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HEDGE FUND ADVISORY
YOUR STRATEGIC PARTNER IN HEDGE FUND INVESTING

HENNESSEE
HEDGE FUND REVIEW®

OCTOBER 2006
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	SEP	YTD
HENNESSEE HEDGE FUND INDEX	+0.08%	+6.32%
S&P 500 (DRI)	+2.58%	+8.54%
LONG/SHORT EQUITY*	+0.54%	+6.66%
ARBITRAGE/EVENT DRIVEN**	-0.26%	+7.58%
GLOBAL/MACRO	-0.37%	+3.30%

PERCENTAGE OF HEDGE FUND MANAGERS OUTPERFORMING THE:

	SEP	YTD
S&P 500 (DRI)	11%	32%

TOP (3) PERFORMING:	**SEP**		**YTD**
Telecom and Media	+4.18%	Telecom and Media	+13.98%
Technology	+1.56%	Distressed	+9.48%
Financials	+1.45%	Merger Arbitrage	+9.03%

BOTTOM (3) PERFORMING:	**SEP**		**YTD**
Multiple Arbitrage	-2.81%	Macro	-0.57%
Macro	-2.18%	Short Biased	-0.31%
Short-Biased	-2.12%	Asia-Pacific	+2.10%

* PREVIOUSLY NAMED CORRELATED
** PREVIOUSLY NAMED NON-CORRELATED

MARKET SUMMARY - SEPTEMBER 2006

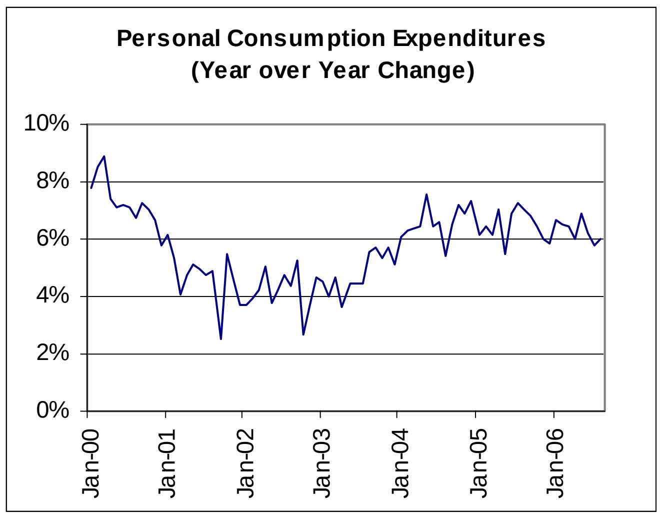
Stocks posted strong gains again in September, responding positively to another pause by the Federal Reserve and lower energy prices. The S&P 500 DRI advanced +2.58% to bring year-to-date gains to +8.54%. Other indices experienced similar gains as the Dow Jones Industrial Average advanced +2.62%, the Russell 2000 gained +0.83%, and the NASDAQ rose +3.42%. While the S&P 500 and NASDAQ are far from their all-time highs set in 2000, the Dow Jones Industrial Average approached its all-time high several times in September, eventually eclipsing this mark in early October. The Russell 2000 has been consistently reaching all-time highs over the last several years on the strength of small cap stocks.

The Hennessee Hedge Fund Index ad-

vanced +0.08% in September, as funds failed to keep pace with the equity markets. The performance of hedge funds in September indicates that most managers have moved their portfolios to a more cautious positioning. Net exposures have declined significantly over the past four months as managers have decided to reduce portfolio risk until it's clear on whether the economy will experience a soft or hard landing.

Also worth noting is the spectacular decline of Amaranth Advisors, a large multi-strategy fund, which reportedly experienced $6 billion of losses within its energy trading portfolio. **Unlike the collapse of Long Term Capital Management in 1998, there haven't been signs of contagion due to Amaranth's collapse. Economic data indicated that the economy continues to slow.** Non-farm payrolls increased by only 51,000 in September after a gain of 188,000 in August and unemployment fell to 4.6%. Likewise, the ISM Manufacturing Index declined to 52.9 from 54.5 in the prior month, also failing to meet expectations, as the index has averaged 55.2 this year through August.

