FRANKLIN TEMPLETON INVESTMENTS

K2 HEDGE FUND STRATEGY OUTLOOK

Q3 2017

Q3 2017 OVERVIEW

Favorable dispersion has created reasons for optimism in hedge strategies for the 3rd quarter of 2017. This optimism strengthens our conviction in three main strategies: Long Short Equity Europe, Relative Value, and Macro CTA.

OUR TOP CONVICTIONS

1

Long Short Equity – Europe
European equity markets have continued to benefit from relatively favorable valuations, improving earnings growth, and global reflation overall.

2

Relative Value – Fixed Income
As rates rise, investors need to reduce duration risk. This creates volatility in the credit markets and presents opportunities for hedged credit strategies to generate performance.

3

Macro CTA
Improved environment for systematic investments due to stronger trend following conditions and improving cross-asset correlations.

LONG/SHORT EQUITY

We maintain a positive outlook for long/short equity investing, despite maintaining a measured outlook on overall market levels.

RELATIVE VALUE

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

EVENT DRIVEN

Merger arbitrage spreads remain attractive relative to yields while special situations and activism will be more equity market dependent.

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.

COMMODITIES

Discretionary commodity strategies have not delivered what we expected them to do year-to-date, but an extension of the low price environment could lead to more pronounced price trends and volatility going forward.

INSURANCE-LINKED SECURITIES

We are holding on to our cautious view.

A Leap of Faith

As we move into the third quarter we find our attention focused on the actions of the U.S. Federal Reserve. The Fed has now raised rates four times as part of a apparent normalization of monetary policy that began in December 2015. From an investment perspective we view the bank's decision to move rates higher as a positive one; particularly as it pertains to a divergence between U.S. policy and that of central banks globally like the European Central Bank (ECB) and Bank of Japan (BOJ), which remain loose with their monetary programs. This dispersion should create fertile opportunities for active hedge fund managers to capture alpha-centric performance.

From a macroeconomic view, however, we see the Fed's decision in a more circumspect manner. That is not to suggest we believe the move was wrong; we do not presume to know better than Yellen, et. al. the best course of action. From their seat – and tasked with the mandate of promoting a healthy economy – one could say they had little choice other than to act.

Still, there are those who believe the Fed should not be raising rates when core inflation is so low. In fact Minneapolis Fed President Neel Kashkari disagreed with the decision. Kashkari observed that the market has been sending mixed signals of late — that is tightening labor data but weakening inflation. In a June 16 letter he explained his dissent as follows:

"On one hand, intuitively, I am inclined to believe in the logic…a tight labor market should lead to competition for workers, which should lead to higher wages. Eventually, firms will have to pass some of those costs on to their customers, which should lead to higher inflation. On the other hand, the data are not supporting this story…core inflation is actually falling even as the labor market is tightening."

So, the data does not entirely support the Fed's thesis. In some ways it could be said the decision to raise rates reflects a leap of faith. That is faith in economic theory versus reality — because despite labor market tightening since March we do not appear to be moving much closer to the Fed's inflation target.

In our view there is a certain 'let's see what sticks' mentality involved. We suggest this because frankly who could really know what to expect. The business of economics is decidedly complex. Irrespective of the sophistication or depth of intellect applied to the various models used by modern academics, their analysis will generally fall far short of providing sound insight into real world behavior. In the same way that meteorology has made little progress over the last several decades in improving its probability for weather prediction — despite an exponential spike in computing power over the same period — the business of modeling economies remains, for all intents and purposes, fuzzy at best.

With an infinite number of factors at play against a dynamic backdrop of ever evolving markets, predicting cause and effect outcomes is virtually impossible. In the immortal words of Albert Einstein, "as far as the laws of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality."

