

Overview: CTA/Managed Futures

The HFN CTA/Managed Futures Average (CTA/MF Average) has rebounded strongly in the last twelve months (LTM) after meandering through a period of meager performance since 2002. Most recently this strategy has excelled as a result of a commodity price boom due in part to lax global monetary policy and increased volatility in equity and credit markets.

Historically, CTA/MF products appear to perform very well during times of distress. Commodities generally offer a hedge against the negative effects of rising inflation and as a result have a slightly negative correlation to the general stock and bond markets. The strategy seems to do well when the overall markets are slumping and in prolonged periods of increased volatility.

Recent Performance

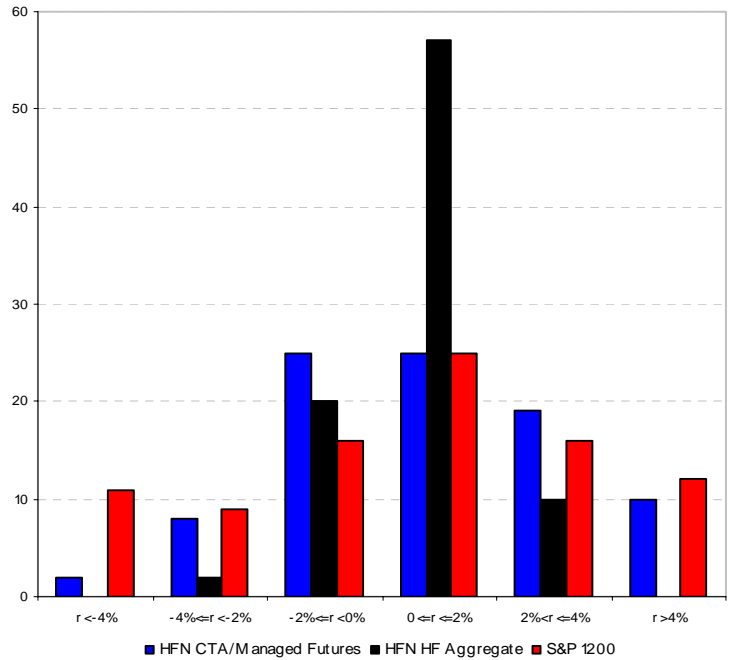
On an annual basis, the strategy has only outperformed the HFN Hedge Fund Aggregate in two years since 2001. CTA/MF managers outperformed the HF Agg in 2002 and 2007 returning 16.61% and 12.47% respectively, while the HF Agg returned 5.74% and 10.55%. 2002 and 2007 share similar capital market characteristics of increased volatility, falling equity markets, a sliding fed funds rate and inflationary concerns.

The periods when the CTA/MF strategy outperform tend to be so positive in contrast to the average hedge fund product or equity index that those periods end up driving performance when the benchmarks are compared on a cumulative basis over various time periods. CTA/MF managers have outperformed the HF Agg and the S&P 1200 in the last 12, 24 and 36 month periods, returning 20.97%, 24.47% and 42.36%. Since 2001, the CTA/MF Average has a cumulative return of +101.50% compared to the HF Agg and the S&P 1200 which returned +112.23% and +21.78%, respectively.

In the sub-styles and securities which CTA/MFs invest, they are more influenced by geopolitical issues, natural disasters and speculation than most strategies in the HFN database. With a median standard deviation/downside deviation of 17.32/3.05% since 2001 and 18.91/3.02% over the LTM it is surprising that the strategy has been able to remain competitive, if not outperform, on a risk adjusted basis. When comparing the Averages by the Sharpe and Sortino ratios the CTA/MF managers outperform the S&P 1200 in nearly every time period and percentile group.