On the positive side, the data on the consumer spending improved marginally, although the outlook still remains bleak according to most investors. While consumer spending increased only 0.1% in August, the reading was 6.0% higher (not adjusted for inflation) than in August 2005. Gasoline prices ended the month approximately $0.70 lower per gallon, falling to $2.28 per gallon on average. New home sales increased to 1.05 million in August, 4.1% higher than in August 2005 and substantially better than the previous three months. **Still, most expect the consumer to face several headwinds over the next year.**



Inflation concerns also continued to abate in September. The Labor Department reported that the Consumer Price Index (CPI) posted a 0.2% increase in August, below the 0.4% rise seen in July. The improvement reflected a decline in energy costs, which edged up by just 0.3% in August after having surged by 2.9% in July. Core CPI, which excludes energy and food prices, rose 0.2% increase in August. Over the past 12 months, core inflation has risen by 2.8%.

As a result of the slower economic data and improving inflation, bond yields fell across the yield curve. The yield on the 10 Year Treasury Note declined from 4.73% to 4.64%. The Fed did not change

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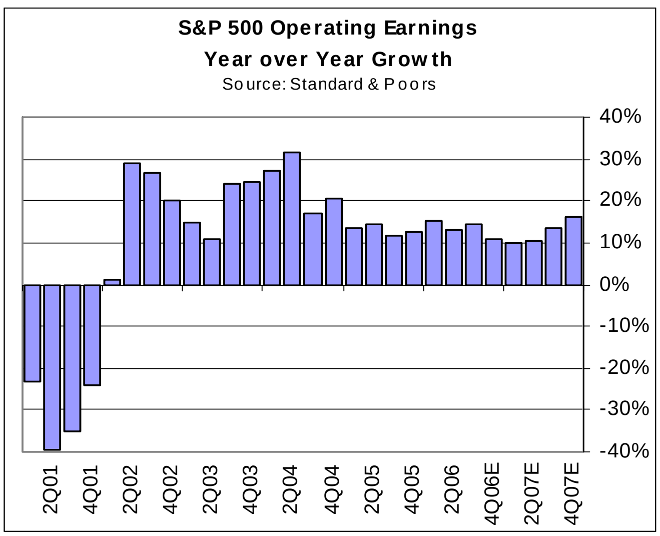
rates at its meeting on September 20, leaving the Fed Funds rate at 5.25%. **With yields on both the 2 Year Treasury (4.71% at month end) and 10 Year Treasury (4.64% at month end) significantly lower than Fed Funds, the bond market is undoubtedly suggesting that it anticipates the Fed to next lower rates.** The next Fed meeting is scheduled for October 25, although it's unlikely that the Fed is ready to start lowering rates at this time.

The likelihood that the Fed will next lower rates, coupled with the recent strength in the equity markets has led to a confusing market for many managers. The all-time high set in the Dow in early October indicates that the equity markets are confident that the Fed has engineered a soft landing, contradicting the signs of economic weakness implied by the bond market's yield curve. The strength in the equity markets may be due to the continued optimism by sell-side equity analysts. **According to Standard and Poors, operating earnings for companies in the S&P 500 are expected to grow earnings at a 12.5% rate in 2007, not reflecting the concerns that many have expressed for the economy.**



Given the many economic cross-currents, managers have elected a cautious positioning. As such, they have reduced net exposures, focusing on specific security selection to drive returns as opposed to directional portfolio exposure.

