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HEDGE FUND RESEARCH
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HENNESSEE

HEDGE FUND REVIEW®

JANUARY 2014
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	DEC	YTD
Hennessee Hedge Fund Index	+1.52%	+12.86%
S&P 500	+2.36%	+29.60%
Dow Jones Industrial Average	+3.05%	+26.50%
Long/Short Equity	+2.00%	+19.28%
Arbitrage/Event Driven	+1.17%	+10.28%
Global/Macro	+1.14%	+6.15%

Percentage Of Hedge Funds Managers Outperforming The:

	DEC	YTD
S&P 500	27%	13%

Top (3) Performing:

DEC		YTD	
Healthcare and Biotech	+3.06%	Healthcare and Biotech	+34.57%
Financial Equities	+3.03%	Financial Equities	+23.16%
Technology	+2.46%	Value Index	+21.10%

Bottom (3) Performing:

DEC		YTD	
Short Biased	-2.46%	Short Biased	-28.33%
Latin America	-1.48%	Latin America	-2.64%
Convertible Arbitrage	-0.07%	Macro	-0.77%

MARKET SUMMARY - YEAR END 2013

2013 was certainly a year to remember. It was full of government disasters, IPOs, debt ceiling standoffs, taper talk and new market highs. Owning beta seemed to be the only strategy that paid off, as almost any other investment that was not fully exposed to the market lagged in return.

The S&P 500 was up over 2% in December completing the year with 10 positive months, 8 of which were up 2% or more. The last time the stock market had 8 months of 2% or more returns was 1995 (where the market had 10 months of 2% or more). Prior to 1995, we need to go back to 1958 to find a market with at least 8 months with 2% or more returns (1958 had 9 months).

The performance of hedge funds in 2013 was underwhelming. The disappointment is only understood through the experience that the strategy works best when the short portfolio acts as a hedge in down markets and a generator or profits in positive markets. Not so in 2013. The equity market did not give the strategy this opportunity as there were only 2 down months in a market perceived to be fairly value by managers. Money was lost on the short side as even stocks under financial stress rose.

The Hennessee Hedge Fund Index gained +1.52% in December (+12.86% YTD), during a strong month for global equities as the S&P 500 rose +2.36% (+29.60% YTD), the Dow Jones Industrial Average increased +3.05% (+26.50% YTD), and the NASDAQ Composite Index rallied +2.87% (+38.32% YTD). Bonds were negative on the month, as the Barclays Aggregate Bond Index fell -0.57% (-2.02% YTD). Given the strong equity market environment, the Hennessee Long/Short Equity Index had a strong month, up +2.00% (+19.28% YTD).

The top performing hedge fund strategies for December were Healthcare and Biotech (+3.06%), Financial Equities (+3.03%), and Technology (+2.46%). The worst performing strategies in December were Short Biased (-2.46%), Latin America (-1.48%), and Convertible Arbitrage (-0.07%). For the full year, the best performing were Healthcare and Biotech (+34.57%), Financial Equities (+23.16%), and Value (+21.10%). The worst performing strategies in 2013 were Short Biased (-28.33%), Latin America (-2.64%), and Macro (-0.77%).

US Equity Markets continued their strong rally, as investors became comfortable with the size and impact of the announced $10B monthly taper of purchases by the Federal Reserve. **The S&P 500 Index rose +2.36% in December.** The Dow Jones Industrial Average had a larger rise, increasing +3.05%. Small cap and technology stocks were strong, with the Russell 2000 Index rising +1.82%, and the technology heavy NASDAQ gaining +2.87%. There was moderate dispersion across S&P 500 Sectors in December. Materials (+4.58%), Information Technology (+4.11%) and Industrials (+4.04%) were the best performing sectors, and Telecommunications (-0.34%), Consumer Staples (0.24%) and Utilities (+0.54%) were the weakest. Year-to-date, Consumer Discretionary (+40.96%), Health Care (+38.74%) and Industrials (+37.63%) are the best performing sectors. The weakest sectors year-to-date are Telecommunications (+6.49%), Utilities (+8.75%) and Energy (+22.27%).

In December, the rise in equities was fairly widespread, although Emerging Market equities fell and Asia was generally weak with the exception of Japan. For the month, the MSCI All Country World Index increased +1.62%, while the MSCI Europe Index rose +2.16%, and the MSCI AC Asia Pacific Index fell -0.50%. **The MSCI Emerging Market Index fell -1.53%**. Japanese equities had a strong month, with the Nikkei 225 up +4.02% (+56.72% YTD). For the year, US equity markets have outperformed, besting Europe by about eight percentage points, far exceeding Asia up only 9.27% based on the MSCI AC Asia Pacific index, while Emerging Markets are still in the red, down -4.98% YTD. Benchmark longer-term interest rates in the US were higher, as the US 10 yr Treasury yield rose 28 bps during the month.

Investment grade bonds fell in December, as the Barclays Aggregate Bond Index dropped -0.57%, increasing its YTD

