



3A
Alternative
Investments

Alternative Outlook

15 November 2009

Key Information at a Glance

L/S Equity	↗
Macro - CTA	↗
Arbitrage	→
Credit	↗
Event Driven	↗
Nat. Res., Commo.	→

6-month forecasts

Index Performance (HFRI FoF)

	MTD	QTD	YTD
<i>Composite</i> Multi Strategy	-0.12%	-0.12%	9.73%
<i>Conservative</i> Low Volatility	0.32%	0.32%	8.83%
<i>Diversified</i> Multi Strategy	-0.21%	-0.21%	9.45%
<i>Market</i> <i>Defensive</i> Short	-0.56%	-0.56%	3.19%
<i>Strategic</i> Long Short	-0.20%	-0.20%	11.17%

Estimated figures as at 31 October 2009

Economic data released in October showed a continued improvement in macro data but still reflected signs of vulnerability in the US, UK and Europe. With the VIX index spiking 50% during the last two weeks of the month, investors showed their concerns that these improvements may not be sustainable since they have been created by monetary stimulus. We believe that our portfolios are well-positioned to enter 2010 and its numerous challenges. We have been adding trading oriented managers that have demonstrated in the past their ability to adapt quickly to a changing environment. The bulk of these new additions have been in the Equity Long/Short space. We share the view that this strategy (with the managers selected) will outperform the market next year. As one of our managers said, 2010 should be a year of increasing divergence between the share price performance of companies that have become competitively stronger over the past 2 years (increasing market share through better product offerings, sustainable cost reduction, etc.) and companies that managed the recession solely by cutting R&D, sales & marketing and overall headcount.

Our biggest exposure in our portfolios remains the Equity Long/Short strategy. This is diversified through investments in CTAs, commodity traders and global macro managers. Our convertible bond arbitrage and credit long/short exposure will remain limited as we decided to take some profits in both strategies. Finally, we have added one new theme to our portfolios. Whilst this is not our core scenario, it could be an important performance driver next year. This trade aims at betting on an increase in long-term rates in the US and Japan as well as a steepening of the yield curves in US & UK. The attractiveness of this new position relies on the fact that despite a very small exposure (1% of our NAV), the expected return if the predicted scenario occurs could reach 2-3 times the capital invested.

Outlook by Strategy

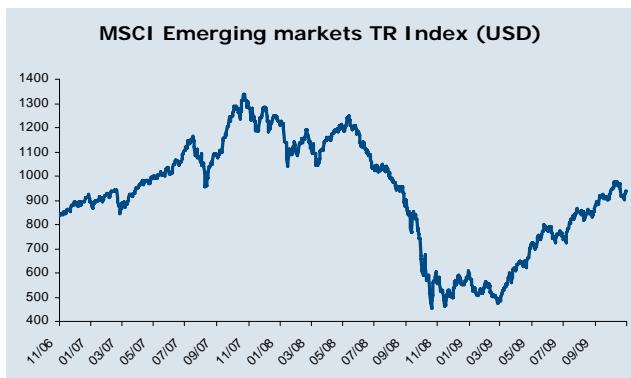
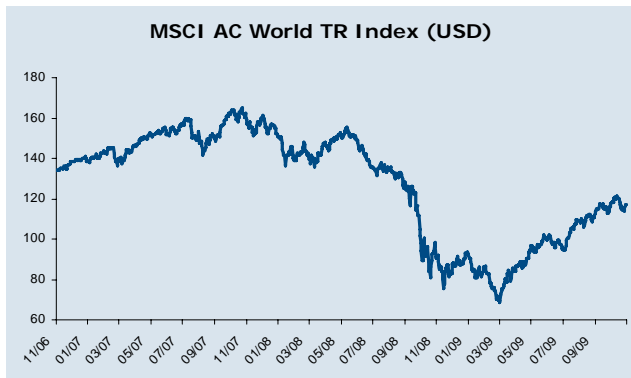
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Outlook by Strategy

Long/Short Equity

Going into October, managers within the Long/Short space had the highest net exposure for the year around +40% to +45% net long, with gross exposures on an industry average around the 140% mark. This led to some suffering during the sell-off in the second half of October. Our managers, however, dealt with the sudden change of direction considerably well and this segment was only just off target for the month.



For several months now we have been writing about the time for increased opportunities in stock dispersion being around the corner. Well now we have it! The liquidity-driven rally that started in March, when literally everything went up led by the riskiest assets, took a breather in the latter part of October. Despite the latter half of the month being tough, to say the least, the correction provides everyone with some time to take a step back and take stock, provided the bottom doesn't fall out.