HEDGE FUND PERFORMANCE SUMMARY—SEPTEMBER

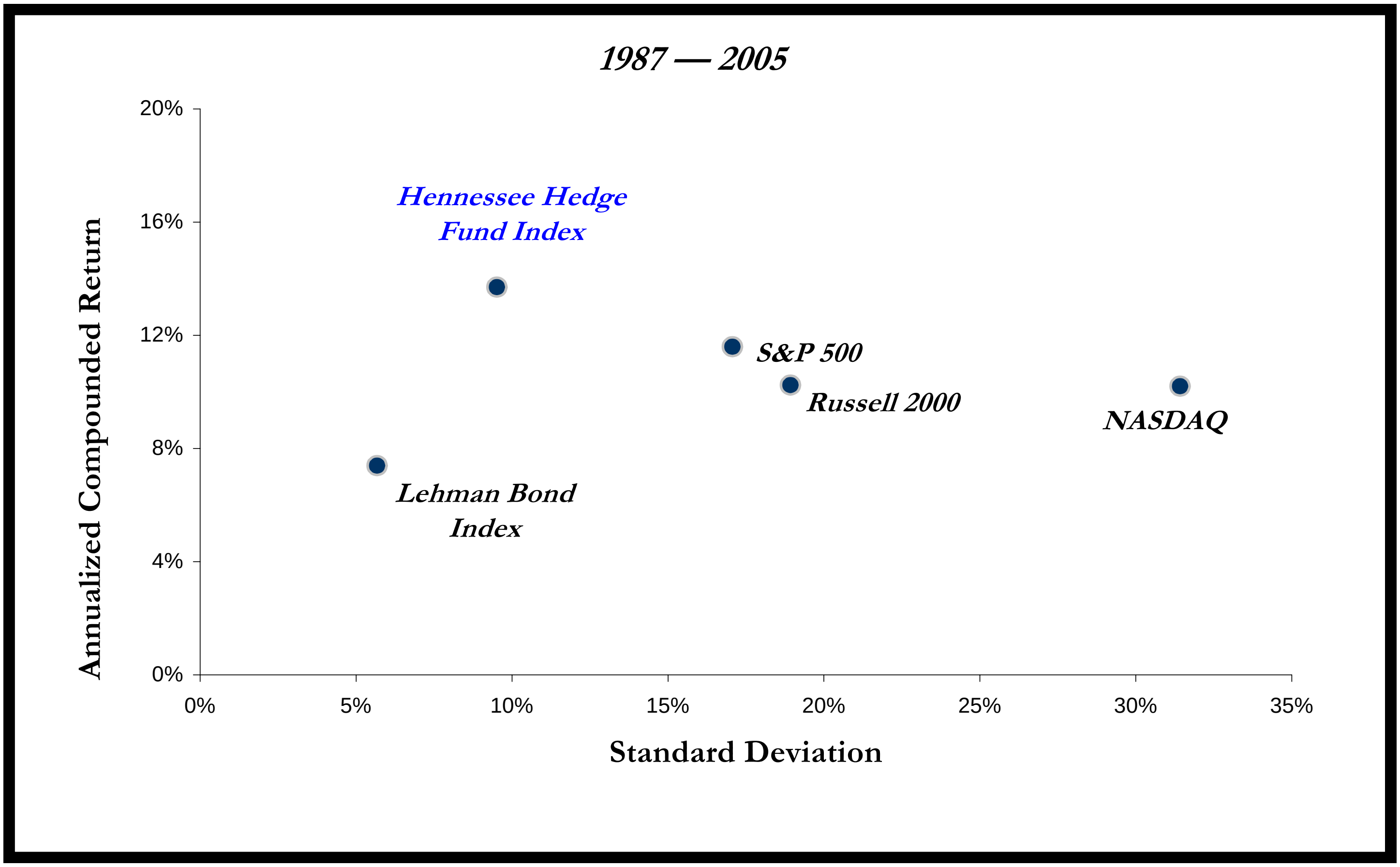
Long/Short Equity
(YTD: +6.66% / SEP: +0.54%)

Long/short equity hedge funds underperformed equity markets for the fourth month in a row in September, as the S&P 500 DRI advanced +2.58% and the Dow Jones Industrial Average advanced +2.62%. The NASDAQ also performed well (+3.42%), breaking into positive territory for the year.