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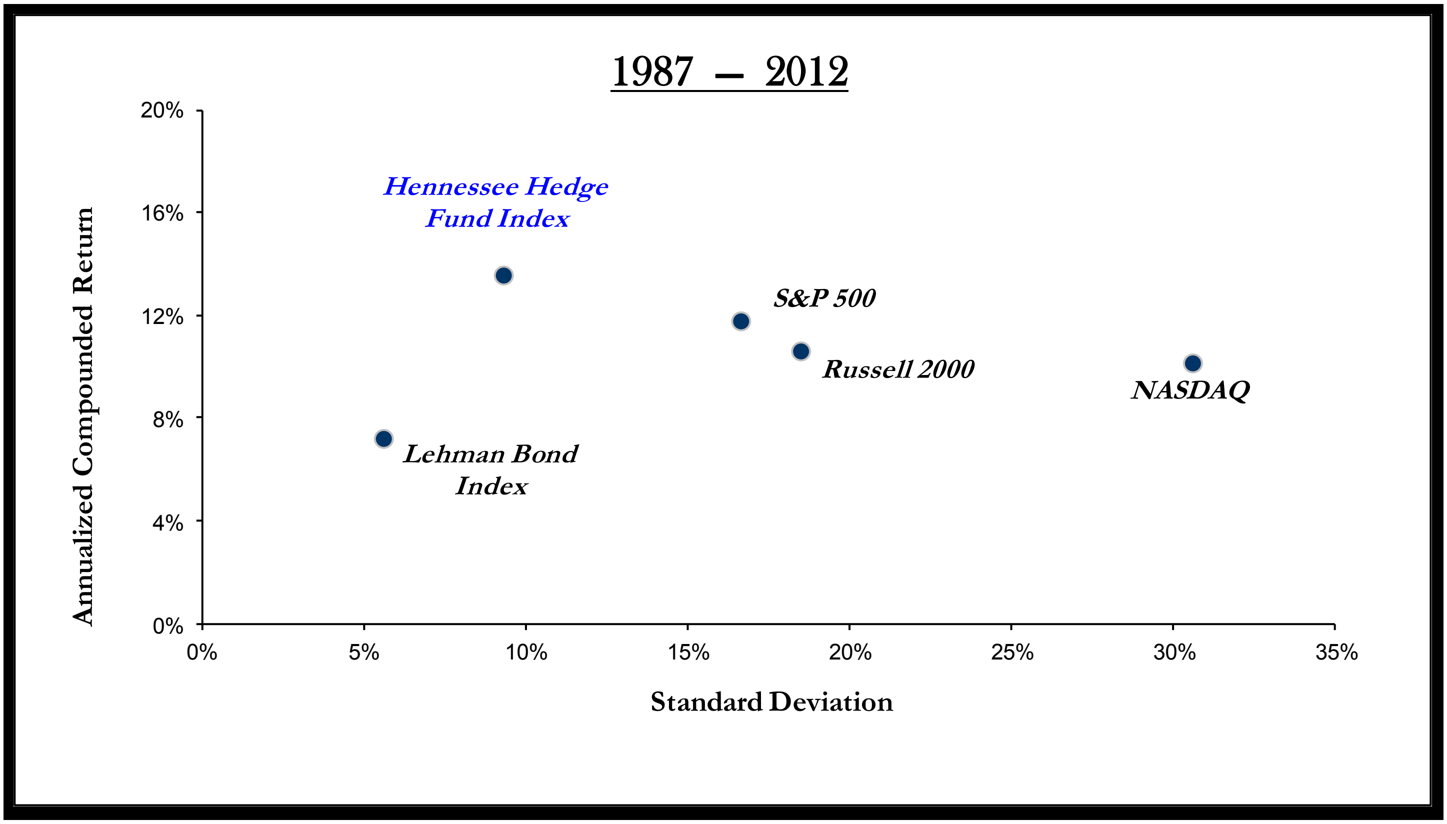
loss to -2.02%. **The Merrill Lynch High Yield Master II Index increased +0.55% (+7.42% YTD).** The Hennessee Distressed Index rose +1.96% in December (+16.16% YTD).

T**he DJ UBS Commodity Index rose 1.23% in December**, but was down year-to-date -9.58%. Crude oil gained for the month with WTI rising +6.07% while natural gas gained +11.37% for the month. Gold and silver were down, losing -4.13% and -2.63% for the month, respectively.

The U.S. Dollar was down modestly on average, ending December down -0.80%, with strength in the Euro. The Japanese Yen was down and most emerging market currencies were weaker however.



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The Hennessee Hedge Fund Indices® are calculated from performance data reported to the Hennessee Hedge Fund Advisory Group by a diversified group of hedge funds. The Hennessee Hedge Fund Index is an equally- weighted average of the funds in the Hennessee Hedge Fund Indices®. The funds in the Hennessee Hedge Fund Index are believed to be statistically representative of the larger Hennessee Universe of over 3,500 hedge funds and are net of fees and unaudited. The hedge fund performance data has been obtained from sources believed to be reliable, but no guarantee is made with respect to accuracy. Past performance is no guarantee of future returns. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund.

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HENNESSEE HEDGE FUND REVIEW®

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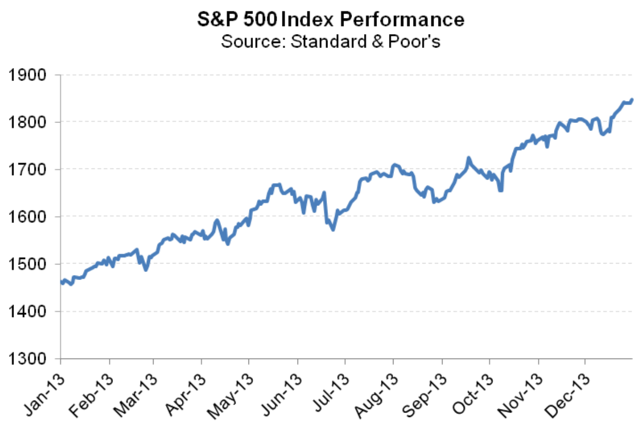
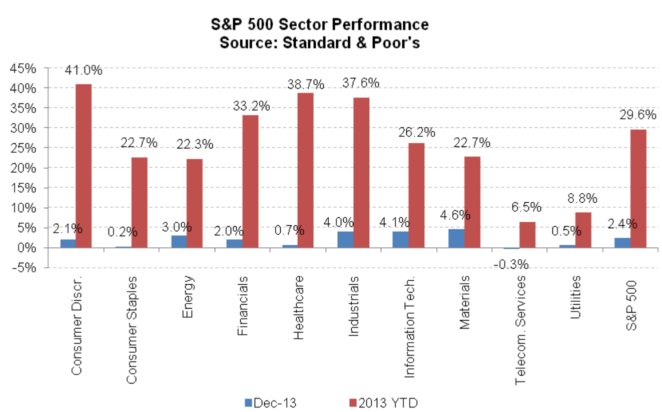
Long/Short Equity

(December: +2.00 % / YTD: +19.28%)

The global markets finished 2013 on a high note, with the S&P 500 gaining +2.36% in December to end 2013 at +29.60%. The Fed continued to fuel soaring equity markets across developed markets worldwide, with the Dow Jones Industrial Average gaining +3.05%, the Nasdaq Composite Index gaining +2.87% and the MSCI AC World Index rising +1.62%.



