FRANKLIN TEMPLETON
INVESTMENTS

K2 HEDGE FUND STRATEGY OUTLOOK

Q1 2018

2018Q1 OVERVIEW

Favorable dispersion has created reasons for optimism in hedge strategies for the 1t quarter of 2018. This optimism strengthens our conviction in three main strategies: Long Short Equity - Europe, Relative Value, and Discretionary Macro.

OUR TOP CONVICTIONS

1

Long Short Equity - Europe
Attractive valuations and improving corporate earnings could advance European equity markets further.

2

Discretionary Macro
Although volatility across most asset classes remains low, we are seeing more potential sources of instability (and resulting attractive trading opportunities for macro managers).

3

Relative Value – Fixed Income
The diverging paths of central banks in the major global economies are expected to present improved directional opportunities.

LONG/SHORT EQUITY

We maintain a constructive outlook, despite our cautious views on current equity market conditions.

RELATIVE VALUE

The less directional nature of relative value strategies remains attractive amidst the greater uncertainty in the markets.

EVENT DRIVEN

Corporate activity is expected to remain robust and potentially increase as the Trump administration employs more business-friendly policies.

CREDIT

Long/short credit managers have naturally shorter duration portfolios and should benefit from sector dispersion when rates do rise.

GLOBAL MACRO

Positive outlook for all three subsectors of global macro strategies, with a more favorable outlook for discretionary managers.

COMMODITIES

We believe there is a light at the end of the tunnel for discretionary commodity managers after a prolonged period of depressed performance.

INSURANCE-LINKED SECURITIES

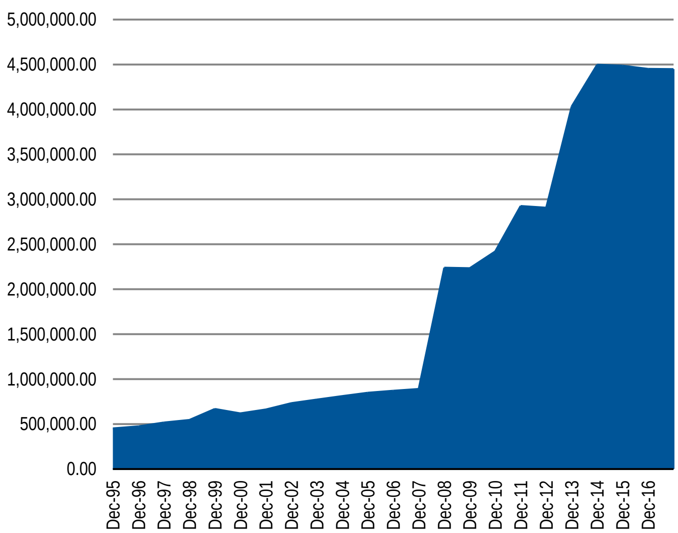
This year turned out to be the biggest loss for ILS capital markets since inception, which should lead to a significant re-pricing opportunity in 2018.

As the Liquidity Tide Recedes… Will Investors Need a Different Boat

The post-2008 expansion of the Fed's balance sheet from around US$900 billion to nearly US$4.5 trillion today has been one of the most dominant market shaping forces over the last decade; a massive tide of liquidity that lifted assets across the globe — in some instances indiscriminately — while influencing investor behavior. In addition to yields being driven toward record lows and stock markets to record highs, many investors migrated toward riskier assets while the cost of capital was kept artificially suppressed. We believe this dynamic is about to change. The tide appears to be receding.

While the Federal Reserve has already embarked on its journey towards rate normalization, other major central banks around the world also appear poised to begin unwinding in 2018, with many striking increasingly hawkish tones. In addition, global growth has reset inflation expectations to the upside, led by China's resilient economy.

All Federal Reserve Bank Total Assets (in Millions of Dollars)
December 1995 – December 2017



Source: Bloomberg, U.S. Federal Reserve. Data from December 31, 1995 to December 29, 2017. Important data provider notices and terms available at www.franklintempletondatasources.com.

Investors who are not prepared for this shift from the recovery era of monetary accommodation to the expansionary post-QE era may be exposed to significant risks, in our view. Markets could see increased volatility and sharp corrections, recalling, for example, the magnitude and speed of adjustments in U.S. Treasury ("UST") yields that occurred during the fourth quarter of 2016.

One of the challenges for investors in 2018 will be that the traditional diversifying relationship between bonds and risk assets investors expect may not hold true in this new era, particularly if we experience the cycle of UST declines we anticipate. It's quite possible to see risk assets also decline as the "risk-free" rate (yield on USTs) ratchets higher. Markets have become accustomed to exceptionally low discount rates — a shift higher would materially impact how those valuations are calculated.