The markets rallied after a steep sell-off in oil, lower interest rates, a view that the Fed has completed monetary tightening, and a belief in the soft landing for the economy. The Dow Jones Industrial Average approached its all-time high several times in September, eventually surpassing new highs in early October. **Managers report that the all-time high set in the Dow indicates that the equity markets are confident that the Fed has engineered a soft landing.**

Long/short equity hedge funds lagged the broad equity indices in September as a result of having significantly reduced exposures over the past four months in order to reduce the overall risk in their portfolios. Most managers are concerned that earnings will surprise to the downside for the third quarter. In addition, despite the fact that bond yields continue to decline, managers feel that the 10-Year Treasury note may move above 5%, reducing support for equity valuations. **Managers are recognizing the potential of a hard landing as a real risk and will likely remain cautious until it is completely clear whether the economy will experience a hard or soft landing.**

Due to strong positive performance by benchmark indices in September, managers are no longer outperforming for the year, as the average long/short equity fund is up +6.66%, versus the S&P 500, which is up +8.54%, and the Dow Jones Industrial Average, which is up +8.98%. Most managers continue to have difficultly anticipating and timing the market this year, as equities have changed directions sharply, with most hedge funds being a step behind to react. **The most recent example is the transition to more cautious positioning as the equity markets have continued to move strongly upwards and setting all-time highs.**



You Wouldn't Use a Stock Index to Benchmark Your Bond Portfolio

So Why Use One to Benchmark Your Hedge Funds?

Hennessee Hedge Fund Indices®

Hennessee Group recognized the need for the creation of specific 'benchmarks' to measure a hedge fund manager's success. From this original concept, the blueprints of the Hennessee Hedge Fund Indices® evolved into what we know today.

The Hennessee Hedge Fund Indices® have been used as a hedge fund benchmark since 1987. Created real-time, the Hennessee Hedge Fund Indices® are an equally weighted average of a diversified group of hedge funds consisting of 23 different investment styles.

For more information on the Hennessee Hedge Fund Indices®, please visit us at www.hennesseegroup.com or lookup us up on Bloomberg under the symbol "HHFD".

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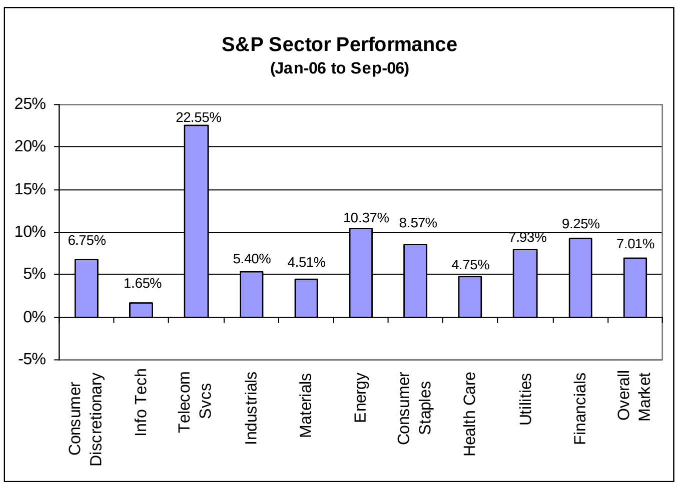
Your Strategic Partner In Hedge Fund Investing

While managers' performance have underperformed year-to-date, managers have generated alpha versus the S&P 500, albeit at an annualized rate of +1.94%. Managers have produced alpha while managing lower-than average exposures due to superior stock selection and hedging. **If the economy were to experience a hard landing which would significantly affect equity markets, hedge fund managers would be expected to outperform.**

In September, positive performance was led by consumer discretionary, financials, telecommunication services, information technology, and industrials. The negatively performing sectors for the month included energy and utilities. In addition, the consumer staple sector was down slightly for the month of September. For the year, the telecommunication services sector has been the best performer, while energy, utilities and consumer staples have also outperformed.



The NASDAQ continued to increase in September breaking into positive territory for year. While the NASDAQ has performed well in recent months, it would still need to double to reach its record high from over six years ago. **Technology stocks rallied due to a rotation out of the energy sector as the price of oil declined and into technology stocks due to optimism for upcoming product cycles and positive fourth quarter seasonality.** Strength was broad based but large cap tech companies that had been trading at low valuations were significant winners for managers, including Microsoft (+6.4%), Oracle (+13.3%), Cisco (+4.5%), and Motorola (+7.2%). However, several managers state that the liquidity-driven rally has approached a point where they expect to see significant short-term volatility and narrowing of sector breadth. In addition, the rally appears to have been met with increased skepticism, as the short interest in the NASDAQ is at a new high. While cautious on the short-term, managers remain bullish on tech in the long term, particularly due to Microsoft's new operating system, the proliferation of wireless broadband, and emergence of several communication product cycles in 2007, including smartphones, PCs and gaming consoles.