9 of the 10 sectors within the S&P 500 were positive for December. The best performing sectors were Materials (+4.58%), Information Technology (+4.11%) and Industrials (+4.04%). The worst performing sectors were Telecommunication Services (-0.34%), Consumer Staples (+0.24%) and Utilities (+0.54%). The top performing sector in 2013 was Consumer Discretionary, gaining +2.11% for December to put the sector up +40.96% for 2013. The 9 remaining sectors were all positive for the year, with Telecommunications bringing up the rear, gaining +6.49% for 2013.



As noted in a UBS report, "most equity markets end December higher on promise of continued low interest rates". Markets sold off in the beginning of the month on news that the Fed would begin to taper its bond buying program. However, reassurance that the Fed would keep rates low until certain growth and unemployment levels are reached calmed markets, sending equity markets into a year-end rally that saw most developed markets gaining over +2.00% for the month.

Long/short equity hedge funds gained for the month, although at a lower rate than the overall market. **The Hennessee Long/Short Equity Index gained +2.00% (+19.28% YTD).** UBS highlighted in a recent report that they "have seen hedge funds rotate into more cyclical sectors, and this paid off in December as defensive sectors notably underperformed." IT, Industrials and Energy all outperformed their more defensive counterparts of Utilities, Consumer Staples and Health Care.

Entering 2014, UBS saw net exposures for long/short equity hedge funds drop across US, EMEA and APAC prime brokerage accounts. Furthermore, they saw a reduction in long exposure in the US and an increase in short exposure in EMEA and APAC, suggesting long/short managers are starting 2014 with a more cautious and defensive outlook to equity markets.

Changes in the long book at one major prime brokerage firm saw funds increasing weightings to Telecommunication Services (+47%), Health Care (+10%) and Japan (+16%) while funds decreased weightings to Utilities (-21%) and Consumer Staples (-23%). Consumer Discretionary, Industrials and Materials form the top long book weightings by sector.

Changes in the short book at that same prime brokerage firm saw funds increase weightings to ETFs (+29%), Utilities (+11%) and Europe (+12%), while funds decreased weightings to Materials (-25%), Energy (-17%) and Japan (-26%). Consumer Discretionary, Financial and Industrials form the top short book weightings by sector.

In December, short biased hedge funds continued to have a challenging month as risky assets rallied. 2013 was a tough environment for shorting, as many of the stocks soared with the rest of the market. **The Hennessee Short Biased Index was the second worst performing index in December, losing -2.46% for the month (-28.33% YTD).**

Many long/short managers suffered underwhelming returns not from poor stock picking but from low net exposure levels. As one long/short manager put it, "As was the case for the entire year, our performance was constrained by our low net and gross exposure. Although the lottery commercial says 'you gotta be in it to win it', being in it at the wrong time or in the wrong place is a good way to lose it too." This manger, while having a positive return in 2008, continues to keep underperform soaring equity markets while keeping their net exposure below 30%, as they "don't think rates are likely to move much higher in the short term as growth and inflation remain muted and Central Banks still seem intent on keeping interest rates low to the extent that they can. The Fed and Central Banks everywhere are caught in the conundrum that they need to print money and be accommodative to engineer a strong economic recovery, but they need a strong economic recovery to allow them to reduce their aggressive monetary easing." They highlight their caution by stating "questions remain as to how much [the Fed needs] to print in order to grow the economy enough to step back from this policy, can they really create enough economic growth through easing, and will the economic growth sustain itself when and if the spigots are turned off?"

Most long/short managers continue to favor long bets in developed economies, sticking primarily with U.S. based stocks. While BNY Mellon notes "Global GDP growth should accelerate by one-half of one percent to three-quarters of one percent from the prior pace near 3% in both 2012 and 2013. They acceleration in global growth should be led by the developed world, in continued recovery from past economic weakness." BNY Mellon also believes "the U.S. has passed the midpoint of what should prove to be a seven year economic expansion…After more than four years of subpar economic growth near 2%, we expect a "three for three" pattern of roughly 3% real GDP growth in the U.S. for the next three years." They go on to say "the actual taper of U.S. QE3 that we expect to occur in 2014 may prove less disruptive than the mid-2013 sell-off on 'taper talk' since the gap between current QE-suppressed Treasury yields and free-market levels has already been reduced."

One long/short manager who focuses on the financial sector has highlighted the theme that the "re-leveraging of the private sector could be a major theme in 2014," however, "most of [their] longs are immunized from this type of event risk."