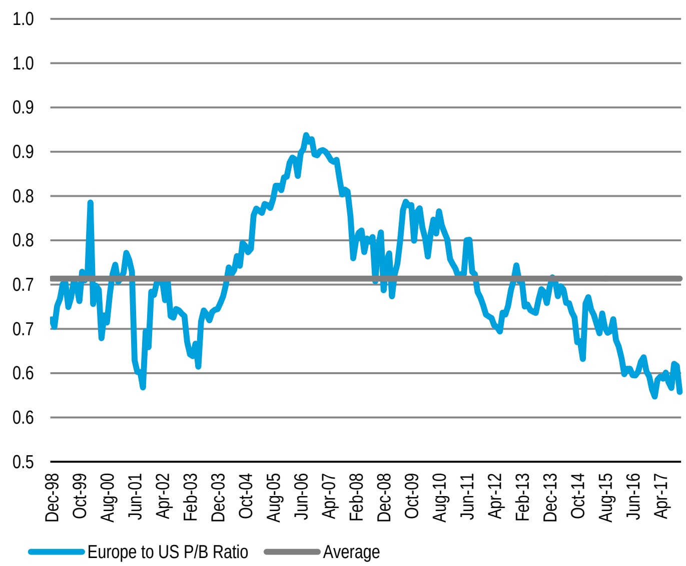
Additionally, we feel a sense of complacency has developed across the asset classes as UST returns and risk-asset returns have often had positive correlations, along with positive performance, in recent times. However, the positive outcomes achieved under the benefit of extraordinary monetary accommodation can mask the actual underlying risks in those asset categories. As monetary accommodation unwinds, those positive correlations could continue but with the opposite effect — simultaneous declines across bonds, equities and global risk assets as we exit an unprecedented era of financial market distortions. These are the types of correlations and risks we are aiming to reduce in 2018.

The bottom line is that we believe the massive tide of low-cost money that lifted all boats and allowed for carefree sailing is receding. Investors who are not prepared for this change may be exposed to significant risks. Perhaps it is time to look to add other boats to one's portfolio, crafts better suited to navigating the sandbars, rocks, and muddy waters that we believe will likely surface in the coming quarters. While these developments may affect hedge fund strategies differently, alpha for the hedge fund universe has historically strengthened in these environments of increased dispersion and volatility, particularly when interest rates rise.

Long/Short Equity Europe

Europe is poised for higher economic growth with strong consumer confidence, improving inflation, and decreasing unemployment levels. While these factors should trickle into earnings, markets are currently pricing in low growth.

Europe-to-U.S. Price to Book Ratio
December 1998 – November 2017



Past performance is not an indicator or a guarantee of future performance.
Source: Bloomberg. MSCI Europe Local Index to MSCI USA Local Index. Data from December 31, 1998 to November 30, 2017. MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. Important data provider notices and terms available at www.franklintempletondatasources.com. Indexes are unmanaged and one cannot invest directly in them. They do not reflect any fees, expenses, or sale charges.

European equity valuations appear more favorable on a historical relative basis. Europe-to-U.S. Price to Book ratio remains at record lows. Recent developments such as Brexit may lead to further bifurcation (i.e. domestic-oriented companies vs. companies with international sales) within Europe, creating clear groups of winners and losers. Long/short investors within the region may be able to take advantage of this dispersion. It's our belief that uneven growth across the region will result in increased dispersion of stocks, sectors, or countries which should help generate higher alpha. Similar to the U.S., rising interest rates driven by the European Central Bank's unwinding of fiscal stimulus may allow companies to experience similar tailwinds as US companies have.

Discretionary Macro

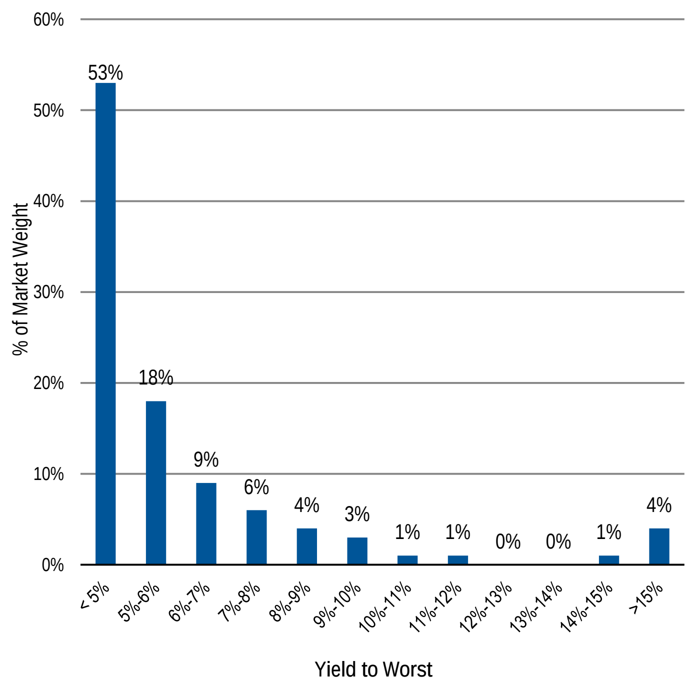
Shifting central bank policies, changing central bank leadership, potential for geopolitical instability and other risk factors may all serve to increase market volatility, and provide discretionary macro managers with an improved opportunity set for trading across fixed income and currency markets.