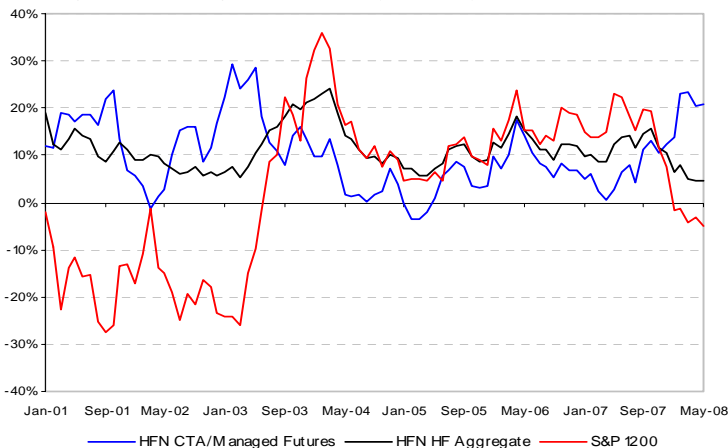
June 26, 2008

Figure 1: Distribution of Returns from 1/2001-5/2008



Calculations are through 05/2008 unless otherwise noted		HFN CTA/Managed Futures Average	HFN Hedge Fund Aggregate Average	S&P 1200 Global
Latest Returns				
	May-08	2.00%	1.82%	0.86%
	Year-to-date	10.17%	0.61%	-3.66%
	Last 3 Months	0.88%	1.43%	4.89%
	Last 6 Months	12.33%	1.29%	-5.09%
	Last 9 Months	22.81%	4.97%	-1.82%
	Last 12 Months (LTM)	20.97%	4.56%	-4.95%
	Last 24 Months	24.47%	17.46%	17.04%
	Last 36 Months	42.36%	35.62%	34.94%
Return Statistics				
	Avg Annual Cmpd Return from 1/2001	9.91%	10.68%	2.69%
	Avg Cmpd Monthly Return from 1/2001	0.79%	0.85%	0.22%
	Average Monthly Return, LTM	1.60%	0.37%	-0.42%
	Cumulative Return from 1/2001	101.50%	112.23%	21.78%
	Largest Monthly Gain from 1/2001	7.25%	3.81%	8.64%
	Largest Monthly Loss from 1/2001	-4.59%	-2.60%	-11.00%
	% Down Months from 1/2001	39.33%	24.72%	40.45%
Risk Statistics				
	Annualized Standard Dev from 1/2001	17.32	11.92	13.58
	Annualized Standard Dev, LTM	18.91	13.27	12.85
	Annualized Sharpe Ratio from 1/2001	0.98	1.56	0.21
	Annualized Sharpe Ratio LTM	1.33	1.17	-2.00
	Sortino Ratio (MAR=8%) Bottom 25% from 1/2001	-0.24	-0.43	-0.46
	Sortino Ratio (MAR=8%) Middle 50% from 1/2001	0.31	0.23	-0.46
	Sortino Ratio (MAR=8%) Top 25% from 1/2001	0.90	1.07	-0.46
	Downside Deviation(8%) Median from 1/2001	3.05%	2.22%	3.15%
	Sortino Ratio (MAR = 8%) Bottom 25%, LTM	-0.37	-1.50	-1.19
	Sortino Ratio (MAR = 8%) Middle 50%, LTM	1.02	-0.59	-1.19
	Sortino Ratio (MAR = 8%) Top 25%, LTM	2.81	0.79	-1.19
	Monthly Downside Deviation(8%) Median, LTM	3.02%	2.78%	3.09%
	Maximum Drawdown from 1/2001	-9.35%	-3.83%	-40.32%
	Months in Max Drawdown	6	5	20
	Months to Recover	15	N/A	42
Annual Returns				
	2007	12.47%	10.55%	7.53%
	2006	6.88%	11.99%	18.75%
	2005	3.58%	8.99%	7.85%
	2004	3.84%	9.51%	8.99%
	2003	13.43%	21.18%	26.38%
	2002	16.61%	5.74%	-23.37%
	2001	6.96%	11.42%	-13.04%

Figure 2: 12mo rolling returns from January 2001 - May 2008



Total Asset Levels and Flows

According to the [HFN Hedge Fund Asset Flows & Trends Report](#) as of the end of Q1 2008, there is an estimated \$196.03 billion invested in CTA/MF products. This is an increase of 15.30% or \$26.01 billion since the end of Q4 2007, the largest quarterly increase since HFN started tracking asset flows in Q4 2003. The majority of the increase (\$16.25 billion) can be attributed to performance while \$10.23 billion is attributed to net new allocations (allocations into existing products and net of liquidations and new product launches).

The boom in commodity prices, specifically in oil and metals, has certainly led to the significant rise in assets due to performance. The increases in new allocations for the last three quarters is an indication of the high level of investor interest in CTAs during times of distress.

Performance by Product Size

Figure 4 shows return rankings for all CTA/Managed Futures products in the HFN database. Funds in the 50th percentile group have significantly outperformed the average hedge fund in the HFN database over the LTM with performance in the range of 14.46% to 16.25%. A trend that is often found within peer groups in the hedge fund industry is that smaller funds will typically outperform in the higher percentile groups while the larger funds will be much more adept at managing underperformance in the lower percentile groups.