Health Care managers continued to perform well in December, with **The Hennessee Healthcare and Biotech Index gaining +3.06% for the month, putting 2013 gains at +34.57%.** Financials focused managers also performed well in December, as **The Hennessee Financial Equities Index rose +3.03% for the month to put 2013 gains at +23.16%.** Technology focused managers finished 2013 on a high note, as **The Hennessee Technology Index rose +2.46% for December and +17.58% for 2013.**

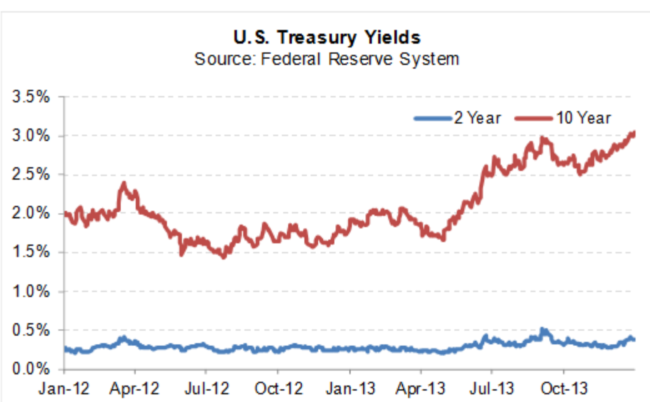
Arbitrage/Event Driven

(December: +1.17% / YTD: +10.28%)

The Hennessee Arbitrage/Event Driven Index gained +1.17% in December (+10.28% YTD). In December, global equities sustained their upward momentum, reaching new record-high levels in several markets. The most important event in December was the Fed's announcement to begin tapering its asset purchasing program beginning in January 2014. The Fed effectively communicated the difference between tapering and tightening of financial conditions, and risky assets rallied on the news. In addition, European policymakers remain highly accommodative in the face of weaker than expected growth and very low inflation. Overall, the global equity markets, measured by the MSCI World Free Index, gained +2.00% to be up +24.10% for the year, and the S&P 500 total return index gained +2.53% to be up +32.39% for the year. The MSCI Emerging Markets Index had another weak month to be -1.53% in December (-4.98% YTD).

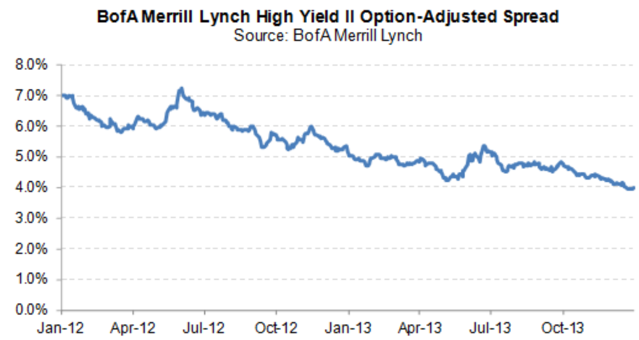
Credit

The Hennessee Fixed Income Index gained +0.14% in December (+4.26% YTD) and the Hennessee High Yield Index gained +0.72% in December (+7.86% YTD). Traditional interest rate sensitive fixed income securities had a weak month, as measured by the Barclays Aggregate Bond Index, which lost -57 bps in December to be -2.02% for the year. The yield on the U.S. 10-year treasuries increased from 2.75% to 3.04%, reaching record-high levels this year.



According to UBS, the fund flows into money markets (+$55 billion) and equities (+$18 billion) were far larger than flows into investment grade credit (+1.4 billion) and leveraged loans (+$2.5 billion). There were net outflows from high yield (-$1.6 billion), U.S. Treasuries (-$3.8 billion) and U.S. Government Mortgages (-$5.1 billion).

In 2013, equities had the largest fund flows (+$320 billion) compared to leveraged loans (+$63 billion), investment grade credit (+$37 billion) and money markets (+$6 billion). There were net outflows from high yield (-$5 billion), U.S. Treasuries (-$39 billion) and US Government Mortgages (-34 billion).



The municipal bond funds also had net outflows in 2013 to $62.6 billion. In December, the Barclays Municipal Bond Index lost -0.26% to be -2.56% for the year.

The Hennessee Distressed Index gained +1.96% in December (+16.16% YTD). Distressed managers had another good month as risky assets continued to ride the positive equity momentum. Fannie Mae and Freddie Mac positions continued to perform as well as the Lehman claims. It is worth noting that some of the distressed managers have been adding Puerto Rico Muni Bonds and CMBS.

Merger Arbitrage

The Hennessee Merger Arbitrage Index gained +0.97% in December (+7.74% YTD). Merger arbitrage managers had another strong month as the equity markets continued their positive momentum. In early December, Sysco Corp. agreed to acquire closely held U.S. Foods for $3.5 billion, adding brands from Cattleman's meat to Devonshire desserts, in the largest food-distribution deal in eight years in North America. Sysco will pay $3 billion in common stock, or about 13 percent of its shares, and $500 million in cash for U.S. Foods to owners including KKR & Co. and Clayton, Dubilier & Rice LLC. The deal bolsters Sysco's position as North America's largest distributor of food to restaurants, expanding its geographical reach and creating supply chain cost savings. The combined business, with about $65 billion in annual sales, will be led by Sysco Chief Executive Officer Bill DeLaney.

Essex Property Trust Inc. agreed to buy BRE Properties Inc.

for about $4.3 billion, creating the largest publicly traded apartment owner on the U.S. West Coast. Shareholders of San Francisco-based BRE will receive 0.2971 Essex shares and $12.33 in cash. The combined company will own about 56,000 units in California and Seattle areas that are among the top U.S. markets for rental growth.

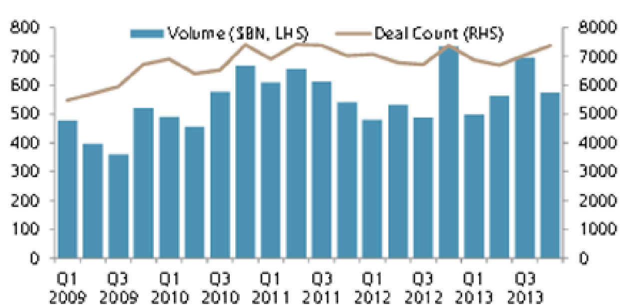
Avago Technologies Ltd. a chip manufacturer that began as a unit of Hewlett-Packard Co., agreed to buy LSI Corp. for $6.6 billion, gaining semiconductors for disk drives and other electronics. Avago will pay $1 billion in cash and use a $4.6 billion bank loan. Silver Lake Partners, a private-equity firm that helped acquire Avago before its initial public offering in 2009, will provide a $1 billion investment toward the all-cash purchase. The purchase would be the largest deal for Avago, which was founded in 1961 as an electronics division of Hewlett-Packard.