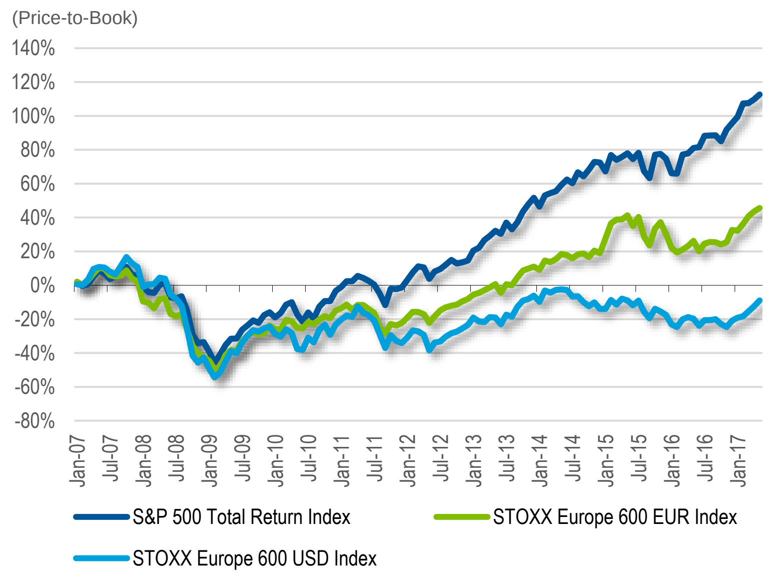
Inflation expectations appear flat and may even be drifting lower. Perhaps we should have waited for more data to see if the recent drop in inflation is indeed "transitory" as Yellen's statements seem to suggest. Perhaps not. Only time will tell.

European Long/Short Equity Vacation

Irrespective of what surfaces in terms of economic growth and inflation in North America, we maintain confidence in the directional tailwind supporting long/short equity trading in Europe.

European equity markets continue to benefit from relatively favorable valuations, improving earnings growth, and overall global reflation. With most of the banking issues resolved, Europe appears to be in a position to grow again. Additionally, we anticipate the alpha environment will likely remain robust as certain companies, sectors and countries are positioned to benefit more significantly than others. Despite a lack of market volatility, correlations have declined and dispersion has increased — creating a fertile environment for fundamental stock selection.

European Equity Price-to-Book Valuations Appear Favorable



As of May 1, 2017.
Source: Bloomberg, S&P Dow Jones, STOXX. See www.franklintempletondatasources.com for additional data provider information.

The significant depreciation of the British pound, for example, has created better separation and earnings variances between those companies that benefit more from exports versus those that do not. And as interest rates start to increase in the region, the environment for long/short investing should improve further.

Over the last several months we have also witnessed interesting sector rotations, such as into financials and technology, while some of the defensive energy sectors and commodity-related investments have lagged. This dynamic has presented managers with the opportunity to employ quality long positions against relatively efficient market hedges.

Central Bank Policy Divergence: A Potential Benefit to Relative Value – Fixed Income

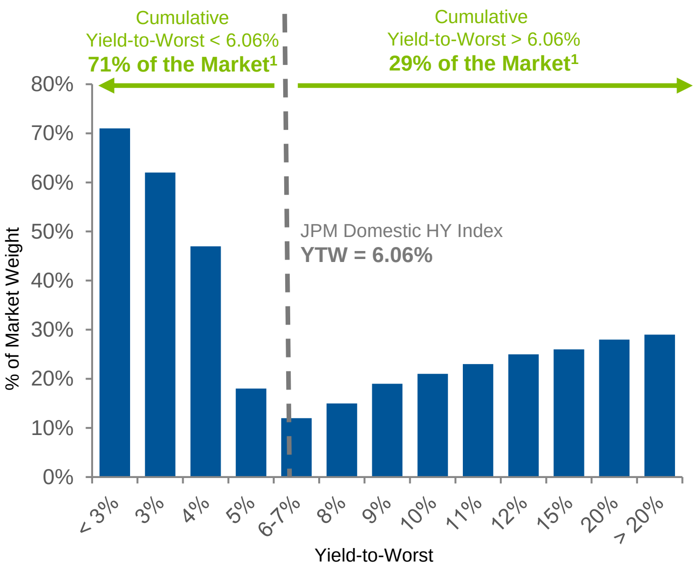
The diverging paths of central banks in the major global economies are expected to present improved directional opportunities. Participation from directional buyers and sellers of bonds should result in greater market inefficiencies between cash, bonds, and futures, benefiting less directional relative value trading.

Specifically, managers in this strategy are finding opportunity in two primary areas: cross-country arbitrage and cross-sector arbitrage. With the Fed now having hiked interest rates four times since December 2015, they are clearly telegraphing their intent to normalize interest rate levels going forward. Simultaneously, the ECB and the BOJ remain somewhat stimulative in their approach. This divergence may create dispersions that present hedged opportunities, such as being short U.S. government bonds versus holding long Eurozone bonds.