This trend is proven true within the top percentile groups of CTA/MF managers but fails in the bottom 90th percentile group. In this strategy the majority of the products fall in to the smallest (<20mm) group, where the 10th and 25th percentiles outperform the 500mm+ group by 14 percentage points and 5 percentage points, respectively. This strategy diverts from the norm in the lowest percentile group where funds under \$20mm still outperform funds in the \$500+ group returning on average -7.15% compared to -10.05%.

Sub-Style Specializations

CTA/Managed Future products can be broken-down into the following four sub-categories based on the style that the manager employs: trend-following (utilizing technical analysis and other top-down trend analysis techniques), fundamental (utilizing fundamental analysis), passive (replicating an index) or Broad (some combination of trend following, fundamental and/or passive). Figure 5 displays the recent breakdown of performance for each sub-style. CTA/MF managers investing with a fundamental sub-style have significantly underperformed the other three in recent history returning 1.13% in May, 3.19% YTD and 14.29% over the last twelve months. It is likely that a large number of these managers found themselves on the wrong side of a trade with the recent volatility.

The largest sub-style by product count in the HFN database is trend-following with over 50% of the products in the CTA/MF Average. The performance of trend following managers has improved over the last twelve months prior to which it would have been considered the worst of the pack. This sub-category performance is similar to managers who invest with a combination of fundamental, trend and passive strategies. The trend following and broad sub-styles outperformed the S&P 1200 in May, YTD and LTM returning 1.90%, 11.44%, 24.43% and 3.09%, 9.61%, 25.16%.

The sub-style that has consistently performed the best in the HedgeFund.net database are CTA/MFs utilizing a passive strategy. This strategy consists of managers that simply replicate various commodity indices. In a bull market for commodities it appears that manager skill does not necessarily result in higher performance.

Sector Breakdown

The HFN database is able to break down the specific markets in which CTA/Managed Future managers invest. The majority of CTA/MF products are investing across the four major categories (oil, metals, FX, and agriculture).

Figure 3: Total asset levels in CTA/Managed Futures, in US\$ billions from Q4 2003 through Q1 2008. Source: HFN Q1 2008 Hedge Fund Asset Flow Report

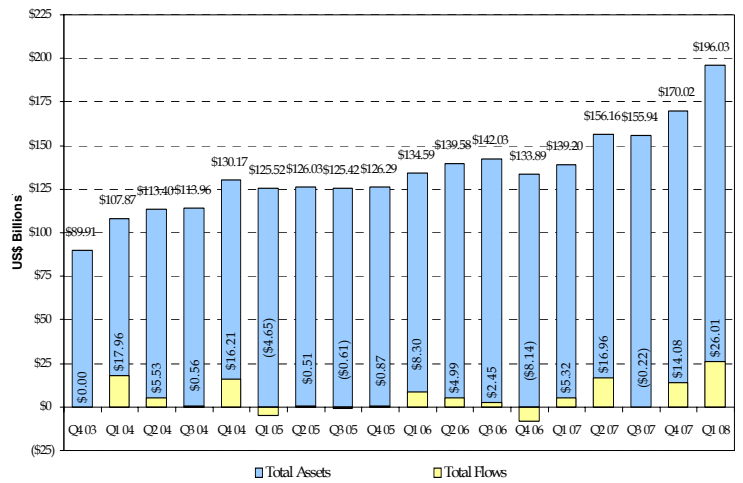


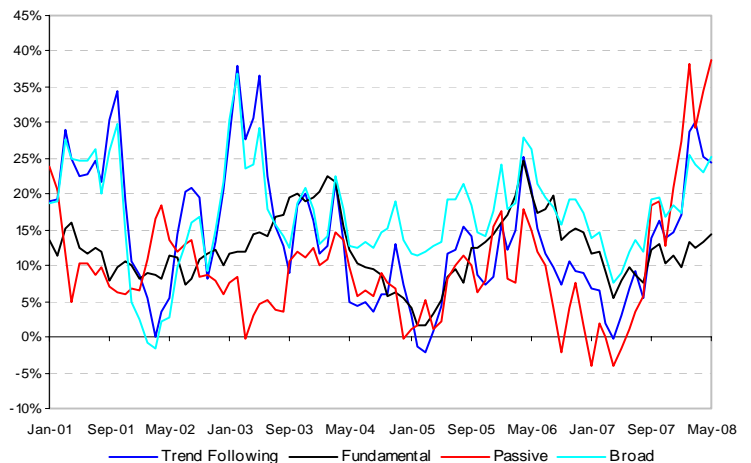
Figure 4: LTM performance of all CTA/Managed Future products in the HFN database, through May 2008, ranked by percentile and fund size