Largest Deals in December

Date	Target Name	Acquirer Name	Total Value ($ in Millions)
12/9/2013	US Foods	Sysco Corp	$8.374
12/9/2013	BRE Properties	Essex Property	6,333
12/16/2013	LSI Corp	Avago Tech	5,595
12/16/2013	Int. Lease Fin	AerCap Hldgs	5,088
12/11/2013	UNS Energy	Fortis	4,270

According to UBS, global M&A activity volume moved slightly higher for the month. In December, there was $196 billion of announced global M&A deals, compared to $191 billion the previous month. Global deal count was also higher at 2,580 compared to 2,335 in November. On a quarterly basis, fourth quarter global M&A volume ($575 billion) was -17% lower than third quarter ($695 billion), and -22% lower than fourth quarter 2012 ($732 billion).

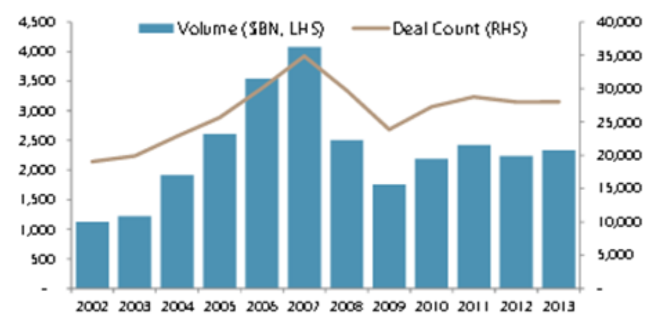
Global M&A



Source: Bloomberg

In 2013, there was $2,333 billion in global M&A volume, with deal count of 28,004. This level of volume and deal count is very close to the average levels of the past four years. From 2010 through 2013, global M&A volume has averaged $2,297 billion and the deal count has averaged 27,992.

Global M&A volumes



Source: Bloomberg

Convertible Arbitrage

The Hennessee Convertible Arbitrage Index lost -0.07% in December (+6.68% YTD). According to Bank of America, global convertible issuance totaled $93 billion in 2013, almost double last year's total of $55 billion. About 48% of issuance was from the U.S. ($44.4 billion), and about 32%, the second-most amount, came from Europe ($30 billion). While each region topped its total from last year, the U.S. gained the most, more than doubling its 2012 total. Issuance was dominated by Technology and Financials, which comprised 24% and 22% of the 2013 global issuance total, respectively. In 2013, convertible returns were positive across all regions. The U.S. posted a +20.3% gain, Europe +18.9%, Japan +8.4%, and Asia-ex Japan +2.5%. At the end of December, the convertible market had a market value of roughly $365 billion. The U.S. is the largest region with a market value of about $211 billion, which represents about 58% of the entire universe. After the US is Europe ($100 billion, 27.4%), Asia ex-Japan ($35 billion, 9.8%), and Japan ($18 billion, 4.9%). The Bank of America Merrill Lynch VXA0 All Convertibles Index gained 1.91% in December to be up 24.92% for the year.

Global/Macro

(December: +1.14% / YTD: +6.15%)

Global markets rose in December as monetary policy continued to dominate the spotlight. **The Hennessee Global/ Macro Index rose +1.14% for the month (+6.15% YTD).** Global managers experienced mostly strong returns across the broad, with **The Hennessee International Index +1.50% for December (+8.74% YTD).**

International

International markets didn't fare quite as well as U.S. markets, as the MSCI AC World Index rose +1.62% (+20.25% YTD) for the month. Developed markets fared better than emerging markets on average, with the MSCI EAFE Index gaining +1.41% (+19.43% YTD) and the MSCI Emerging Markets Index dropping -1.53% (-4.98% YTD). Asian markets as a whole relatively underperformed in December as the MSCI AC Asia Pacific Index lost -0.25% (+11.11% YTD), hampered by weak performance from China as the MSCI China Index sank -3.43% (+0.40% YTD). Japan was a bright spot, as the Nikkei 225 soared +4.02% (+56.72% YTD). **The Hennessee Asia-Pacific Index rose +0.93% for the month (+9.92% YTD).**

The Eurozone posted strong positive returns for December, with the MSCI AC Europe gaining +1.95% for the month (+20.15% YTD). Growth in the Eurozone slowed to +0.1% in the third quarter, down from +0.3% in the second quarter, however the Eurozone PMI reached 52.1 in December, up from 51.7 in November. Consumer confidence in Germany also hit a six-year high. "The European sovereign debt crisis seems to be all but forgotten." commented one global focused manager; however, this manager remains cautious as they see several upcoming obstacles that bring about increased market volatility, one of which happens to be in one of Europe's strongest markets. "If the Court rules against Germany's participation in the Outright Monetary Transactions program, which is unlikely, or imposes severe restrictions on how Germany may participate in it, which is more likely, European markets may become volatile again. We could see contagion into sovereign credit spreads generally, rotation out of financial stocks, as well as weakness in the Euro, strength in the U.S. dollar, and rotation into U.S. Treasuries due to a flight to safety." European focused hedge fund managers fared quite well in December, as **The Hennessee Europe Index gained +2.37% for the month (+19.00% YTD).**

The MSCI United Kingdom outperformed the rest of Europe, gaining +2.62% for December (+16.21% YTD). The FTSE All-Share Index rose +20.8% in 2013, its largest annual gain since 2009 and significantly outpacing UK corporate bonds (+2.0% for 2013) and government bonds (-4.0% for 2013). The UK economy grew +0.8% in the third quarter, much faster than the rest of Europe and the fastest growth in 3 years for the UK. The BOE forecasts unemployment to reach 7% in the second half of 2015. This 7% threshold is important because it is the level at which the BOE will consider raising interest rates.