Many of the managers we have been following have been frustrated with the 'ignorance' of the market. This is because as many of their longs, which have lagged, but have a strong business rationale, have underperformed their shorts, which are weaker cyclical and economically sensitive stocks, this for no apparent reason.

We are slowly starting to hear, or are seeing in their figures, a sigh of relief, as sector dispersion is now taking place and their costly shorts have started to pay off. The dispersion is not only between the more robust companies and the weaker ones but also in the consumer replacement effect, one often sees at this stage in the cycle. For instance, when the rate of savings is still high it's not that people are buying less items, they are just buying lower-end quality products compared to two years ago, meaning a shift to mid to low range goods.

We expect managers to hold their mid to longer-term views, whilst trading around market volatility, as they have been doing. This is the approach and the strategy we have favoured for some time now and continue to do so going forward. The cost-cutting wave seemed to support many oversold companies' share prices. Going forward it's up to companies to find more innovative strategies to gain market share and value.

Event Driven

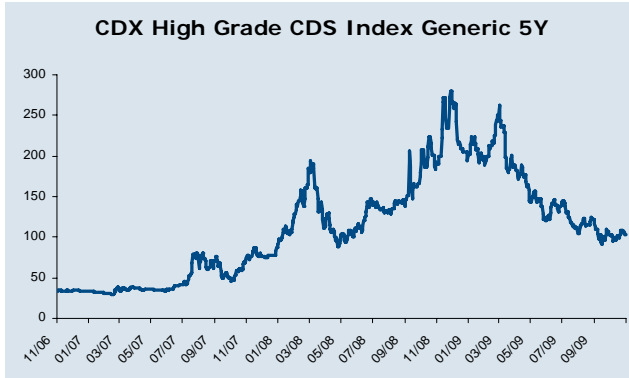
The reduced numbers of speculators in the M&A space is resulting in good levels of returns thanks to wider than usual spreads. The relative lack of opportunities, however, may lead to spreads tightening in the future. However, the reverse could happen if the deal universe increases significantly, which looks to be the case, leading to greater risk/reward profiles as there is less competition in trading the spreads.

Leading managers in this space believe that there may be many potential deals waiting to go through as the economic outlook continues to stabilise. If the picture continues to stabilise there should be a nice flow of deals to trade. However if things worsen, then all bets are off and we will go back to taking advantage of restructurings.

Credit

October was another good month for Credit strategies, but we can feel even though managers are getting increasingly anxious. This month was characterised by the fact that the Credit Spread in the Investment Grade names globally widened as expressed by the Itraxx Europe Generic 5 Year and the CDX North America Investment Grade Index that lost respectively -2.07% and -6.90%. The High Yield names are still supported by buyers as the Itraxx Europe HIVOL Index and CDX North America High Yield Index were up +6.1% and +0.14% respectively. As mentioned recently, we still believe the credit market offers many attractive opportunities but the current rally has probably gone up too strong and too fast, thus the reason behind managers' unease.

In this environment we favour more than ever trading-oriented managers looking for opportunities on both the long and the short side with a low net exposure.



Arbitrage Strategies

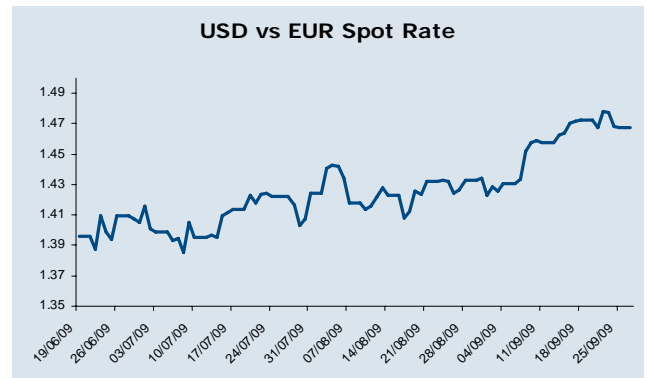
Convertible Bond Arbitrage posted positive returns in October, fuelled by improving valuations and higher volatility. The primary market has been weak in the US while Europe has seen more attractive issues. The general level of leverage remained low as managers were able to earn an attractive yield without gearing up their portfolio. On an annualised basis, we expect this strategy to generate returns more in the historical range as most of the price gap has been closed. Fixed Income arbitrageurs generally posted positive returns over the reporting period, taking advantage of relative value trades on the curves. This strategy is expected to continue its path with positive returns as the competition remains atone.

