



15 May 2010

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	0.98%	0.98%	2.48%
<i>Conservative</i> Low Volatility	1.20%	1.20%	3.16%
<i>Diversified</i> Multi Strategy	0.64%	0.64%	2.24%
<i>Market Defensive</i> Short	1.06%	1.06%	0.47%
<i>Strategic</i> Long Short	1.08%	1.08%	2.40%

Estimated figures as at 30 April 2010

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The impact of the Greek crisis on the stock market does not come as a surprise to us (March edition of the 3A Alternative Outlook). As of 9th of May European policy makers unveiled an unprecedented loan package worth almost USD 1 trillion and a program of bond purchases to stop a major sovereign debt crisis in Europe. While we have communicated extensively on the sovereign debt risk and our consequent positioning, we do believe that the loan package associated to the quantitative easing program announced by the BCE is a major step towards the sustainability of the Euro currency and a significant reduction in the liquidity risk. Having said this, the question remains open-ended regarding the mechanisms to enforce fiscal discipline. Some countries have to resort to aggressive measures to cut fiscal deficits and market participants will have to revise the expected growth prospects for the Euro zone.

We are constructive on the equity markets in the US and some emerging countries. April and early May strengthened our view that a good mix of investment styles between trading oriented and fundamental stock pickers will support an attractive performance this year. In the coming months we will increase our exposure to more aggressive Equity Long/Short managers. On the other hand, we are reducing our exposure to Convertible Bond managers as valuations start becoming rich and the volume of issues this year is expected to be slow down.

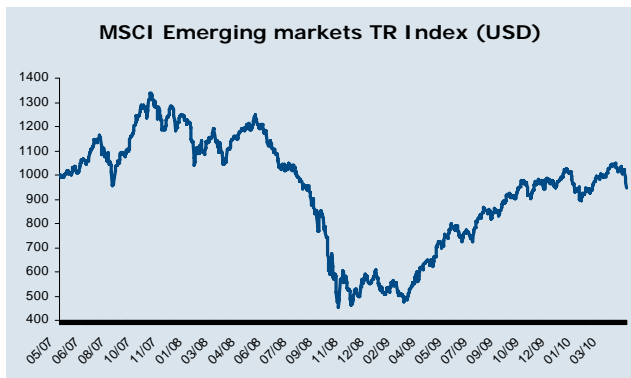
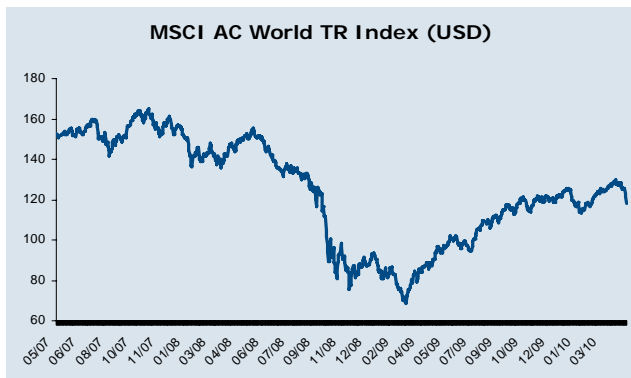
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Outlook by Strategy

Long/Short Equity

Equity markets during April saw the resurgence of volatility. The SEC's filing against Goldman Sachs in the middle of the month, driven by the attempt of supervisory authorities to show markets their usefulness as well as their credibility, and then later the increased worries regarding Greek debt, meant that financial markets had a pretty shaky month compared to bullish March. The MSCI World Index was flat with very mixed returns in the underlying sectors. Geographically, there was an important discrepancy, with the US and Japan being positive while European countries were clearly enduring harder times linked to the Greek default risk concern and its potential contagion effect through the region.



Equity Long/Short managers performed well on average in April. Trading-oriented managers were helped by rising volatility, which offered them more opportunities to trade their shorter-term ideas compared to previous months. Strong macro overlay managers who were still positioned on average defensively continued to suffer, driven by the poor results of the healthcare and utilities sectors. Among fundamental stock picking-oriented managers, things were quite positive. Despite their average net long exposure, the bulk of these managers remained cautious and was able to preserve performance at least during the month.

