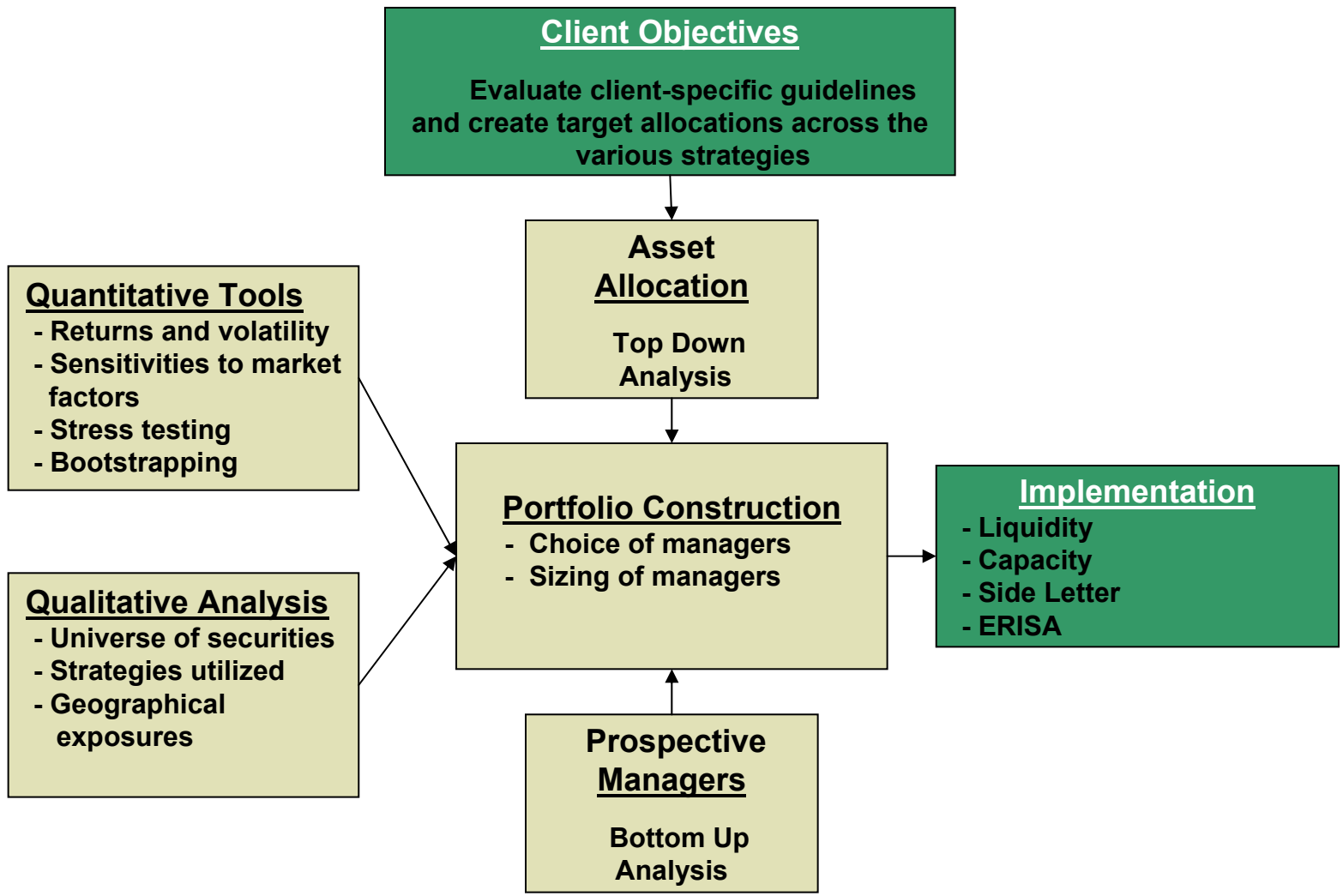




Portfolio Construction Process

Overview

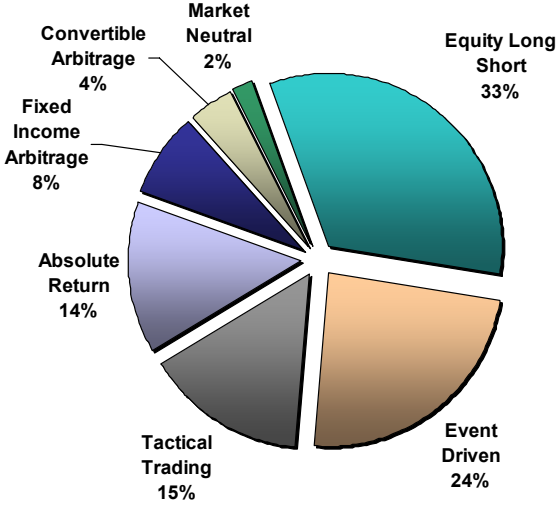




Portfolio Construction Process

Asset Allocation

Breakdown of Hedge Fund Universe by Strategy*



Hedge Fund Universe Strategy Classification

<u>Directional</u>		<u>Relative Value</u>	
Equity Long/Short	33%	Absolute Return	14%
Event Driven	24%	Fixed Income Arbitrage	8%
Tactical Trading	15%	Convertible Arbitrage	4%
		Market Neutral	2%

*Source: Hedge Fund Research, Inc. *HFR Year End 2005 Industry Report*



Portfolio Construction Process

Asset Allocation

Range of Strategy Allocations: Portfolio Characteristics
March 1, 1990 to February 30, 2006

	← Directional → Relative Value										
	Allocation by Strategy										
	100/00	90/10	80/20	70/30	60/40	50/50	40/60	30/70	20/80	10/90	0/100
Average Annual Return	16.5%	15.9%	15.3%	14.6%	14.0%	13.4%	12.8%	12.1%	11.5%	10.9%	10.2%
Standard Deviation	7.0%	6.5%	6.0%	5.5%	5.0%	4.5%	4.1%	3.7%	3.3%	3.0%	2.7%
Sharpe Ratio	1.77	1.81	1.86	1.91	1.97	2.03	2.09	2.16	2.22	2.26	2.25