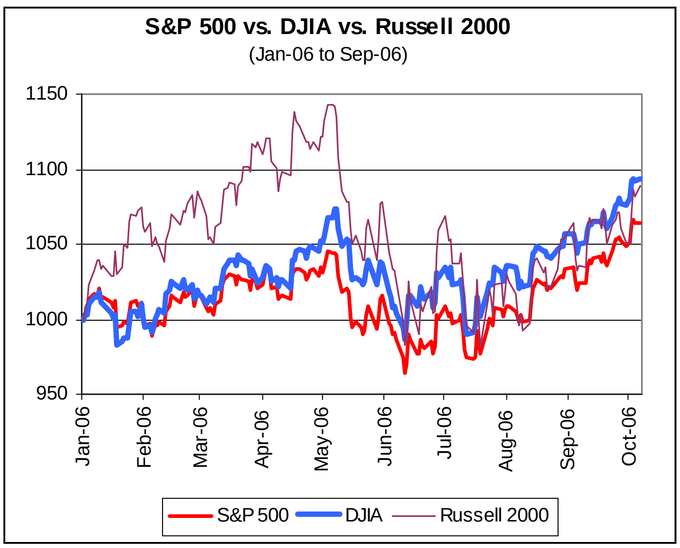
Several managers state that they are bearish on semiconductors, despite the Philadelphia Stock Exchange Semiconductor Index being up +1.2% in September (-5.2% for the year). In September alone, there have been 18 negative pre-announcements by semiconductor companies. In addition, managers expect additional pre-announcements due to intense pricing pressure and will remain bearish on the sector until sales growth revives and inventory excesses have been cleared.

Consumer discretionary stocks, specifically retail, were one of the strongest performing sectors for September as lower gas prices triggered investor inflows into the sector. With crude lower and speculation that the Fed is done, investors have regained some confidence in consumer spending and seem more willing to increase their appetite for risk. Managers long retailers Target and Sears generated profits as the stocks were up +14.2% and +9.7%, respectively. In addition, specialty retailers such as Best Buy (+14.2%) and Bed Bath and Beyond (+13.4%) were up big. **Managers continue to closely monitor consumer spending as one of the most important factors affecting the market between now and year-end.**

The healthcare was sector was positive as the S&P Healthcare Index and the Amex Biotechnology Index were up +1.4% and +0.23% for the month, respectively, with positive performance driven largely by large cap pharmaceuticals. Most other sectors, including services were negative for the month. Hedge fund managers underperformed as the Hennessee Healthcare and Biotech Index was up +0.04% due to underweight allocations to large cap pharmaceuticals. **Managers are searching for potential take out targets as deteriorating pipelines at pharmaceutical companies will spark acquisition of biotech and device companies**.

Energy prices fell in September as crude oil broke key support levels resulting in negative performance for energy stocks. Oil prices declined to end the month at \$63 per barrel, before reaching \$59 in early October. Oil and gas drilling companies were among the worst hit. Refiners, including Valero (-10.3%) and Sunoco (-7.5%), also declined in September. In addition, natural gas prices had a negative effect on oil and gas companies, as the commodity fell from \$5.80 to \$3.66, a decline of 37% in September.

Domestic steel companies bounced back in September as Allegheny Technologies (+8.6%) and Nucor (+2.5%) were positive. However, several managers are bearish on the sector due to concerns on a potential global economic slowdown. Several managers state that they are short domestic steel companies as the global growth giant, China, has now become a net exporter of steel. The decrease on demand from China combined with the added capacity that China will add to the market should negatively affect steel producers in the future. **While most managers are rather pessimistic on most metals, zinc appears to be an exception, as its demand should continue to increase because it is used to make galvanized steel and China remains a net importer.**



Many managers have stated for months that large cap stocks have been more attractive to small cap stocks due to low valuations and lower risk in a rising interest rate and slowing economic environment. It appears that after a long run of small cap outperformance, we are seeing a change in leadership. The Dow Jones Industrial Average and the S&P 500 outperformed the Russell 2000 in September, which was up only +0.83%. In addition, if the market was to experience a hard landing, large cap stocks would likely not be as affected as small cap stocks.