April strengthened our view that a good mix of investment styles between trading-oriented and fundamental stock pickers will support a stable and constant performance, as we believe we should continue to benefit from the important dislocation still present in equity markets.

Event Driven

The Event Driven space has been holding well recently. But the question is, how much of the recent performance from Event Driven managers has been generated by alpha and how much has been generated by being long a load of stocks that have been lifted by the markets? The answer is fairly obvious; current events and market activity (early May) will probably point out those who were riding the markets and those in the 'real' Event Driven space. As noted in previous letters, we are sticking to a small number of managers that are in the 'real' Event Driven space. An example would be those who trade spreads on pre-announced and announced deals and arbitrage the capital structure. Such funds will not be subject (or at least not to the same extent) to the current market sell-off and to periods of market volatility in general, as they have a more Relative Value approach.

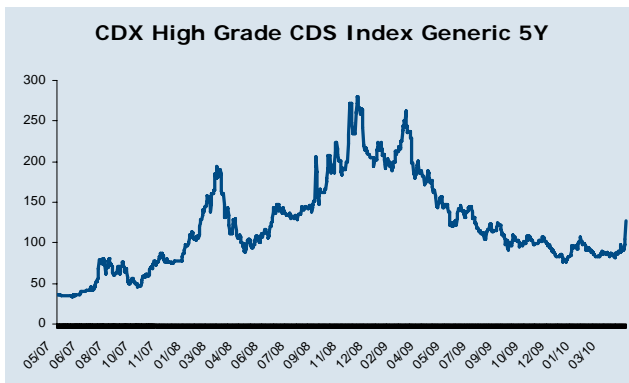
On the flows front, Event Driven managers have seen increased flows for some time now, as the perception of the markets is that there is a significant amount of deals on the way. The downside at the moment is that spreads are very tight as everyone is playing the few opportunities out there. The majority of managers in our products are playing deals where spreads are most attractive and are otherwise happy to wait on the sidelines until things pick up. Again, as mentioned in previous letters, Asian markets are seeing more interest as the spreads there offer greater yield. To sum up, the ingredients are all there: low interest rates and many firms sitting on healthy cash balances. It is just a question as to when the broader market believes we are out of the woods and things are looking rosy again for M&A activity to pick up.

Credit

Credit managers and markets performed well in April despite some opposing pressures during the month. On the positive side, US first quarter earnings were strong, emerging market flows were solid, and the Fed voiced its bias towards lower rates for an extended period. On the negative side, Goldman Sachs was being sued, and the S&P downgraded Portugal, Greece, and Spain.

In China, the government continued its attempt to control asset bubbles and rolled out some strong measures aimed at the property market, which had some adverse effects on real estate developers.

In April, the markets shrugged off macro concerns; however, in May, it seems that the market will have a harder time doing this, so a sell-off is definitely a possibility. In mid-April, a few credit managers had already expressed their concern with credit as they were seeing some new issues at quite lofty valuations. Given the tight spreads and sovereign risks, the more balanced credit managers as well as those funds that are more nimble and trading-oriented with regards to CDS will have much better opportunities in the short to medium-term to outperform long only credit managers.



Arbitrage Strategies

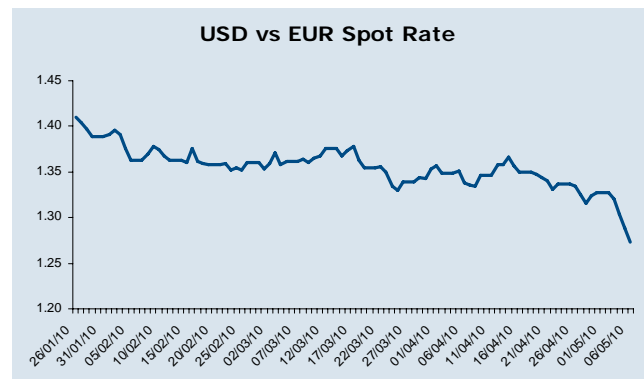
Arbitrage and Relative Value strategies generally performed well during the volatile month of April. Some strategies, such as Convertible Bond Arbitrage, posted strong results, helped by higher volatility in the markets as well as sustained corporate activity. However, we remain neutral for the strategy going forward and continue to favour Event Driven and more nimble managers in this area. Equity Arbitrage did not enjoy an ideal market environment, as the market remained driven by strong momentum, with little consideration for valuation and fundamentals. We believe this strategy has great potential if the market becomes more selective again.