Macro CTA

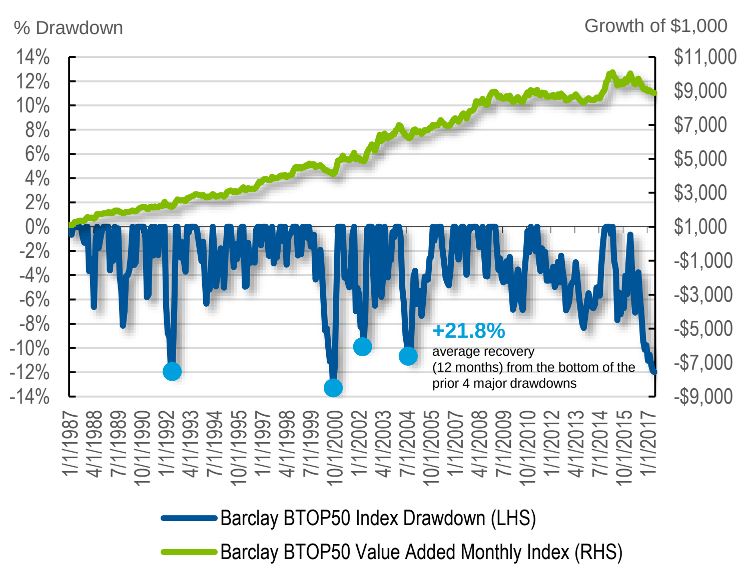
We are optimistic on Macro CTA strategies ("Commodity Trading Advisor" strategies refers to systematic trend following and momentum-type trading) based on a combination of stronger trend following conditions and reduced cross-asset correlations. Low volatility across all major markets remains a headwind (particularly for price-based systematic managers), but we also like the strategy's low correlation to traditional asset classes and the potential risk mitigating characteristics in certain market environments.

We See Relative Value Opportunities in Fixed Income Based on Prevailing Investor Positioning



As of May 1, 2017.
1. The market is being represented by the JPM Domestic HY Index.
Past performance is not an indicator or a guarantee of future performance.
Source: JP Morgan. See www.franklintempletondatasources.com for additional data provider information.

Macro CTA Strategies Tend to Perform Well on the Heels of Major Drawdowns



As of May 1, 2017.
Past performance is not an indicator or a guarantee of future performance.
Source: Franklin Templeton.

For Qualified Purchasers, Institutional Investors, and Professional Investors Use Only—Not for Use with Retail Investors.

Long/Short Equity

We maintain a positive outlook for long/short equity investing, despite maintaining a measured outlook on overall market levels. Given the resurgence of certain trends YTD, including lower stock correlations, higher dispersion and improved alpha generation by long/short funds, we anticipate the alpha environment will likely remain robust and that long/short managers will be able find attractive opportunities on both sides of their books regardless of aggregate market valuations.

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 a neutral view for both volatility arbitrage and 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

Corporate activity should remain robust under the new administration, which is expected to employ more business friendly policies – less regulation, lower taxes, tax holiday on cash repatriation, and reduced antitrust risk. Merger arbitrage spreads remain attractive relative to yields while special situations and activism will 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

Positive outlook for all three subsectors of global macro strategies. Systematic managers are benefiting from an improved trend following environment and improved cross-asset correlations. Discretionary managers are benefiting from strong fundamentals and greater dispersion in emerging markets, along with a generally benign macroeconomic environment.

Commodities

Discretionary commodity strategies have not delivered what we expected them to do year-to-date, but an extension of the low price environment could lead to more pronounced price trends and volatility going forward. The energy markets should benefit from this the most, followed by agriculture. In metals we still do not see a fundamental catalyst for bigger price actions, except a looming China tail risk event.

Insurance-Linked Securities

We are holding on to our cautious view. ILS faces the dilemma that its pricing is attractive relative to other fixed-income markets while natural catastrophe spreads in absolute terms are tight. Private transactions offer the most attractive pricing despite record amount of new issuance in cat bonds year-to-date.