Additionally, we believe that the calendar of economic and geopolitical events in 2018 should offer attractive trading opportunities for discretionary macro managers focused on fixed income and currency markets.

Relative Value – Fixed Income

While rates have remained lower for longer than the market originally anticipated, duration risk is still prevalent in many fixed income investors' portfolios. In our view, the high yield market has never been more interest rate sensitive.

High Yield Market Weight by Yield-to-Worst
As of November 30, 2017



Past performance is not an indicator or a guarantee of future performance.
Source: JPMorgan. High Yield market represented by the JPMorgan High Yield Index. Important data provider notices and terms available at www.franklintempletondatasources.com. Indexes are unmanaged and one cannot invest directly in them. They do not reflect any fees, expenses, or sales charges.

We believe relative value fixed income managers such as long/short credit managers are well positioned, given their shorter duration portfolios, and should be able to generate alpha from rising sector dispersion.

Long/Short Equity

We remain constructive on long/short equity investing despite our cautious views on current equity market conditions. Although index valuations have moved higher, recent corporate earnings and macro indicators have implied further upside in the market. The present environment should create opportunities for managers to generate returns on both sides of their books. Steady rising interest rates, as well as discussions about tax reform that preceded its actual enactment in Q4 2017, both created sector and company-specific dispersions, which we expect to continue over the next 12 months.

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Relative Value

The less directional nature of relative value strategies remains attractive amidst the greater uncertainty in the markets. We maintain a slightly positive view for convertible arbitrage and volatility arbitrage and a neutral outlook for fixed income arbitrage. With actual volatility at very low levels, the long volatility profile has attractive asymmetry as a complement to our other investments.

Event Driven

We believe corporate activity will remain robust and potentially increase as the Trump administration employs more business-friendly policies. CEO optimism is high, and potential tax code changes could boost corporate activity. There has been significant progress on tax reform, which was finalized in late December. Merger arbitrage spreads remain attractive relative to yields while special situations and activism will likely be more equity market dependent.

Credit

While rates have remained lower longer than the market originally anticipated, duration risk is still prevalent in the credit markets. Long/short credit managers have naturally shorter duration portfolios and should benefit from sector dispersion when rates do rise. Defaults remain low with limited new opportunities. In structured credit, fundamentals remain strong and yields look attractive on a relative basis. Demand for private credit remains high.

Global Macro

Maintain positive outlook for all global macro sub-strategies. A more favorable outlook for discretionary macro given the possibility of increased market volatility across rates and currencies. Focus on opportunistic and relative value investment themes in emerging markets due to rising valuations. A cautiously favorable outlook for systematic macro strategies.

Commodities

We believe there is light at the end of the tunnel for discretionary commodity strategies after a prolonged period of depressed performance. We continue to marginally increase the score for the strategy.

Insurance-Linked Securities

This year turned out to be the biggest loss year for the ILS capital markets since inception, which should lead to a significant re-pricing opportunity going into 2018. After having a negative outlook for the strategy for over three years, the dynamics have completely changed to positive across all ILS sub-segments.

Outlook Trend For Strategies And Sub-Strategies

STRATEGIES	Q3 2017	Q4 2017	Q1 2018	CHANGES
Long Short Equity	+1	+1	**0**	↓
Activist	+1	+1	**+1**	–
Asia	+1	+1	**+1**	–
Sector Tech/Healthcare	0	+1	**0**	↓
Equity Market Neutral	0	0	**0**	–
Europe	+1	+1	**+1**	–
Relative Value	0	0	**0**	–
Fixed Income	0	0	**0**	–
Convertible Arbitrage	+1	+1	**+1**	–
Volatility Arbitrage	+1	+1	**+1**	–
Event Driven	+1	+1	**+1**	–
Special Situations	0	0	**0**	–
Activist	+1	+1	**+1**	–
Merger Arbitrage	+1	+1	**+1**	–
Credit	+1	+1	**+1**	–
Distressed	-1	-1	**-1**	–
Structured Credit	0	0	**0**	–
Direct Lending	+1	+1	**+1**	–
Credit Long Short	+1	+1	**+1**	–
Macro	+1	+1	**+1**	–
Discretionary	+1	+1	**+1**	–
Systematic	+1	+1	**+1**	–
Emerging Markets	+1	+1	**+1**	–
Commodities	+1	0	**+1**	–
Agriculture	+1	+1	**+1**	–
Metals	-1	-1	**0**	↑
Natural Gas	-1	0	**+1**	↑
Oil & Products	+2	+1	**+1**	–
Insurance-Linked Securities	-1	0	**+1**	↑
Life Securitization	-2	-2	**-2**	–
Retrocessional	-1	0	**+2**	↑
Industry Loss Warranties	-1	0	**+1**	↑
Private Transaction	0	0	**+2**	↑
Catastrophe Bonds	-1	+1	**+2**	↑

