

Hedge Fund Strategy Performance Commentary February 2010

	Feb-10	Last 3 Months	YTD	Inception to Date ¹
RBC Hedge 250	0.34%	0.97%	0.24%	19.45%
Relative Value				
Convertible Arbitrage	-0.14%	-1.74%	-1.03%	17.65%
Equity Market Neutral	-0.34%	-0.08%	-0.04%	8.71%
Fixed Income Arbitrage	0.83%	5.46%	3.41%	15.90%
Tactical				
Equity Long/Short	0.53%	1.08%	-0.16%	44.84%
Macro	0.72%	-0.19%	0.38%	12.85%
Managed Futures	0.90%	-6.15%	-2.15%	54.46%
Event-Driven				
Credit	0.12%	3.44%	1.95%	3.22%
Mergers & Special Situations	0.83%	5.32%	1.33%	32.24%
Multi-Strategy				
Multi-Strategy	-0.12%	1.70%	0.49%	0.54%

¹Inception July 1, 2005

Relative Value

Convertible Arbitrage (-0.14%)

Convertible Arbitrage performance was flat to slightly negative on wider credit spreads. The VIX index of S&P 500 option volatility climbed as high as 26.51 on February 8th in reaction to the news that Greece was facing severe credit related difficulties, but declined to finish the month at 19.50, which was one of the lowest closing levels for the index this year. High yield credit spreads, as measured by the Merrill Lynch High Yield Master II index, widened on the Greek situation, and fell back toward month end in line with the movement of the VIX. The combination of choppy markets and muted convertible new issuance activity meant that there were few good opportunities for convertible investors to take advantage of.

Fixed Income Arbitrage (0.83%)

Fixed Income Arbitrage managers posted positive performance. US Treasuries gained across the curve on flight to quality buying mid-month as investors sought a safe haven from credit related issues in Europe that centered on Greek sovereign credit risk. Mortgage-backed securities spreads have been trading in a 65 to 80 basis point band since late last year. The MOVE index of fixed income option volatility moved in line with the VIX. The US yield curve slope was unchanged at 280, but short yields moved up a bit on concerns regarding the likelihood of Fed tightening in March.

Tactical

Equity Long/Short (0.53%) & Equity Market Neutral (-0.34%)

Global equity markets rebounded strongly in the second half of the month, following their selloff earlier in the month. Despite poor U.S. consumer confidence data, most major U.S. equity indices gained on the month. However, in the Euro zone, mounting concern over sovereign debt weighed heavily on European stocks, with most equity indices finishing the month in negative territory. In Asia, a stronger Yen hurt Japanese exporters, while Chinese stocks started to recover following their declines in January after policy makers started monetary tightening. With regards to sectors, cyclical stocks outperformed defensives. Consumer discretionary, industrials, materials and information technology were the strongest performing sectors, while utilities and telecoms were the weakest.

Despite the intra-month volatility providing a challenging trading environment, equity long/short managers, in general, were able to post moderately positive returns in February. Equity market neutral managers did not perform as well, with most losses coming from their short books.

At the stock level, earnings news has been largely positive which is partly due to companies successfully cutting back on costs. The recent increase in M&A activity is also encouraging for equity markets. However, the macro picture remains uncertain and, as a result, managers continue to position their portfolios cautiously.

Macro (0.72%) & Managed Futures (0.90%)

Macro and managed futures managers posted flat to negative performance on average, though the level of dispersion among managers was wide. Longer term trend followers dragged down the overall average as the sharp turnaround in risk assets mid-way through the month stopped them out of bearish positioning.

Europe was a key focus for many managers. Concerns about sovereign credit generally and Greece specifically led many into short trades in the Euro versus the Dollar, shorts in European equities, and longs in European sovereign CDS -- all winning trades in February.

In commodities, oil was an important performance driver for a number of macro funds. Firm demand in emerging markets sparked a rally from \$72/barrel back to \$80.

In spite of considerable intra-month volatility, fixed income positioning was also a key performance contributor. Views that benchmark rates would remain "lower for longer," expressed via receiving positions and/or outright longs at the short end of developed market yield curves, continued to pay off.

Event Driven

Credit (0.12%)

Credit strategies were flat to slightly positive. Intra-month performance suffered on concerns related to Greece, but it recovered later as credit spreads came back in. Managers continue to believe that liquid credit markets are now close to fair value, which leads many to expect that "coupon minus credit losses" will be the norm in these markets during 2010. Managers with the ability to do extensive fundamental research and negotiate terms with sellers would tend to outperform in this environment.

Mergers & Special Situations (0.83%)

Global Event Driven funds experienced modest February performance, as measured by RBC's Hedge 250 Index - Mergers & Special Situations. Index performance in the strategy was +.83%. Many managers earned profits on deals that closed in February, including Berkshire Hathaway's widely held

large deal for Burlington Northern. Although merger activity has not yet fully accelerated to manager expectations, funds remain optimistic that the pace of deals and opportunities will increase.

Some recent large announced deals include Prudential/AIA (\$35.5 bln), MetLife/American Life (\$12.5 bln), and Merck/Sanofi-Aventis (\$8.2 bln). As expected, most new deals are strategic in nature.

Return Data: RBC Hedge 250 Index®

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