Directional strategies, such as equity long short, event driven, and tactical trading, have generated higher returns historically, but with much higher volatility than relative strategies.

The decision to tactically tilt the portfolio towards or away from directional strategies is based on the current market environment.

Source: *Hedge Funds: Crossing the Institutional Frontier*



Portfolio Construction Process

Prospective Manager Selection

PRIMARY DUE DILIGENCE

- Liquidity
- Fees
- Assets Under Management
- Track Record
- Volatility
- Investment Objective
- Capacity
- Transparency

INVESTMENT DUE DILIGENCE

- Investable Universe
- Idea Sourcing
- Research/Due Diligence
- Portfolio Construction
- Risk Management
- Trade Execution
- Leverage
- Turnover
- Gross and Net Exposures

OPERATIONAL DUE DILIGENCE

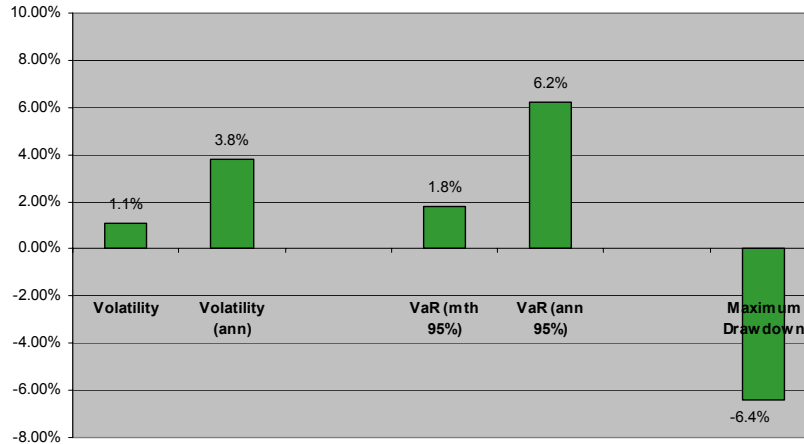
- Technology Infrastructure
- Audited Financial Review
- Prime Brokerage Check
- Ownership Structure
- Investors/Asset Growth
- Brokerage/Audit/Legal
- Reporting
- Background Check
- Legal Review of OM
- Counterparties
- Disaster Recovery
- Controls/Compliance