Fixed Income Arbitrage performed well and continues to benefit from higher volatility in the fixed income markets. We maintain our positive outlook for this strategy. Volatility Arbitrage showed a wide dispersion of returns in April. Relative Value managers benefited from higher volatility of volatility while more directional managers generally suffered from trend reversals. We keep our positive view on this strategy since a more volatile environment will provide market opportunities and long biased managers remain a good hedge for a multi-manager portfolio, given the current level of volatilities. We also favour multi-asset managers within the volatility space as a diversified approach

should help to mitigate volatility while broadening the investment scope.

Macro & CTA

CTA and Macro Systematic funds in general performed well. Short-term CTAs were lagging substantially, navigating in negative territory up until the last week of the month when concerns about Greece's ability to finance itself intensified. However, the last week of the month proved very profitable to short-term CTAs, which posted the best performance of all sub-strategies for that week and allowed them to finish positive for the month. Overall, the leading strategy for the month was again medium-term CTAs, which benefitted from their long exposure in equities, short EUR and GBP positions as well as their long positions in energy. Macro systematic funds and short-term CTAs more or less finished the month with the same performance, although through a different route. The 27th of April was the first important market reaction and the good news was that, in the reversal, the short-term CTA posted a strong performance. The more medium-term strategies, as could be expected, suffered during the reversal in equities and energy prices. This episode provided some comfort that CTA short-term strategies are now more de-correlated from medium-term strategies and can again truly offer a diversification benefit to a CTA portfolio.



Natural Resources, Commodities

The commodity sector, as measured by the S&P GS Commodity Total Return Index, was up +2.77% in April and up +1.86% YTD. The Index was up nicely until mid-month on the back of manufacturing strength around the world and particularly in China, but then gave back some of its gains due to market concerns such as the Greek financial situation and potential contagion to other countries. In grains, soybean continued to rally and stocks are expected to stay relatively tight for the coming months thanks to demand from emerging markets.

Corn is supported by positive developments in ethanol production, while wheat is a rather bearish story due to its global surplus.

In softs, cotton was up as India suspended exports and cocoa also rallied for the month due to strong grind data in the US and Europe. Raw sugar was down, however the bullish story for sugar is more around deferred contracts, 2011 and 2012. Base metals such as aluminium, zinc and copper were down for the month, while in precious metals gold rallied and investments into the largest gold ETF reached a record level. Similarly, ETFs backed by physical palladium and platinum continue to grow in size, contributing with other factors such as increasing auto production to the bullish story for both of these precious metals.

In energy, the story for crude oil was the return of a steep contango in the WTI curve, as inventories at Cushing built up due to several factors such as seasonal maintenance and increasing imports of Canadian production. As a consequence, the spread between the front-month contract and the (for example) Dec-10 contract widened significantly. However, since crude stocks are expected to decrease as we approach the summer driving season, several managers still expect the WTI curve to flatten out.

The month was generally positive for managers with exposure to the energy and precious metals markets, however some managers still exposed to the front-end of the sugar curve were impacted by its continuing price falls. Generally, commodity demand from China is expected to remain very strong and with global growth expected to come back to strong levels, the macro backdrop for commodities looks quite attractive. In addition to that, volatility in several commodities has reached attractive levels, presenting managers with attractive, asymmetric investment opportunities.

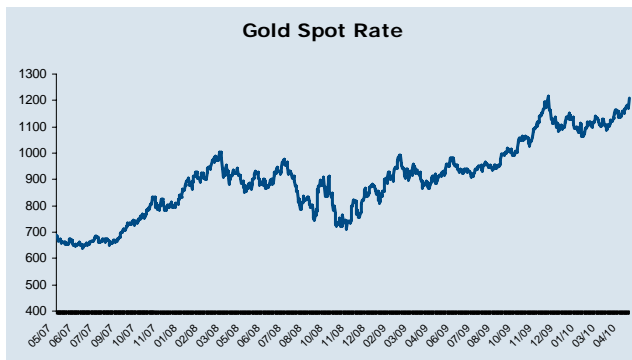


Chart sources: Bloomberg