Sub-Strategies Ranked By Score

RANKINGS (TOP DOWN)	SCORE
Retrocessional	1.9
Private Transactions	1.6
Cat Bonds	1.5
Long/Short Credit	1.5
Agriculture	1.2
Europe	1.2
US Natural Gas	1.2
ED - Merger Arbitrage	1.1
Discretionary	1.1
Direct Lending	1.1
ILWs	1.0
Oil & Products	1.0
Asia	1.0
ED - Activist	0.9
Activist	0.7
Convertible Arbitrage	0.7
Systematic	0.7
Volatility Arbitrage	0.5
Emerging Markets	0.5
ED - Special Situations	0.3
Sector Technology/Healthcare	0.2
Structured Credit	0.1
Fixed Income	0.0
Long Short Equity	-0.1
Metals	-0.2
Equity Market Neutral	-0.3
Distressed	-0.9
Life Securitization	-1.7

The K2 Research Outlook Scores are the opinions of the K2 Research group as of the date indicated and may not reflect the views of other groups within K2 or Franklin Templeton. Scores are determined relative to other hedge fund strategies and do not represent an opinion regarding absolute expected future performance or risk of any strategy or sub-strategy. Scores are determined by the K2 Research group based on a variety of factors deemed relevant to the analyst(s) covering the strategy or sub-strategy and may change from time to time in K2's sole discretion. In certain sections of this presentation, outlook scores are rounded to the nearest whole number. These scores are only one of several factors that K2 uses in making investment recommendations, which may vary based on a clients' specific investment objectives, risk tolerance and other considerations. Therefore, a positive or negative score may not indicate that a particular strategy or sub- strategy should be overweighted or underweighted, respectively, in any given portfolio. This information contains a general discussion of certain strategies pursued by underlying hedge funds, which may be allocated across several K2 funds. This discussion is not meant to represent a discussion of the overall performance of any K2 fund. Specific performance information relating to K2 funds is available from K2.

SUB-STRATEGY OUTLOOK AND RETURN

Long Short Equity

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Long/Short Equity (HFRXEH) Inception: Jan-98	9.05%	5.23%	We remain constructive on long/short equity investing despite our cautious views on current equity market conditions. Although index valuations have moved higher, recent corporate earnings and macro indicators have implied further upside in the market. The present environment should create opportunities for managers to generate returns on both sides of their books. Steady rising interest rates and mere discussions about tax reform have already created sector and company-specific dispersions, which we expect to continue over the next 12 months.
Activist (HFRXACT) Inception: Jan-05	7.45%	7.12%	Elevated corporate cash balances with a high probability of repatriation within the next 12 months and steadily rising interest rates should continue to create a robust opportunity set for activist managers. Companies continue to trade at a discount relative to peers or the markets more broadly. Furthermore, the Trump administration has started to establish its tolerance towards certain corporate deals, which may result in further use of activist investing.
Asia (HFRXASC) Inception: Jan-04	12.33%	6.70%	Japan should continue to benefit from solid corporate earnings growth, additional structural reforms, and continued buying by domestic institutions. However, the country is facing mounting geopolitical risk related to North Korea. President Xi has further consolidated power in the 19th Party Congress, and the government can now focus on moving forward with structural economic reforms. Improving macro conditions and earnings momentum support the investment outlook of Hong Kong/China equities. Fed balance sheet tapering and higher US rates may create volatility in Asian equities, but in our view it is the momentum of the moves rather than the direction that matters most.
Tech/Healthcare (HFRXTH) Inception: Jan-05	14.81%	8.45%	The extended 2017 rally in technology has investors slightly cautious at current equity market levels. However, managers have continued to look for companies with high risk/reward asymmetries by searching for growth or new disruptive technologies. While healthcare has lagged relative to technology, growth in the space remains promising with further innovations in specific areas, favorable drug trials, and M&A, all of which could boost valuations higher. Investors may also anticipate new healthcare reform legislation, which could provide further clarification and be a potential catalyst for 2018.
Equity Market Neutral (HFRXEMN) Inception: Jan-98	1.37%	1.07%	While markets have experienced minimal market volatility and trading volumes in 2017, recent reversal in these trends should create an opportunity set for systematic funds with low net or market neutral orientation to benefit from decreasing stock correlation and increasing dispersion. Managers' efforts to be minimally correlated to equity markets should help shield assets from potentially large equity market drawdowns. Furthermore, managers continue to focus on incrementally improving their strategies with additional research and development.
Europe (HFRXEHE) Inception: Apr-03	6.90%	0.87%	Favorable valuations and improving corporate earnings could help advance European equity markets further. Increased dispersion across companies, sectors, and countries could help generate higher alpha. Rising interest rates driven by the ECB's unwinding of fiscal stimulus may create similar tailwinds for companies as those experienced in the US.

