.3	5.6	5.7	5.7	7.1
Deephaven Capital Mgmt - Deephaven Market Neutral Fund	---	---	---	14.0	12.8	9.1	8.5	8.7	6.2	6.2
DKR Mgmt Co. Inc. - Int'l Relative Value Fund - Class A	9.7	9.4	9.1	10.0	9.7	8.1	6.6	5.9	3.8	1.1
DKR Mgmt Co. Inc. - Int'l Relative Value Fund - Class Plus B	---	---	---	---	7.7	6.2	5.5	4.1	2.3	0.3
Elliott Associates - Elliott Associates, L.P.	11.8	11.1	11.0	13.8	13.1	11.0	11.6	13.4	12.9	12.7
Fairfield International Managers - Greenwich Sentry, L.P.	10.9	10.6	9.9	9.4	8.5	7.9	7.4	7.0	6.9	7.3
Farallon Capital Mgmt - Farallon Capital Institutional Partners	12.8	12.4	11.6	11.9	11.8	11.9	12.5	14.6	11.5	10.6
Farallon Capital Mgmt - Farallon Capital Partners, L.P.	14.4	13.7	13.0	13.3	12.8	12.2	13.8	16.8	14.9	13.3
Fletcher Asset Management, Inc. - The Fletcher Fund, L.P.	13.0	9.0	6.8	4.4	1.2	0.3	0.0	3.2	0.6	17.3
Glenview Capital GP, LLC - Little Arbor Funds	---	---	---	---	---	---	---	---	---	10.1
Gross Asset Management - Gross Global Investors, L.P.	---	---	---	---	---	---	---	---	7.7	1.8
HBK Investments - HBK Investments, L.P.	13.4	12.9	12.4	13.6	11.9	9.2	9.0	10.2	9.8	8.2
Highbridge Capital Mgmt - Highbridge Capital Corporation	14.4	13.9	13.2	14.3	11.5	8.6	7.8	7.7	6.2	5.0
Kellner DiLeo Cohen & Company - Multi-Strategy Fund	---	---	---	---	---	---	4.5	5.3	2.5	1.4
Longfellow Investment Mgmt Co. - Leveraged Merger Arbitrage	8.1	7.4	7.2	6.5	5.5	2.7	1.6	1.9	1.0	5.3
Longfellow Investment Mgmt Co. - Unleveraged Arbitrage	7.3	6.8	6.5	5.8	4.9	2.5	1.5	2.0	1.3	5.1
Lynx Arbitrage Limited - Lynx Arbitrage Fund Limited	---	---	---	---	---	---	---	---	---	2.8
Mariner Investment Group, Inc. - Mariner Partners, L.P.	8.7	8.8	8.6	10.0	8.9	7.7	6.8	6.4	5.0	5.5
Merrill Lynch Inv. Managers - QA Equity Arbitrage Ltd.	---	---	---	---	1.3	-0.4	-0.7	-1.1	-2.3	-3.2
Metropolitan Capital Advisors - Bedford Falls Investors, L.P.	11.0	9.4	7.8	12.8	9.4	6.3	6.3	12.3	8.9	10.8
Millennium Management - Millennium International, Ltd.	---	---	18.0	18.3	16.1	12.5	11.8	12.5	13.2	11.5
OZ Advisors - OZ Asia Master Fund, Ltd.	---	---	---	---	---	---	13.1	15.3	14.4	14.2
OZ Advisors - OZ Master Feeder Funds	---	---	12.1	12.3	11.2	9.4	10.2	14.5	10.0	8.8
Paulson & Company - Paulson Advantage, L.P.	---	---	---	---	---	---	---	---	---	0.1
Perry Partners - Perry Partners, L.P.	16.1	15.6	14.1	14.9	14.6	13.4	13.3	16.0	12.8	5.0
Maximum	22.2	21.9	19.5	21.7	16.1	14.7	15.6	24.0	17.8	17.3
Median	11.8	10.6	9.9	10.0	9.3	7.7	6.6	6.7	5.9	5.2
Minimum	4.7	4.3	2.2	2.3	1.0	-0.4	-0.7	-1.1	-3.0	-15.0
Number of Funds	19.0	19.0	25.0	29.0	32.0	32.0	38.0	39.0	40.0	44.0
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.