In conclusion, September was a solid month for the major indices as the market seems to be anticipating a year-end rally. Managers are maintaining reduced net and gross exposures due to the real potential risk of an economic downturn and will remain cautious **until it's clear on whether the economy will experience a soft or hard landing.**

Arbitrage/Event Driven
(YTD: +7.58% / SEP: -0.26%)

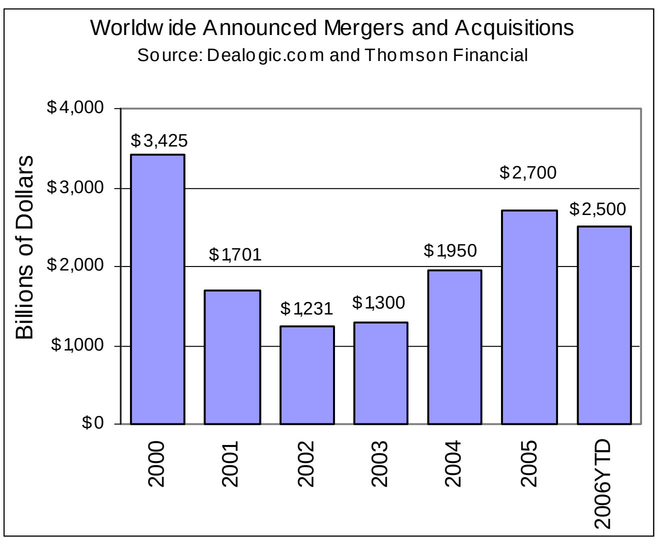
The Hennessee Arbitrage/Event Driven Index declined –0.26% in September to bring year-to-date performance to +7.58%.

The most significant event of the month was the spectacular decline of Amaranth Advisors, a multi-strategy fund that invested in convertible arbitrage, statistical arbitrage, energy trading, merger arbitrage, long/short equity, and credit arbitrage. The majority of losses reportedly occurred in the energy-trading portfolio, specifically trades in natural gas. While it's not clear what specific trades cost the fund the most, reports have revealed that Amaranth was **long the near month contract of natural gas and short the contracts for delivery out several years, believing that the spread would tighten.** The market is currently in contango, meaning that the near month is at a significant discount to future months. Instead, the spread widened, primarily because the price of the near month contract was down 37% in September. As an example, the spread between the October 2006 contract and the January 2008 contract widened by 21% from 8/3/06 to 9/19/06 while the difference between the October 2006 contract and January 2009 contract widened by 41% over the same time period. It's unclear how much leverage Amaranth was using in its energy-trading portfolio, although most reports have estimated that it was greater than 4.5:1, again amplifying the losses. Margin calls also likely had a negative effect, as the fund was required to sell positions into a less than liquid market.

Unlike the collapse of Long Term Capital Management in 1998, the effects of the Amaranth decline were mostly contained, as markets outside of energy were largely unaffected. Given the fund was likely liquidating convertible arbitrage, merger arbitrage and credit arbitrage portfolios, it's a welcome surprise that each of these strategies posted positive returns for the month of September.

The Hennessee Merger Arbitrage Index advanced +0.42% in September to bring year-to-date gains to +9.03%.

According to Thomson Financial, $748 billion of merger and acquisition transactions were announced worldwide in the third quarter, up +16% from $646 billion in the third quarter of 2005. The pace of transactions did slow from the robust pace in the first half of the year when approximately $900 billion in deals were announced per quarter. Through the first nine months, there have been $2.5 trillion of deals announced versus $2.8 trillion in all of 2005. Given that deal flow is on pace to exceed $3 trillion for the entire year, activity may end up being more than 50% greater than 2004.