Source: K2, Bloomberg. As of November 30, 2017. Please see important disclosures and disclaimers at the end of this presentation, which provide detailed information regarding information presented herein and form an integral part hereof. Past performance is not indicative or a guarantee of future results.

SUB-STRATEGY OUTLOOK AND RETURN

Relative Value

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Fixed Income (HFRXFSV) Inception: Jan-05	8.03%	3.99%	The diverging paths of central banks in the major global economies are expected to present improved directional opportunities. Participation from directional buyers and sellers of bonds should result in greater market inefficiencies between spot bonds and futures, benefiting less directional relative value trading. The strategy is still subject to greater leverage and funding risks, justifying the cautiously optimistic sentiment we have.
Convertible Arbitrage (HFRXCA) Inception: Jan-98	7.29%	1.53%	The supply of trading opportunities has been limited recently by low rates and low realized volatility. However, the strategy should benefit from rising interest rates, the prospect of more new issuance, and potential market volatility. This makes the strategy attractive, in our view, as a safer investment alternative given its lower directionality and as a source of less correlated trading alpha should the markets remain benign for the foreseeable future. US issuance has rebounded from last year's depressed levels.
Volatility Arbitrage (HFRXVOL) Inception: Jan-04	4.49%	4.67%	The outlook for the sub-strategy remains modestly positive. Volatility is still muted across most asset classes, and directional managers continue to suffer from the high cost of carry associated with steep volatility curves, elevated skew, and low realized volatility relative to implied. "Green shoots" for the strategy include generally stronger market liquidity (which tends to pick up seasonally in Q1-Q2), as well as added diversification benefits from exposure to markets and asset classes other than US equities. We continue to like the directional nature of the strategy with its potential to benefit from rising market volatility due to rising interest rates, geopolitical instability, and risk factors.

Event Driven

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Merger Arbitrage (HFRXMA) Inception: Jan-98	2.59%	5.24%	CEO optimism remains high, and we believe corporate activity will remain robust and potentially increase as the Trump administration is expected to employ more business friendly policies. Tax reform has made significant progress recently and should provide additional tailwinds for corporate activity – lower corporate tax rates and a tax holiday to repatriate cash from overseas. In our opinion, merger arbitrage remains an attractive strategy for investors seeking steady returns with minimal market correlation.
Special Situations (HFRXSS) Inception: Jan-05	9.63%	2.53%	Special situation equities have rebounded in 2017 versus a disappointing 2016. The opportunity set is expected to remain healthy as companies proactively pursue value enhancing actions to avoid being targeted by activists. Tailwinds should improve as investors gain more clarity on the Trump administration's regulatory and tax policies. We favor managers that properly hedge these higher beta investments.
Activist (HFRXACT) Inception: Jan-05	7.45%	7.12%	Although we expect activists to continue to find mismanaged companies to target, much of the low-hanging fruit is gone. Activists will need more time for strategies to come to fruition when employing a restructuring approach as opposed to financial engineering.

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SUB-STRATEGY OUTLOOK AND RETURN

Credit

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Direct Lending (HFRXDS) Inception: Jan-98	4.10%	3.12%	Basel III and the Volcker Rule have reduced banks' ability to lend globally. Whether banks begin to re-enter the lending arena in the US is a longer-term question. Private credit strategies look attractive given the lower market-to-market sensitivity, but an influx of capital in the space has lowered the illiquidity premium. Within private credit, we prefer staying higher in the capital structure or investing in specialty finance strategies that are less correlated to the credit cycle.
Distressed (HFRXDS) Inception: Jan-98	4.10%	3.12%	Corporate defaults remain low, and the largest restructuring opportunities remain those from the 2007-08 cycle. In addition, recent recovery rates have been below historical averages due to longer restructuring timelines and the fact that only the weakest companies have defaulted. The middle market, particularly companies with lower quality governance, could provide some interesting opportunities. Retail is also an area of focus, but defaults have been on the smaller end to date.
Credit Long/Short (HFRXFCO) Inception: Jan-05	7.79%	4.64%	As interest rates have remained lower for longer than the market originally anticipated, credit market participants still have significant duration risk in their portfolios. Long/short credit managers are well positioned given their shorter duration portfolios and should be able to generate alpha from rising sector dispersion. Managers are also finding attractive opportunities in capital structure arbitrage.
Structured Credit (HFRXFAB) Inception: Jan-05	9.66%	11.19%	Fundamentals generally remain strong in structured credit, particularly in RMBS and consumer ABS, with increased certainty surrounding cash flows. Yields are attractive relative to other fixed income instruments. In certain sectors of CMBS, some short opportunities have arisen due to retail store closures and higher rates, which make it more difficult for borrowers to refinance.