The MSCI Emerging Markets lost -1.53% in December while hedge fund managers handled the sell-off much better than their long-only counterparts, as the Hennessee Emerging Markets rose +0.55%. Emerging market managers have performed quite well compared to the overall emerging market indices, outperforming by over 1200 basis points during 2013. One manager's recent addition to their portfolio is DAMAC, one of Dubai's leading real estate developers. Following the real estate crisis of 2008, DAMAC is one of the few survivors and has focused their efforts mainly on residential properties. DAMAC was able to purchase land at very attractive prices following the crisis and has a potential pipeline of very profitable development projects. "Although [real estate prices] have recovered from the lows, real estate prices in Dubai remain relatively attractive on a global basis (and still significantly below the highs) and the economy is more diversified." highlighted this macro focused manager.

This same manager remains opportunistic about developing markets, noting they "believe that most of the negatives are already reflected in valuations and expect Emerging Markets to perform better in 2014 (in the absence of a major shock in the U.S.). It is election year in many countries across the region and the interest rate uncertainty in the U.S. will continue to weigh on sentiment; however, on a bottom up basis, we believe valuations are compelling enough across many situations that we expect will lead to a stronger absolute performance going forward."

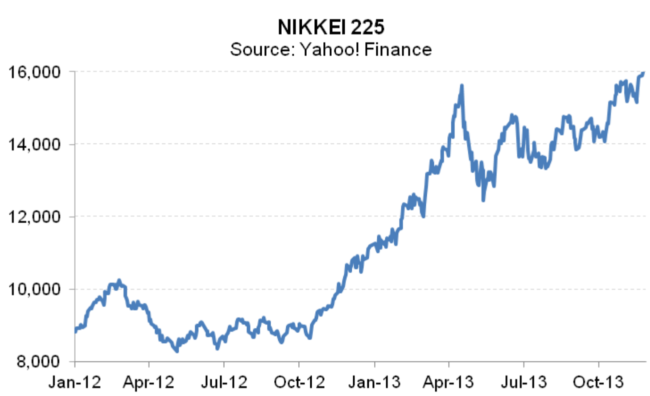
The Hennessee Macro Index rose +1.21% in December (-0.77% YTD). The Swedish Krona, Euro and Swiss Franc were the best performers against the U.S. Dollar during December, while the Japanese Yen and the Australian Dollar were the weakest. The Japanese Yen fell more than -18.00% versus the U.S. Dollar in 2013, primarily due to "increasing support for the U.S. Dollar from higher rates further out on the yield curve and the Yen's status as the funding currency of choice in the risk-friendly environment. Commodity-linked currencies such as the Australian Dollar (-14%), Norwegian Krone (-8.3%) and the Canadian Dollar (-6.4%) were the weakest against the U.S. dollar in 2013, while the Euro was the strongest, gaining +4.5% despite growth and disinflation concerns.

Investors saw continued weakness in fixed income during December, as the Barcalys Aggregate Bond Index lost -

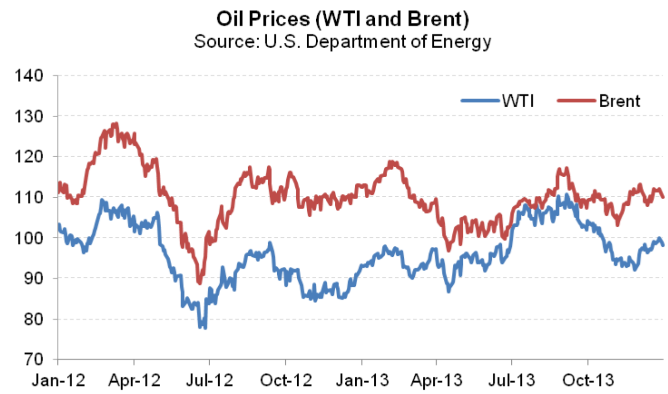
0.57% for the month (-2.02% YTD). One fixed income strategist noted, "in early December, news of a two year funding deal then alleviated concerns more palpably as yields once again retreated following the last-minute deal…By the end of the quarter, the 10-year yields on bunds, gilts and Treasuries had all climbed and their indices all posted losses. German 10-year bunds rose from 1.78% to 1.93% over the period….The rise in yields was more muted than it could have been, due to confirmation from the Fed that rates will remain low "well past the time that the unemployment rate declines below 6.5%". Hedge fund managers fared much better than the market in December, as **The Hennessee Fixed Income Index rose +0.14% (+4.26% YTD),** while **The Hennessee High Yield Index gained +0.72% (+7.86% YTD).**

"The outlook for the Chinese economy is one of the crucial uncertainties for 2014." commented a large multi-national asset management firm. "We expect a growth rate near 7.55 in 2014. We believe that the deceleration in Chinese economic growth is not cyclical but rather is structural… China is adopting a major long-term program to rebalance its economy away from excess or misdirected investment towards consumption…Over the next several years, the deceleration of investment may occur more rapidly than the acceleration of consumption spending."

The Japanese markets finished off 2013 with tremendous strength, as the Nikkei 225 gained +4.02% in December to finish 2013 +56.72%. Many hedge fund managers continue to remain optimistic about Abenomics, as they feel it will "make some contribution to improving Japanese economic performance." noted one manager. This same manager does anticipate volatility, with "an average real GDP growth rate of about 2% in Japan over the next two years, in a very volatile pattern".



Commodities snapped their losing streak in December, as the Dow Jones UBS Commodity Index rose +1.23% for the month (-9.58% YTD). Crude oil prices rose over +2% in December 2013, averaging $104.1 for 2013, down slightly from $105.0 in 2012. Oil demand growth grew by +1.1% in 2013 while non-OPEC supplies grew by +1.4%, primarily due to strong growth from oil shale in the U.S. and oil sands in Canada. The price of natural gas jumped by nearly +16% in December, due to large withdrawals from storage and strong heating demand because of colder-than-normal weather.