CTA/Managed Futures Funds	<20mm	20 - 100	100 - 500	500mm+
Total Funds	278	155	102	40
10th Percentile	53.90%	51.89%	46.77%	39.28%
25th Percentile	29.90%	30.36%	27.68%	24.14%
50th Percentile	14.46%	16.22%	16.25%	15.91%
75th Percentile	3.14%	5.06%	9.25%	4.16%
90th Percentile	-7.15%	0.21%	0.27%	-10.05%

Figure 5: Recent performance overview for CTA/Managed future products based on sector specialization through May 2008

Abbreviated Performance	May	YTD	LTM
Agr Data	0.26%	5.20%	13.88%
Metals Data	10.62%	6.65%	14.84%
Oil Data	12.70%	29.06%	60.41%
FX Data	0.46%	2.87%	9.24%
Fund Data	1.13%	3.19%	14.29%
Pass Data	4.85%	17.45%	38.87%
Trend Data	1.90%	11.44%	24.43%
Broad Data	3.09%	9.61%	25.16%
HFN CTA/Managed Futures Average	2.00%	10.17%	20.97%
S&P 1200 Global	0.86%	-3.66%	-4.95%

Figure 6: 12mo rolling returns for CTA/Managed Futures investment sub-style from Jan 2001 to May 2008



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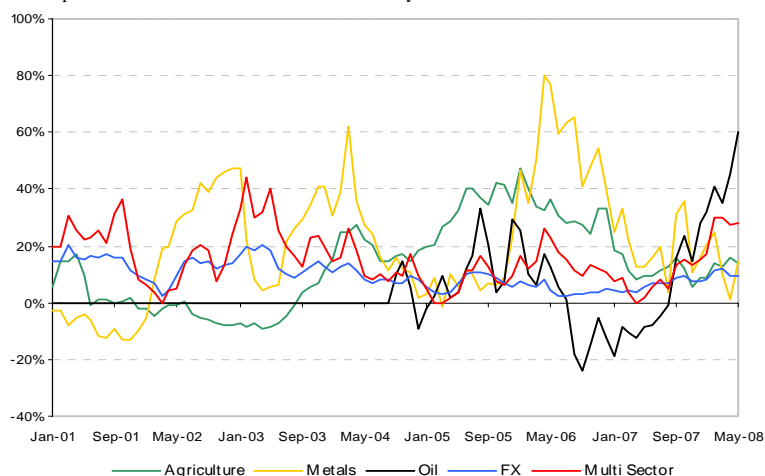
It is no surprise that products investing in oil have significantly outperformed products investing in the other three markets in May, YTD and LTM returning 12.70%, 29.06% and 60.41%. Performance of the products within the CTA/MF space is highly correlated to the prices of the underlying commodities. The products investing in metals have rode the boom as well leading to 10.62% in May, 6.65% YTD and 14.84% in the LTM.

Going Forward

As a group, managers in the CTA/MF Average have performed extremely well over the last twelve months. With a correlation of -.16 to the S&P 1200, the strategy has weathered the recent volatility and distress much more smoothly than the bond and equity focused hedge fund products. We have found that the smaller funds tend to outperform the funds with greater level of assets under management. The best performers within the strategy as a whole have been the managers replicating an index or the products that have exposure to oil and metals.

The strategy has certainly proven its value over the past twelve months, but the biggest question is what will happen to the strategy should commodity prices move the other direction. Monetary policy in the U.S. and abroad has shifted, at least in sentiment, towards concern over inflation versus economic growth. With a global economic slowdown looming it will be important to see whether developing economies in China, India and the Middle East will play a large enough role in sustaining high commodity prices, and if not, what course of action CTA /MF managers will take to sustain strong performance.

Figure 7: 12mo rolling returns for CTA/Managed Future products based on sector specific investment focus from Jan 2001 to May 2008



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*For details on fund components of the HFN Averages visit: www.hedgefund.net

¹ Risk-free rate used to calculate the Sharpe Ratio is based on an average of the 3 Month US Treasury rate over the stated time period

Disclosure:

Past performance is no guarantee of future returns

The HFN Averages performance becomes final 45 days after the end of the reporting month.

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