Global Macro

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Discretionary (HFRXDT) Inception: Jan-05	3.84%	5.44%	Our outlook for discretionary macro strategy continues to improve. Although volatility across most asset classes remains low, we are seeing more potential sources of instability (and resulting attractive trading opportunities for macro managers). End of quantitative easing in the US, combined with divergent central bank policies in other regions, results in potentially higher risks across currency and fixed income markets as well as an increasing possibility of knock-on effects on traditional "risk-on" assets.
Systematic (HFRXSDV) Inception: Jan-05	3.64%	3.49%	We maintain a cautiously positive outlook for systematic strategies. We like trend-following models given the generally stronger trend environment but find the directional equity exposure to be a source of risk. Outlook for non-price based models is more positive by comparison, given those models' lower likelihood of getting whipsawed by rapidly changing markets and an increased focus on more persistent market signals. Both approaches should present some diversification benefits for more traditional discretionary strategies and asset classes.
Emerging Markets (HFRXTEM) Inception: Jan-05	11.73%	6.31%	We maintain a favorable outlook for emerging markets focused managers but with an increasingly cautionary tilt. Easing cycles in many EM markets have run their course, and as DM rates are beginning to trend higher, competition for capital will likely accelerate just as record inflows into EM are resulting in a shortage of attractive opportunities. Our current approach to EM is focused on opportunistic and relative value investment themes given the generally high degree of dispersion between the various markets.

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SUB-STRATEGY OUTLOOK AND RETURN

Commodities

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Oil & Products (HFRXENEG) Inception: Jan-07	-8.13%	1.12%	OPEC uncertainty is seemingly out of the way, at least for the time being, after the cartel agreed to extend production cuts for another nine months at their meeting on November 30. The oil market is pegged between the bullish forces of OPEC and the bearish forces in the form of US shale producers. While this setup suggests a more range bound market, in our view overall supply and demand is much more balanced than even a year ago, which should provide for better trading opportunities.
Metals (HFRXMETL) Inception: Jan-05	2.54%	4.15%	Metals have come to life again. Chinese supply cuts due to pollution measures, the antipathy to diesel engines, and the acceleration of electric vehicle adaption have created new market dynamics. Some of the more recent price moves might be ahead of fundamentals, but at least new drivers are creating an increase in volatility.
Agriculture (HFRXAGRI) Inception: Jan-05	1.33%	2.62%	In our opinion, the upcoming year represents a more conducive supply and demand environment for grains to push off the recent lows. La Niña lasting through possibly early 2018 could also have production implications. CFTC net speculative positioning in softs and livestock commodities suggest that we should expect some mean-reversion moves. Examples are in Arabica coffee, sugar, and live cattle.
US Natural Gas (HFRXCOM) Inception: Jan-05	-2.74%	2.71%	NG trains and expanding exports to Mexico increase the baseline-demand for natural gas. At the same time, storage capacity has not increased to accommodate this higher base. The lack of increased storage capacity could be a recipe for increased volatility and seasonality for the US gas market.

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SUB-STRATEGY OUTLOOK AND RETURN

Insurance-Linked Securities

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of November 30, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Cat Bonds (EHFI300) Inception: Jan-06	-6.65%	5.23%	At one point during the recent loss events, the cat bond yield shot up to over 8%, reflecting high levels of uncertainty. At the same time 2017 will go into the books of record issuances, and we expect a continuation of healthy new issuance levels for the first half of 2018.
Private Transactions (EHFI300) Inception: Jan-06	-6.65%	5.23%	We expect an overall price increase for collateralized private transactions. We are cognizant of the fact that there is new capital coming into the marketplace to absorb losses, which might dampen some of the price reaction. However, we have increased the score.
Life Securitization (EHFI300) Inception: Jan-06	-6.65%	5.23%	New issuance in the 144A life cat bond space is still very limited. We continue to find private market opportunities more attractive than the 144A life cat bond for the time being.
Retrocessional (EHFI300) Inception: Jan-06	-6.65%	5.23%	The retrocessional market has been hurt the most. Estimates indicate that between 60% and 70% of the capital is either lost or at least trapped for a period of time. That means the market requires an amount in excess of $10 billion to replace old capital. As a result, yield adjustments will likely be most significant for retro.
Industry Loss Warranties (EHFI300) Inception: Jan-06	-6.65%	5.23%	With the wave of overall price increases, industry loss warranties should also benefit. On the other hand, demand for hedges is expected to decrease, which might soften the yield relative to the other sub-segments.

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GLOSSARY

Alpha – A mathematical value indicating an investment's excess return relative to a benchmark. Measures a manager's value added relative to a passive strategy, independent of the market movement.

Correlation – The degree of interaction between the Fund's return and that of the comparison Index. The correlation coefficient, expressed as a value between +1 and -1, indicates the strength and direction of the linear relationship between Fund's returns and the returns of the index.

Average Annualized Return – Annualized geometric average return comprised of compounded monthly returns.

BENCHMARK DEFINITIONS

S&P 500 Index – The S&P 500 Index is a market-value weighted index provided by Standard & Poor's which consists of 500 stocks chosen for market size, liquidity, and industry group representation. Includes reinvestment of dividends.