Outlook Trend For Strategies And Sub-Strategies

STRATEGIES	Q1 2017	Q2 2017	Q3 2017	CHANGES
Long Short Equity	+1	+1	**+1**	–
Activist	+1	+1	**+1**	–
Asia	0	+1	**+1**	–
Sector Tech/Healthcare	0	+1	**0**	↓
Equity Market Neutral	+1	0	**0**	–
Europe	0	+1	**+1**	–
Relative Value	0	0	**0**	–
Fixed Income	0	0	**0**	–
Convertible Arbitrage	+1	+1	**+1**	–
Volatility Arbitrage	+1	0	**+1**	↑
Event Driven	+1	+1	**+1**	–
Special Situations	0	0	**0**	–
Activist	0	0	**+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	0	0	**+1**	↑
Emerging Markets	+1	+1	**+1**	–
Commodities	+1	+1	**+1**	–
Agriculture	0	+1	**+1**	–
Metals	+1	0	**-1**	↓
Natural Gas	+1	+2	**-1**	↓
Oil & Products	+2	+2	**+2**	–
Insurance-Linked Securities	-1	-1	**-1**	–
Life Securitization	-2	-2	**-2**	–
Retrocessional	-1	0	**-1**	↓
Industry Loss Warranties	-1	-1	**-1**	–
Private Transaction	0	0	**0**	–
Catastrophe Bonds	0	0	**-1**	↓

Sub-Strategies Ranked By Score

RANKINGS (TOP DOWN)	SCORE
Oil & Products	1.6
Long/Short Credit	1.5
Europe	1.2
US Natural Gas	1.2
ED - Merger Arbitrage	1.1
Direct Lending	1.1
Asia	1.0
ED - Activist	0.9
Activist	0.9
Convertible Arbitrage	0.9
Discretionary	0.8
Emerging Markets	0.8
Volatility Arbitrage	0.8
Systematic	0.7
Agriculture	0.7
Sector Technology/Healthcare	0.4
ED - Special Situations	0.3
Structured Credit	0.1
Long Short Equity	0.1
Equity Market Neutral	-0.2
Private Transactions	-0.2
Fixed Income	-0.2
Cat Bonds	-0.5
Distressed	-0.6
Metals	-0.7
Retrocessional	-1.0
ILWs	-1.3
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 May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Long/Short Equity (HFRXEH) Inception: Jan-98	5.57%	5.06%	We maintain a positive outlook for long/short equity investing, despite maintaining a measured outlook on overall market levels. Given the resurgence of certain trends YTD including lower stock correlations, higher dispersion and improved alpha generation by long/short funds, we anticipate the alpha environment will remain robust and that long/short managers will be able find attractive opportunities on both sides of their books regardless of aggregate market valuations.
Activist (HFRXACT) Inception: Jan-05	9.81%	7.06%	With corporate cash balances elevated, financing rates still low, and an increasingly hospitable public attitude toward activist investors, the opportunity set for activism appears to be robust. Managers continue to find attractive activist ideas and have been adding names to their portfolios opportunistically. Additionally the Trump's administration may limit its antitrust scrutiny of potential deals, improving the regulatory environment for the strategy. Improving corporate earnings should also help improve the success and returns of activist investments.
Asia (HFRXASC) Inception: Jan-04	8.51%	6.43%	Japan may benefit from a favorable macro backdrop, healthy earnings growth, additional structural reforms, and continued buying by domestic institutions. Higher US rates are generally negative for Asian equities, but it is the speed of rate moves rather than the direction that matters more. China's commitment to structural economic reform, improving macro, and earnings momentum support the investment outlook. Policy/growth dynamics should remain conducive leading up to the 19th Party Congress. US-China trade relations and RMB policy are topics to watch.
Tech/Healthcare (HFRXTH) Inception: Jan-05	11.10%	8.10%	After rallying significantly during the first half of the year, Technology valuations have started to become less attractive relative to previous levels. However, growth in the space remains encouraging and disruptive technologies such as internet-based sharing platforms continue help to create winners and losers within the space. While Healthcare innovation remains robust, a lack of M&A activity in the space has failed to bolster valuations. Uncertainty around changes to the Affordable Care Act and the government's stance on drug pricing continue to be an overhang for the sector and will likely create non-fundamental volatility in the sector until the overhang is resolved.
Equity Market Neutral (HFRXEMN) Inception: Jan-98	-1.05%	0.97%	Systematic funds with a low net or market-neutral orientation are well positioned to capitalize on market inefficiencies as lower stock correlations, and higher dispersion should pose as tailwinds for market neutral strategies which seek to capture alpha by exploiting factors, trends, and liquidity. Managers' low correlation to equity markets should also help insulate them from large equity market drawdowns. However, some systematic managers have struggled as market volatility and volumes remain near lows and it is unclear when these trends will reverse.
Europe (HFRXEHE) Inception: Apr-03	3.63%	0.57%	European equity markets continue to benefit from favorable valuations, improving earnings growth, and overall global reflation. With most of the banking issues (undercapitalization, NPLs, etc.) resolved, Europe is in a position to grow again. Additionally, we anticipate the alpha environment will remain robust as certain companies, sectors and countries are positioned to benefit more significantly than others. Despite a lack of market volatility, correlations have declined and dispersion has increased creating a fertile environment for fundamental stock selection. As interest rates start to increase in the region, the environment for long/short investing should improve further.