HENNESSEE HEDGE HOG CORNER

The following are extracts from research related to hedge fund managers we monitor and do not necessarily represent the views of the Hennessee Group LLC:

We remain positive on both palladium and platinum given the increased demand from the growth in global auto sales and the potential for supply disruptions.

We expect stock selection to be much more important in 2014, with greater dispersion between winners and losers.

A number of larger cap biotech names remain attractively priced with price to growth ratios below the overall market.

We have taken down our Japan exposure going into the start of the year.

We see a growing number of opportunities and level of issuance in European high yield credit. Some of these securities are quite attractive today.

Equity valuations have risen back to long-term averages, and are not excessive. With a real rebound in economic growth, valuations are even cheaper on a forward looking basis.

Solar panels are reaching an inflection point in their economics, and we expect significant growth in their production.

“The Internet of Everything” is a growing theme and will have significant implications across a broad range of technology companies over the next several years.

Despite very strong returns, community and regional bank valuations remain below historical norms. Operationally, the banking industry also continues to strengthen. Interest rates appear to have bottomed out in 2013, and loan pricing pressure has eased. We are continuing to find attractive banks in which to invest.

We are long “cloud companies” as this technology is in phase one of three growth phases.

This long value/short momentum bias in our portfolio sometimes leads to a portfolio that is much less correlated with the market than the net exposure alone would indicate.

Moreover, continued low rates are obviously good for higher-yielding drug stocks and for hospitals that need to borrow; and there should still be a premium paid for growth, which is good for biotech and mid-cap devices.

We believe that Helmerich & Payne, which makes advanced rigs for horizontal and vertical drilling, will continue to benefit from the energy renaissance in the United States.

We will be watching for a possible impact from accelerated depreciation-related pull-forward of demand in 4Q as well as the impact of weather conditions in January which could create additional demand for certain businesses while causing dislocations elsewhere.

New businesses have emerged in travel (Uber and Airbnb), payments (Bitcoin and Square), financial services (Lending Club), manufacturing (Stratasys and 3D Systems), health care (Medidata), home automation (Nest) and fitness (Jawbone)...With all this creativity, the technology industry promises to be more disruptive over the next decade than ever before.

In terms of M&A, we are currently focused on activity within the cable, telecom and healthcare sectors.

While we are still in early stages of the distressed cycle in Europe, the cycle in the U.S. is largely behind us.

HENNESSEE GROUP LLC
HEDGE FUND RESEARCH

HENNESSEE HEDGE FUND RANKINGS

HENNESSEE HEDGE FUND REVIEW®
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MONTHLY RANK 2013 (Net)	YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	11	2	15	18	1	17	21	19	18	3	2	9	15
CONVERTIBLE ARBITRAGE INDEX	17	17	7	11	16	10	9	16	2	18	14	19	19
DISTRESSED INDEX	7	9	8	6	3	7	17	8	11	8	5	10	5
EMERGING MARKETS INDEX	16	6	18	19	8	12	19	10	20	10	6	5	17
EUROPE INDEX	4	8	1	14	17	9	13	4	12	9	1	8	4
EVENT DRIVEN INDEX	9	10	2	8	5	6	15	9	8	11	7	17	6
FINANCIAL EQUITIES INDEX	2	1	4	5	6	2	5	5	21	12	9	2	2
FIXED INCOME INDEX	18	16	10	13	12	11	12	20	13	17	13	16	18
GROWTH INDEX	5	7	9	4	18	4	10	3	15	6	11	6	8
HEALTHCARE AND BIOTECH INDEX	1	3	11	1	2	8	2	1	3	1	16	1	1
HIGH YIELD INDEX	13	18	16	15	4	18	11	15	6	14	8	12	16
INTERNATIONAL INDEX	12	5	20	10	7	15	16	14	4	20	18	3	10
LATIN AMERICA INDEX	20	11	5	20	11	20	20	17	19	4	3	20	20
MACRO INDEX	19	15	19	17	15	19	14	18	14	19	20	14	13
MARKET NEUTRAL INDEX	15	19	14	16	13	16	3	12	16	16	10	15	11
MERGER ARBITRAGE INDEX	14	20	6	12	10	14	6	11	10	13	15	18	14
MULTIPLE ARBITRAGE INDEX	10	14	17	9	9	13	8	13	7	15	12	4	9
OPPORTUNISTIC INDEX	8	12	13	3	19	1	18	2	9	5	17	13	12
SHORT BIASED INDEX	21	21	21	21	21	21	1	21	1	21	21	21	21
TECHNOLOGY INDEX	6	13	12	7	20	5	4	7	5	2	19	11	3
VALUE INDEX	3	4	3	2	14	3	7	6	17	7	4	7	7

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HENNESSEE GROUP LLC
HEDGE FUND RESEARCH