Equity arbitrage and statistical arbitrage had a more challenging month in October and suffered from the big trend reversals in the last part of the month. However, we expect the strategy to perform well in the coming months as price dispersion amongst companies leads to appealing trading opportunities. Overall, we remain neutral on Arbitrage strategies despite a significant improvement in the general environment since the beginning of the year (better liquidity, steadier capital base, less crowded trades). This neutral view is based on the lower access to funding and leverage as counterparties do not engage capital over long periods of time, thus preventing managers from using higher leverage. This may lead to lower performance going forward if volatility continues to fall.

Macro & CTA

The month started well across the board. Although long bonds remains the largest allocation for medium-term and macro systematic, the short US Dollar, long metals, energy and equities largely

compensated for the weak performance of the long bond positions up until the last week of the month. During this last week, the US dollar, energy, metals and equities all reversed, while long bond positions did not help much, resulting in a strong negative performance for the week and dragging the monthly performance into negative territory. Crops that had been trending down for a while reversed as well and rallied sharply during the month, harming CTAs and macro systematic funds. Short-term CTA funds did not do much better than medium term and macro systematic as the reversals were sharp and fast and despite their short term frequency, they still need some time to readjust. The negative performance was mostly driven by equities, bonds, crops and energies with metals being the rare positive contributor together with short term rates.

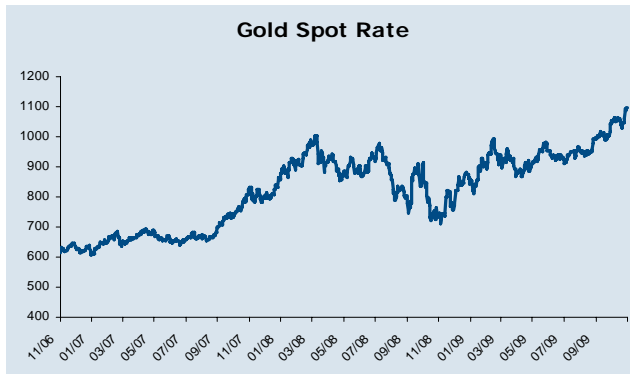


Natural Resources, Commodities

Commodity indices were up in October, led by the energy sector (WTI Jan-10 contract up +8.88%), on the back of a falling dollar and positive headline economic views. However, concerns about the sustainability of economic growth later in the month caused some retreat in commodities, in line with the greenback rebounding and equities correcting. Within US petroleum products, inventories remained at high levels, especially for home heating oil, and as a result refineries did not operate at full capacity in order to cut stocks. Gold again came to the fore as it closed at a new record high of USD 1064.3/oz on October 13th and even broke the USD 1100 level at the beginning of November.

As for base metals, copper and zinc surged just after mid-month on a weak USD and for the month the Jan-10 futures contracts of copper and zinc were up +5.13% and +9.29%, respectively. This was despite some slowdown in China's imports during recent months. In grains, corn surged at the beginning of the month, in line with other commodities. This caught some managers that were positioned short corn for fundamental reasons such as good crop yields off guard. Again, this move was due to broader market moves such as a weaker dollar. A similar situation happened with wheat. Finally, in

softs, sugar was one of the month's underperformers (ICE contract -10.20%) given weather conditions and amid volatile conditions.



In equities, indices in the energy and mining sectors reflected the broad based equity market move, by finishing the month in negative territory due to the month-end correction (NYSE Energy Index +1.93%, OSX -2.73%, S&P TSX Metals & Mining -4.55%, FTSE Gold Mines Index -4.4% for the month). On the hedge fund side, several natural resources equity managers were able to finish the month in positive territory thanks to successful stock-picking and risk reduction around the middle of the month.

October illustrates a challenge for commodity managers, which is the battle between commodity fundamentals on the one hand and other price drivers such as the US dollar evolution (in which commodities are denominated), investors' inflation concerns or the influence on commodity prices of growing products such as ETFs that facilitate access to commodity investments. As a matter of fact, several commodity macro managers have hired economists or strategists to improve their visibility on such market forces and their possible impact on commodity prices. Although fundamentals are expected to ultimately determine prices, we consider that this approach should improve the implementation and timing of commodity trades and ultimately the performance profiles of those funds.

Chart sources: Bloomberg