## Exhibit 53 (continued)

## REPRESENTATIVE MULTI-STRATEGY FUNDS

## Annual Returns (%)

<b>Multi-Strategy Funds</b>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Ramius Capital Group, LLC - Ramius Partners, L.P.	---	---	4.4	11.0	14.4	11.1	10.2	10.0	4.6	4.7
Redbrick Capital Mgmt - Redbrick Capital Master Fund, Ltd.	---	---	---	---	---	---	---	---	---	5.0
Sagamore Hill Capital Advisors - Sagamore Hill Partners, L.P.	---	---	---	---	35.8	12.0	6.4	13.3	3.2	3.8
Schoenfeld (P.) Asset Mgmt - PSAM WorldArb Partners, L.P.	---	---	---	25.0	12.2	3.2	-2.5	18.3	8.6	7.3
Silverado Capital Mgmt LLC - Silverado Arbitrage Partners	---	---	1.5	10.5	1.4	-5.2	0.8	3.3	1.0	5.1
Stark Investments - Stark Investments, L.P.	27.3	19.4	-7.9	25.9	28.8	12.8	5.2	16.4	9.2	6.7
Titan Capital Group II - Titan Asia Volatility Fund Ltd.	---	---	---	---	---	---	3.3	5.2	10.6	-15.0
Titan Capital Group II - Titan Global Return Fund	---	---	---	---	---	---	12.5	8.3	5.9	-9.0
Titan Capital Group II - Titan Volatility Fund L.P. (U.S.)	---	---	---	---	---	---	20.5	1.7	2.7	1.2
Venus Capital Mgmt Inc. - Venus Arbitrage Fund, L.P.	---	---	---	---	---	---	---	24.6	12.3	9.5
WG Trading Company - WG Trading Company, L.P. (n)	8.1	7.7	6.7	6.4	6.3	4.5	1.9	1.2	1.4	2.7
York Capital Management - York Select, L.P.	24.8	43.1	5.7	67.3	19.0	11.0	-6.4	37.5	31.7	5.4
Maximum	55.9	43.1	25.3	67.3	36.0	16.1	20.5	39.6	31.7	17.3
Median	16.4	18.1	7.7	16.5	19.4	9.7	5.1	10.2	6.5	5.2
Minimum	7.9	7.7	-21.6	5.7	1.4	-5.2	-9.7	1.2	-13.7	-15.0
Number of Funds	19	19	25	29	32	32	38	39	40	44
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 53 (continued)

## REPRESENTATIVE MULTI-STRATEGY FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<b>Multi-Strategy Funds</b>	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Ramius Capital Group, LLC - Ramius Partners, L.P.	---	---	8.7	9.4	9.1	8.1	7.3	6.4	4.6	4.7
Redbrick Capital Mgmt - Redbrick Capital Master Fund, Ltd.	---	---	---	---	---	---	---	---	---	5.0
Sagamore Hill Capital Advisors - Sagamore Hill Partners, L.P.	---	---	---	---	11.9	7.7	6.6	6.7	3.5	3.8
Schoenfeld (P.) Asset Mgmt - PSAM WorldArb Partners, L.P.	---	---	---	10.0	7.6	6.8	7.7	11.3	7.9	7.3
Silverado Capital Mgmt LLC - Silverado Arbitrage Partners	---	---	2.2	2.3	1.0	1.0	2.6	3.1	3.1	5.1
Stark Investments - Stark Investments, L.P.	13.8	12.4	11.6	14.7	12.9	10.0	9.3	10.7	7.9	6.7
Titan Capital Group II - Titan Asia Volatility Fund Ltd.	---	---	---	---	---	---	0.5	-0.4	-3.0	-15.0
Titan Capital Group II - Titan Global Return Fund	---	---	---	---	---	---	4.1	1.4	-1.8	-9.0
Titan Capital Group II - Titan Volatility Fund L.P. (U.S.)	---	---	---	---	---	---	6.2	1.9	2.0	1.2
Venus Capital Mgmt Inc. - Venus Arbitrage Fund, L.P.	---	---	---	---	---	---	---	15.3	10.8	9.5
WG Trading Company - WG Trading Company, L.P. (n)	4.7	4.3	3.9	3.5	3.0	2.3	1.8	1.8	2.1	2.7
York Capital Management - York Select, L.P.	22.2	21.9	19.5	21.7	15.4	14.7	15.6	24.0	17.8	5.4
Maximum	22.2	21.9	19.5	21.7	16.1	14.7	15.6	24.0	17.8	17.3
Median	11.8	10.6	9.9	10.0	9.3	7.7	6.6	6.7	5.9	5.2
Minimum	4.7	4.3	2.2	2.3	1.0	-0.4	-0.7	-1.1	-3.0	-15.0
Number of Funds	19	19	25	29	32	32	38	39	40	44
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 54