HENNESSEE HEDGE FUND INDICES®

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2013 (Net)	YTD	YTD RANK	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	**9.92%**	11	4.35%	0.05%	0.26%	2.33%	0.50%	-5.06%	-0.09%	-1.07%	3.44%	3.10%	1.10%	0.93%
CONVERTIBLE ARBITRAGE INDEX	**6.68%**	17	1.38%	0.49%	1.14%	0.07%	1.50%	-0.54%	0.53%	0.89%	0.32%	0.75%	0.04%	-0.07%
DISTRESSED INDEX	**16.16%**	7	2.64%	0.40%	1.83%	1.48%	2.08%	-1.72%	1.88%	-0.45%	2.23%	1.78%	1.06%	1.96%
EMERGING MARKETS INDEX	**7.16%**	16	3.41%	-0.47%	-0.16%	0.67%	1.11%	-2.98%	1.48%	-1.82%	1.91%	1.73%	1.70%	0.55%
EUROPE INDEX	**19.00%**	4	2.93%	2.10%	0.81%	0.01%	1.81%	-1.41%	3.13%	-0.56%	1.94%	3.33%	1.18%	2.37%
EVENT DRIVEN INDEX	**14.95%**	9	2.55%	0.94%	1.54%	1.22%	2.13%	-1.50%	1.60%	-0.23%	1.81%	1.71%	0.64%	1.67%
FINANCIAL EQUITIES INDEX	**23.16%**	2	4.90%	0.84%	1.88%	1.03%	2.90%	-0.21%	2.71%	-1.92%	1.51%	1.60%	2.94%	3.03%
FIXED INCOME INDEX	**4.26%**	18	1.39%	0.33%	0.82%	0.36%	1.13%	-1.22%	-0.15%	-0.66%	0.52%	0.83%	0.70%	0.14%
GROWTH INDEX	**18.25%**	5	3.18%	0.40%	1.91%	-0.15%	2.78%	-0.90%	3.33%	-0.84%	3.00%	1.30%	1.38%	1.62%
HEALTHCARE AND BIOTECH INDEX	**34.57%**	1	4.34%	0.31%	4.09%	1.71%	1.99%	0.32%	5.44%	0.54%	4.77%	0.39%	3.29%	3.06%
HIGH YIELD INDEX	**7.86%**	13	1.00%	0.05%	0.78%	1.31%	0.09%	-0.90%	0.74%	0.19%	1.02%	1.69%	0.94%	0.72%
INTERNATIONAL INDEX	**8.74%**	12	3.68%	-1.63%	1.34%	0.86%	0.79%	-1.68%	1.00%	0.26%	0.04%	0.33%	2.05%	1.50%
LATIN AMERICA INDEX	**-2.64%**	20	2.46%	0.66%	-1.22%	0.42%	-2.03%	-4.71%	0.39%	-1.22%	3.18%	2.81%	-1.65%	-1.48%
MACRO INDEX	**-0.77%**	19	1.41%	-1.63%	0.50%	0.09%	-1.34%	-1.48%	0.38%	-0.76%	0.10%	-0.04%	0.87%	1.21%
MARKET NEUTRAL INDEX	**7.42%**	15	0.75%	0.18%	0.72%	0.18%	0.70%	0.20%	1.12%	-0.91%	0.69%	1.32%	0.76%	1.50%
MERGER ARBITRAGE INDEX	**7.74%**	14	0.70%	0.51%	1.13%	0.66%	0.81%	-0.35%	1.44%	-0.30%	1.11%	0.40%	0.41%	0.97%
MULTIPLE ARBITRAGE INDEX	**11.23%**	10	1.81%	-0.08%	1.54%	0.67%	0.89%	-0.54%	1.00%	0.11%	0.93%	1.10%	1.72%	1.57%
OPPORTUNISTIC INDEX	**15.85%**	8	2.42%	0.27%	2.34%	-0.62%	2.98%	-2.39%	4.49%	-0.26%	3.14%	0.36%	0.89%	1.37%
SHORT BIASED INDEX	**-28.33%**	21	-4.13%	-2.18%	-3.13%	-4.82%	-2.74%	0.60%	-4.24%	0.90%	-5.33%	-3.14%	-2.01%	-2.46%
TECHNOLOGY INDEX	**17.58%**	6	2.01%	0.29%	1.60%	-0.64%	2.21%	0.02%	2.36%	0.22%	4.74%	0.14%	1.00%	2.46%
VALUE INDEX	**21.10%**	3	3.89%	0.87%	2.61%	0.15%	2.82%	-0.38%	2.57%	-0.95%	2.41%	2.59%	1.20%	1.64%
HENNESSEE HEDGE FUND INDEX	12.86%	-	**2.63%**	**0.19%**	**1.43%**	**0.46%**	**1.36%**	**-1.14%**	**1.86%**	**-0.53%**	**1.91%**	**1.33%**	**1.20%**	**1.52%**
LONG/SHORT EQUITY	**19.28%**	1	3.12%	0.48%	2.19%	0.18%	2.30%	-0.36%	2.92%	-0.61%	2.74%	1.35%	1.54%	2.00%
ARBITRAGE/EVENT DRIVEN	**10.28%**	2	1.71%	0.41%	1.31%	0.80%	1.30%	-0.95%	1.07%	-0.12%	1.17%	1.15%	0.85%	1.17%
GLOBAL/MACRO	**6.15%**	3	2.72%	-0.43%	0.42%	0.58%	0.03%	-2.40%	1.02%	-0.79%	1.31%	1.47%	1.01%	1.14%
S&P 500	**29.60%**		5.04%	1.11%	3.60%	1.81%	2.08%	-1.50%	4.95%	-3.13%	2.97%	4.46%	2.80%	2.36%
DOW JONES INDUSTRIAL AVERAGE	**26.50%**		5.77%	1.40%	3.73%	1.79%	1.86%	-1.36%	3.96%	-4.45%	2.16%	2.75%	3.48%	3.05%
NASDAQ COMPOSITE INDEX	**38.32%**		4.06%	0.57%	3.40%	1.88%	3.82%	-1.52%	6.56%	-1.01%	5.06%	3.93%	3.58%	2.87%
RUSSELL 2000	**37.00%**		6.21%	1.00%	4.44%	-0.43%	3.87%	-0.68%	6.94%	-3.29%	6.22%	2.46%	3.88%	1.82%
MSCI EAFE INDEX	**19.43%**		5.19%	-1.16%	0.39%	4.74%	-2.93%	-3.72%	5.24%	-1.59%	7.12%	3.31%	0.56%	1.41%
BARCLAYS AGGREGATE BOND INDEX	**-2.02%**		-0.70%	0.50%	0.08%	1.01%	-1.78%	-1.55%	0.14%	-0.51%	0.95%	0.81%	-0.37%	-0.57%

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