HFR Monthly Indices (HFR) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFR are broken down into four main strategies, each with multiple sub-strategies. All single-manager HFR Index constituents are included in the HFR Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database to the existing capital structure.

HFRX Event Driven Index (HFRXED) – Event Driven Managers maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

HFRX Relative Value Arbitrage Index (HFRXRVA) – Relative Value investment managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager.

HFRX Macro Index (HFRXM) – Macro strategy managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches and long- and short-term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposes to EH, in which the fundamental characteristics on the company are the most significant and integral to investment thesis.

HFRX Equity Hedge Index (HFRXEH) – Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

HFRX Equity Hedge EUR Index (HFRXEHE) – The HFRX Equity Hedge EUR Index is denominated in EUR. Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short.

HFRX ED: Distressed/Restructuring Index (HFRXDS) – Distressed Restructuring Strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities.

HFRX EH: Equity Market Neutral Index (HFRXEMN) – Equity Market Neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both Factor-based and Statistical Arbitrage/Trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical Arbitrage/Trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies which may occur as a function of expected mean reversion inherent in security prices; high frequency techniques may be employed and trading strategies may also be employed on the basis on technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely or accurately discounted into current security prices.

HFRX Activist Index (HFRXACT) – Activist strategies may obtain or attempt to obtain representation of the company's board of directors in an effort to impact the firm's policies or strategic direction and in some cases may advocate activities such as division or asset sales, partial or complete corporate divestiture, dividend or share buybacks, and changes in management. Strategies employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently or prospectively engaged in a corporate transaction, security issuance/repurchase, asset sales, division spin-off or other catalyst oriented situation.

HFRX Commodity Index (HFRXCOM) – Commodity strategies include both discretionary and systematic commodity strategies. Systematic commodity have investment processes typically as function of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across commodity assets classes, frequently with related ancillary exposure in commodity sensitive equities or other derivative instruments. Strategies typically employ quantitative process which focus on statistically robust or technical patterns in the return series of the asset, and typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies.

HFRX Asia Composite Hedge Fund Index (HFRXASC) – HFRX Asia Composite Index is designed to reflect the performance of the complete Asian hedge fund universe by an asset weighted allocation to the following: HFRX Asia Ex Japan Index, HFRX Asia w/Japan index, and HFRX Japan Index.

HFRX EH: Sector – Technology/Healthcare Index (HFRXTH) – Technology/Healthcare strategies employ investment processes designed to identify opportunities in securities in specific niche areas of the market in which the Manager maintain a level of expertise which exceeds that of a market generalist in identifying opportunities in companies engaged in all development, production and application of technology, biotechnology and as related to production of pharmaceuticals and healthcare industry. Though some diversity exists as a across sub-strategy, strategies implicitly exhibit some characteristic sensitivity to broader growth trends, or in the case of the later, developments specific to the Healthcare industry.

BENCHMARK DEFINITIONS (CONTINUED)

HFRX RV: FI – Sovereign Index: Fixed Income (HFRXFSV) – Sovereign includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a sovereign fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple sovereign bonds or between a corporate and risk free government bond. Fixed Income Sovereign typically employ multiple investment processes including both quantitative and fundamental discretionary approaches and relative to other Relative Value Arbitrage sub-strategies, these have the most significant top-down macro influences, relative to the more idiosyncratic fundamental approaches employed. RV: Fixed Income: Sovereign funds would typically have a minimum of 50% exposure to global sovereign fixed income markets, but characteristically maintain lower net exposure than similar strategies in Macro: Multi-Strategy sub-strategy.

HFRX RV: Fixed Income-Convertible Arbitrage Index (HFRXCA) – Convertible Arbitrage includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between the of a convertible security and the price of price a non-convertible security, typically of the same issuer. Convertible arbitrage positions maintain characteristic sensitivities to credit quality the issuer, implied and realized volatility of the underlying instruments, levels of interest rates and the valuation of the issuer's equity, among other more general market and idiosyncratic sensitivities.

HFRX RV: Volatility Index (HFRXVOL) – Volatility strategies trade volatility as an asset class, employing arbitrage, directional, market neutral or a mix of types of strategies, and include exposures which can be long, short, neutral or variable to the direction of implied volatility, and can include both listed and unlisted instruments. Directional volatility strategies maintain exposure to the direction of implied volatility of a particular asset or, more generally, to the trend of implied volatility in broader asset classes. Arbitrage strategies employ an investment process designed to isolate opportunities between the price of multiple options or instruments containing implicit optionality. Volatility arbitrage positions typically maintain characteristic sensitivities to levels of implied and realized volatility, levels of interest rates and the valuation of the issuer's equity, among other more general market and idiosyncratic sensitivities.

HFRX ED: Merger Arbitrage Index (HFRXMA) – Merger Arbitrage strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations which pre-, post-date or situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross border, collared and international transactions which incorporate multiple geographic regulatory institutions, with typically involve minimal exposure to corporate credits.