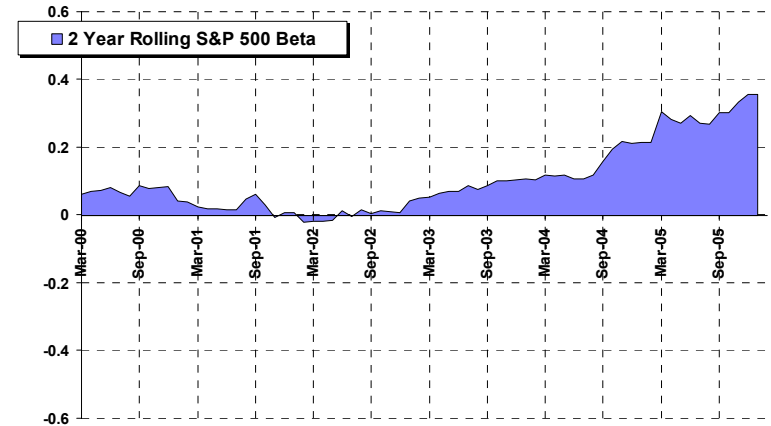
Portfolio Construction Process

Quantitative Tools

Risk Measures



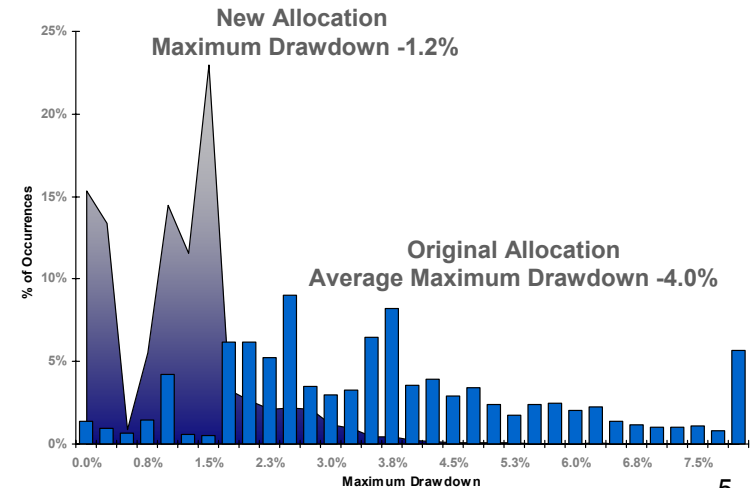
Rolling Beta Analysis



Sensitivities and Stress Tests

Sensitivities	
Beta S&P	0.22
Beta Lehman Global	0.03
Diversification	
	45%
Stress Test	
October 2005	-0.96%
March 2005	0.50%
Stress September 2002	-0.07%
Stress March 2004 (Madrid Bombing)	1.06%
Stress April 2005 (China Slowdown)	-0.83%

Bootstrapping

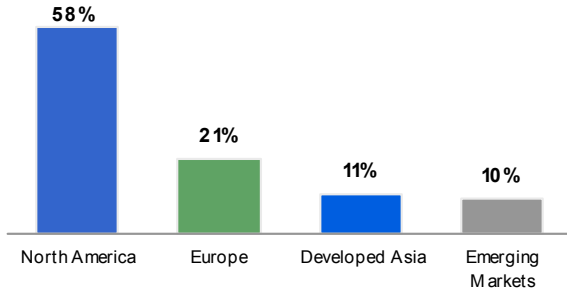




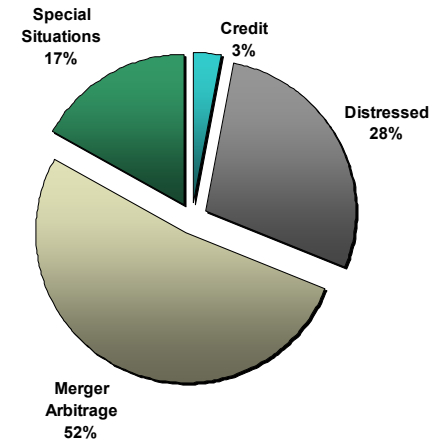
Portfolio Construction Process

Qualitative Analysis

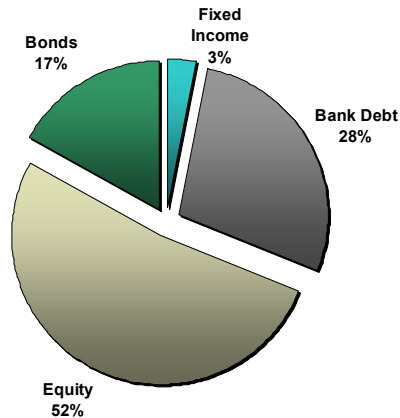
Geographic Exposure



Strategies Utilized



Universe of Securities



Market Environment Analysis