## REPRESENTATIVE OPEN MANDATE FUNDS

## Annual Returns (%)

<u>Open Mandate Funds</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Angelo, Gordon & Company - AG Long-Term Super Fund	---	13.4	5.4	12.8	6.6	9.9	-8.4	3.3	7.7	20.4
Baupost Group, L.L.C. (The) - Baupost Value Partners, L.P.	---	---	---	---	---	17.3	8.2	22.6	7.6	11.7
Canyon Capital Advisors - Canyon Value Realization Fund	25.3	20.8	-13.0	28.2	4.9	12.3	5.2	25.0	14.6	9.4
D.B. Zwirn & Co. - D.B. Zwirn Special Opportunities Fund	---	---	---	---	---	---	---	15.4	15.7	13.5
Eton Park Capital Management - Eton Park Fund, L.P.	---	---	---	---	---	---	---	---	---	13.2
Everest Capital - Everest Capital Global	59.5	26.1	-45.1	61.0	-10.0	-23.4	-9.3	112.7	15.7	40.5
Fir Tree Partners - Fir Tree Value Master Fund, L.P.	17.6	39.9	16.8	2.8	-11.4	15.0	10.4	21.6	11.7	5.7
Graham Capital Management - K4 Portfolio	---	---	---	10.4	23.7	39.3	43.7	21.6	-0.4	-17.0
Graham Capital Management - Proprietary Matrix Portfolio	---	---	---	3.5	16.3	6.8	28.1	11.6	-3.8	-4.0
Graham Capital Management - Selective Trading Program	---	---	27.0	2.2	8.1	-0.7	28.4	16.9	4.0	-10.1
Hawkeye Capital Mgmt - Hawkeye Capital Master Fund	---	---	---	---	8.0	-2.4	28.6	44.0	13.0	12.7
Hillsdale Inv. Mgmt - Canadian Aggressive Hedged Equity	---	---	---	---	28.9	0.1	-0.1	54.9	33.3	26.0
Sowood Capital Management LP - Sowood Alpha Funds	---	---	---	---	---	---	---	---	---	7.5
TQA Investors - TQA Leverage Fund, L.P.	14.9	18.2	6.6	13.8	7.9	16.2	10.5	13.9	0.4	-8.8
Maximum	59.5	39.9	27.0	61.0	28.9	39.3	43.7	112.7	33.3	40.5
Median	21.5	20.8	6.0	11.6	7.9	9.9	10.4	21.6	9.7	10.5
Minimum	14.9	13.4	-45.1	2.2	-11.4	-23.4	-9.3	3.3	-3.8	-17.0
Number of Funds	4	5	6	8	10	11	11	12	12	14
S&P 500	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9
91-Day Treasury Bills	5.3	5.3	5.2	4.8	6.2	4.4	1.8	1.2	1.3	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.

## Exhibit 54 (continued)

## REPRESENTATIVE OPEN MANDATE FUNDS

Average Annual Compound Returns (%)  
Periods Ended December 31, 2005

<u>Open Mandate Funds</u>	10 Yrs	9 Yrs	8 Yrs	7 Yrs	6 Yrs	5 Yrs	4 Yrs	3 Yrs	2 Yrs	1 Yr
Angelo, Gordon & Company - AG Long-Term Super Fund	---	7.6	6.9	7.1	6.2	6.1	5.2	10.2	13.9	20.4
Baupost Group, L.L.C. (The) - Baupost Value Partners, L.P.	---	---	---	---	---	13.3	12.4	13.8	9.6	11.7
Canyon Capital Advisors - Canyon Value Realization Fund	12.6	11.3	10.1	13.9	11.7	13.1	13.3	16.1	12.0	9.4
D.B. Zwirn & Co. - D.B. Zwirn Special Opportunities Fund	---	---	---	---	---	---	---	14.9	14.6	13.5
Eton Park Capital Management - Eton Park Fund, L.P.	---	---	---	---	---	---	---	---	---	13.2
Everest Capital - Everest Capital Global	14.4	10.3	8.4	19.5	13.7	19.2	33.1	51.2	27.5	40.5
Fir Tree Partners - Fir Tree Value Master Fund, L.P.	12.3	11.7	8.6	7.5	8.3	12.7	12.2	12.8	8.7	5.7
Graham Capital Management - K4 Portfolio	---	---	---	15.5	16.4	15.0	9.6	0.2	-9.1	-17.0
Graham Capital Management - Proprietary Matrix Portfolio	---	---	---	7.8	8.6	7.1	7.2	1.0	-3.9	-4.0
Graham Capital Management - Selective Trading Program	---	---	8.7	6.4	7.1	6.9	8.8	3.0	-3.3	-10.1
Hawkeye Capital Mgmt - Hawkeye Capital Master Fund	---	---	---	---	16.4	18.1	23.9	22.4	12.8	12.7
Hillsdale Inv. Mgmt - Canadian Aggressive Hedged Equity	---	---	---	---	22.3	21.1	27.0	37.5	29.6	26.0
Sowood Capital Management LP - Sowood Alpha Funds	---	---	---	---	---	---	---	---	---	7.5
TQA Investors - TQA Leverage Fund, L.P.	9.0	8.4	7.2	7.3	6.3	6.0	3.6	1.4	-4.3	-8.8
Maximum	14.4	11.7	10.1	19.5	22.3	21.1	33.1	51.2	29.6	40.5
Median	12.5	10.3	8.5	7.7	10.1	13.1	12.2	13.3	10.8	10.5
Minimum	9.0	7.6	6.9	6.4	6.2	6.0	3.6	0.2	-9.1	-17.0
Number of Funds	4	5	6	8	10	11	11	12	12	14
S&P 500	9.1	7.6	4.8	1.8	-1.1	0.5	3.9	14.4	7.9	4.9
91-Day Treasury Bills	3.8	3.7	3.5	3.2	3.0	2.3	1.8	1.8	2.2	3.1

Notes: Performance is net of all fees. Performance for partial years has been omitted. Where appropriate, performance from a predecessor fund or a composite with a similar strategy has been linked to the product returns.

(n) Returns were reported by the manager gross of fees. Net performance has been estimated by applying the manager's stated fee structure to the reported returns.