HFRX Special Situations Index (HFRXSS) – Special Situations: Strategies employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction, security issuance/repurchase, asset sales, division spin-off or other catalyst oriented situation. These involve both announced transactions as well as situations which pre-, post-date or situations in which no formal announcement is expected to occur. Strategies employ an investment process focusing broadly on a wide spectrum of corporate life cycle investing, including but not limited to distressed, bankruptcy and post-bankruptcy security issuance, announced acquisitions and corporate division spin-offs, asset sales and other security issuance impacting an individual capital structure focusing primarily on situations identified via fundamental research which are likely to result in a corporate transactions or other realization of shareholder value through the occurrence of some identifiable catalyst. Strategies effectively employ primarily equity (greater than 60%) but also corporate debt exposure, and in general focus more broadly on post-bankruptcy equity exposure and exit of restructuring proceedings.

HFRX RV: FI – Asset Backed Index (HFRXFAB) – Fixed Income – Asset Backed includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a fixed income instrument backed physical collateral or other financial obligations (loans, credit cards) other than those of a specific corporation. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments specifically securitized by collateral commitments which frequently include loans, pools and portfolios of loans, receivables, real estate, machinery or other tangible financial commitments. Investment thesis may be predicated on an attractive spread given the nature and quality of the collateral, the liquidity characteristics of the underlying instruments and on issuance and trends in collateralized fixed income instruments, broadly speaking. In many cases, investment managers hedge, limit or offset interest rate exposure in the interest of isolating the risk of the position to strictly the yield disparity of the instrument relative to the lower risk instruments.

HFRX RV: Fixed Income – Corporate Index (HFRXFCO) – Fixed Income – Corporate includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk free government bond. Fixed Income – Corporate strategies differ from Event Driven: Credit Arbitrage in that the former more typically involve more general market hedges which may vary in the degree to which they limit fixed income market exposure, while the later typically involve arbitrage positions with little or no net credit market exposure, but are predicated on specific, anticipated idiosyncratic developments.

HFRX Discretionary Thematic Index (HFRXDT) – Discretionary Thematic strategies are primarily reliant on the evaluation of market data, relationships and influences, as interpreted by an individual or group of individuals who make decisions on portfolio positions; strategies employ an investment process most heavily influenced by top down analysis of macroeconomic variables. Investment Managers may trade actively in developed and emerging markets, focusing on both absolute and relative levels on equity markets, interest rates/fixed income markets, currency and commodity markets; frequently employing spread trades to isolate a differential between instrument identified by the Investment Manager to be inconsistent with expected value. Portfolio positions typically are predicated on the evolution of investment themes the Manager expect to materialize over a relevant time frame, which in many cases contain contrarian or volatility focused components.

HFRX Macro: Systematic Diversified Index (HFRXSDV) – Systematic Diversified strategies have investment processes typically as function of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies which employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ quantitative process which focus on statistically robust or technical patterns in the return series of the asset, and typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies. Although some strategies seek to employ counter trend models, strategies benefit most from an environment characterized by persistent, discernible trending behavior. Systematic Diversified strategies typically would expect to have no greater than 35% of portfolio in either dedicated currency or commodity exposures over a given market cycle.

HFRX Emerging Markets Index (HFRXTEM) – HFRX Total Emerging Market Index covers all 5 emerging markets: Asia Ex Japan, Russia/East Europe, Latin America, MENA, and Multi-Emerging market. 15 constituent funds are composed of 3 most representative funds are chosen in each region and equally weighing every region.

HFRX Commodity: Energy Index (HFRXENEG) – Macro: Commodity: Energy strategies are reliant on the evaluation of market data, relationships and influences as they pertain primarily to Energy commodity markets focusing primarily on positions in Crude Oil, Natural Gas and other Petroleum products. Portfolio investment process can be predicated on fundamental, systematic or technical analysis, and strategies typically invest in both Emerging and Developed Markets.

HFRX Commodity: Metals Index (HFRXMETL) – Macro: Commodity: Metals strategies are reliant on the evaluation of market data, relationships and influences as they pertain primarily to Hard Commodity markets focusing primarily on positions in Metals (Gold, Silver, Platinum, etc.). Portfolio investment process can be predicated on fundamental, systematic or technical analysis, and strategies typically invest in both Emerging and Developed Markets.

HFRX Commodity: Agriculture Index (HFRXAGRI) – Macro: Commodity: Agricultural strategies are reliant on the evaluation of market data, relationships and influences as they pertain primarily to Soft Commodity markets focusing primarily on positions in grains (wheat, soybeans, corn, etc.) or livestock markets. Portfolio the investment process can be predicated on fundamental, systematic or technical analysis, and Agricultural strategies typically invest in both Emerging and Developed Markets.

Eurekahedge ILS Advisers Index (EHFI300) – The Eurekahedge ILS Advisers Index is an equally weighted index of hedge funds that explicitly allocate to insurance-linked investments and have at least 70% of their portfolio invested in non-life risk.

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