SUB-STRATEGY OUTLOOK AND RETURN

Relative Value

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Fixed Income (HFRXFSV) Inception: Jan-05	7.56%	3.86%	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 cash bonds and futures, benefiting less directional relative value trading. The strategy is still subject to greater leverage and funding risks, justifying the cautiously optimistic rating.
Convertible Arbitrage (HFRXCA) Inception: Jan-98	8.12%	1.41%	Greater market uncertainty combined with still low rates and low realized volatility has limited the supply of trading opportunities in the market. The outlook for the strategy, however, remains quite attractive as rising rates in the US, the prospect of more new issuance, and potential market volatility should all benefit the strategy both 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	5.40%	4.65%	We have a modest improvement in the outlook for the strategy, prompted by an increase in volatility-of-volatility. Because both implied and realized volatility remains so depressed, any movement in it is perceived as having a much more dramatic impact on the markets. The low absolute levels of volatility are allowing for an attractive entry point for directional investments, although the even-lower realized volatility level is making it quite expensive to maintain long-biased volatility profile. We continue to maintain a favorable view of the strategy as a complement to our other investments.

Event Driven

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Merger Arbitrage (HFRXMA) Inception: Jan-98	2.81%	5.33%	We expect that corporate activity will remain robust and potentially increase as the year progresses as the new administration is expected to employ more business friendly policies (less regulation), especially as it relates to antitrust regulation. The potential for lower corporate tax rates and a tax holiday to repatriate cash from overseas should also help support corporate activity. Despite the increase in interest rates, credits markets remain accommodative, and rates/spreads are still at historically low levels. Merger arbitrage remains an attractive strategy for investors seeking steady returns with minimal market correlation.
Special Situations (HFRXSS) Inception: Jan-05	14.06%	2.49%	Special situation equities posted disappointing returns in 2016 as equity market volatility overwhelmed the positive catalysts. However, the opportunity set is expected to remain healthy as many companies proactively pursue value enhancing actions to avoid being targeted by activists. We expect the strategy to perform better in 2017, especially as investors gain more clarity on the new administration's regulatory and tax policies. We favor managers that properly hedge these higher beta investments.
Activist (HFRXACT) Inception: Jan-05	9.81%	7.06%	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. Activism remains a market dependent strategy due to its high net exposures, but our market outlook is improving.

SUB-STRATEGY OUTLOOK AND RETURN

Credit

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Direct Lending (HFRXDS) Inception: Jan-98	15.76%	3.19%	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 under the new administration 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	15.76%	3.19%	Corporate defaults remain low, and the largest restructuring opportunities remain those from the 2007-2008 cycle. Defaults in the energy space have slowed and there are a few opportunities in the retail sector, but these are relatively small. 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.
Credit Long/Short (HFRXFCO) Inception: Jan-05	9.44%	4.58%	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	10.84%	11.21%	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 May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Discretionary (HFRXDT) Inception: Jan-05	3.13%	5.52%	The calendar of potentially destabilizing political events seems to be abating, with few notable situations to take advantage of in the coming quarters. Central banks remain accommodative, and economic conditions are generally benign, prompting depressed volatility across all major asset classes. With limited directional opportunities, managers are focused on taking advantage of relative value trades and potentially attractive entry points to put on positions with positive asymmetry in case of unexpected outcomes.
Systematic (HFRXSDV) Inception: Jan-05	-1.67%	3.27%	Our outlook for systematic strategies has improved this quarter, based on a combination of stronger trend following conditions and improving cross-asset correlations. Low volatility across all major markets remains a headwind (particularly for price-based systematic managers), but we also like the strategy's low correlation to traditional asset classes and the potential risk mitigating characteristics in certain market environments.
Emerging Markets (HFRXTEM) Inception: Jan-05	12.60%	6.16%	We maintain a positive outlook for EM focused managers. Although the strategy has benefited from strong capital flows into emerging markets, our outlook is primarily driven by the attractive alpha opportunity in EM, rather than the beta tailwind. The significant dispersion between various countries based on diverging factors such as interest rate policies, commodity sensitivity, global currency markets, and domestic economic forces is resulting in attractive relative value opportunities for managers in the strategy.

SUB-STRATEGY OUTLOOK AND RETURN

Commodities

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Oil & Products (HFRXENEG) Inception: Jan-07	2.47%	1.89%	OPEC delivered its extension of cuts for another 9 months. However, the market did not deliver in terms of price actions which led to disappointing performance numbers. However, we believe that going forward this could lead to more pronounced price actions. The oil market is rebalancing despite higher US shale production. We expect volatility and eventually price trends to increase.
Metals (HFRXMETL) Inception: Jan-05	6.65%	4.58%	We have lowered our score further because fundamentals remain in a holding pattern without any signs of change. This is reflected in the historically very low volatility in many metals markets. We expect a continuation of the range bound market with the big exception of a looming “China tail-event”. The latter would change market dynamics meaningfully.
Agriculture (HFRXAGRI) Inception: Jan-05	-1.17%	2.59%	There are many idiosyncratic dynamics in the agriculture markets which present interesting opportunities. A lot of agriculture prices reflect the burdensome supply and demand result of previous harvests, but do not price-in potential weather events or supply responses from producers due to low prices. Managers see more trading opportunities for the upcoming harvest season.
US Natural Gas (HFRXCOM) Inception: Jan-05	-4.05%	2.80%	We have lowered our score for the time being because weather continues not to cooperate with the supply and demand dynamics. However, US natural gas remains our second most interesting sub-commodity market, since it has grown more complex and interconnected with international markets via LNG.

SUB-STRATEGY OUTLOOK AND RETURN

Insurance-Linked Securities

SUB-STRATEGIES	TRAILING 12-MONTH BENCHMARK PERFORMANCE as of May 31, 2017	ANNUALIZED RETURN since inception	COMMENTARY
Cat Bonds (EHFI300) Inception: Jan-06	4.69%	6.22%	The cat bond market has seen a record amount of new issuances, bringing the total market size to a new high of roughly $29B. We expect this trend to continue for the later part of the year. However, pricing has continued to tighten due to sizeable demand for uncorrelated and still positively yielding asset classes.
Private Transactions (EHFI300) Inception: Jan-06	4.69%	6.22%	The overall picture for the private transactions are similar to the cat bond markets. However, the pricing pressure has been muted in this segment. Managers with good access to protection were able to renew their June 1st book only marginally below previous year terms. On a relative basis private transactions remain the most attractive sub-segment of the ILS space.
Life Securitization (EHFI300) Inception: Jan-06	4.69%	6.22%	New issuance in the 144A life cat bond space is still very limited. However, several ILS market participants launched investment funds for longer-lockup capital (5 years plus) due to Solvency II capital relieve initiatives. We consider these opportunities much richer than the 144A life cat bond for the time being.
Retrocessional (EHFI300) Inception: Jan-06	4.69%	6.22%	Demand for higher yielding asset classes from the institutional investor community remains high. This led to a very competitive pricing environment in the retro market. We remain underweighted in this sector.
Industry Loss Warranties (EHFI300) Inception: Jan-06	4.69%	6.22%	Customized structures offer some limited opportunities for sellers of protection. Overall buyers of protection are in a better position for standard contracts to partially hedge their portfolios. Therefore we see limited opportunity to have a directionally long investment in this sub strategy.

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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