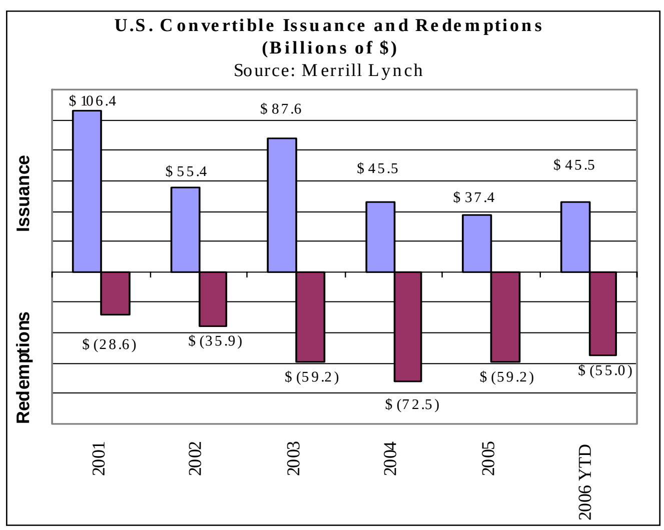


For the quarter, announced deals for European targets totaled $263 billion, compared with $252 billion of deals for U.S. targets. European deal flow was especially strong given that Europe typically has lower merger volume than the U.S. In September, German truck maker MAN AG launched an unsolicited tender offer valued at $12.1 billion, for rival Scania AB of Sweden. Italy's second and third biggest banks by market value, Banca Intesa SpA and Sanpaulo IMI SpA, agreed to merge in a deal valued at $37.5 billion, which would be the biggest domestic European bank merger in a decade.

In the U.S., Freescale Semiconductor agreed to be taken private by a buyout consortium for $17.7 billion, the largest buyout in technology ever. Given the amount of cash being held by private equity funds, most expect more large LBO transactions in the future.

Merger spreads narrowed throughout the month, as risk premiums contracted in most asset classes. This was especially the case in most LBO transactions due to tighter credit spreads and the more favorable environment for obtaining financing. Gains were also generated in company specific transactions, especially those in which buyout prices were increased. Of note, German utility E.On AG raised its cash bid for Spanish electricity company Endesa SA by 38% to €35 ($44.66) a share, or €38 billion ($48.48 billion) after Acciona SA bought 10% of Endesa. E.On's latest offer came after the European Union struck down Spain's road-blocks to the previous German bid.

The Hennessee Convertible Arbitrage Index advanced +0.86% in September to bring year-to-date gains to +8.94%. Positive returns were driven by tighter credit spreads and a healthy new issuance calendar, while implied volatility ended the month virtually unchanged, as the VIX declined from 12.3 to 12.0 in September.



HENNESSEE HEDGE FUND STYLE DEFINITIONS

STYLE	DEFINITION
ASIA - PACIFIC	*Funds typically have long and short equity positions in companies located in the Pacific Basin region (i.e. Japan, China, Hong Kong, Taiwan, Korea, Singapore, Thailand, Malaysia, India, Australia, New Zealand, and other countries in Asia.)*
CONVERTIBLE ARBITRAGE	*This type of arbitrage involves the simultaneous purchase of a convertible bond and the short sale of the underlying stock. Interest rate and credit risk may or may not be hedged.*
DISTRESSED	*Primary investment focus involves securities of companies that have declared bankruptcy and/or may be undergoing reorganization. Investment holdings range from senior secured debt (uppermost tier of a company's capital structure) to the common stock of the company (lower tier of the capital structure).*
EMERGING MARKETS	*This strategy focuses on investing in lesser-developed, non-G7 countries whose financial markets provide exploitable pricing inefficiencies. Popular geographic regions include Latin America, Eastern Europe, Asia - Pacific, and Africa. Asset classes range from equities and bonds to local currencies.*
EUROPE	*Funds typically have long and short equity positions in European companies located in the United Kingdom, Western Europe, and Eastern Europe.*
EVENT DRIVEN	*This strategy can include merger arbitrage, distressed, liquidations, and spin-offs in addition to value driven special situation equity investing. Investments are usually dependent on an "event" as the catalyst to release the position's intrinsic value.*
FINANCIAL EQUITIES	*Funds typically have long and short equity positions within the financial sector (banks, thrifts, brokerage, insurance, etc.)*
FIXED INCOME	*Funds typically employ a variety of fixed income related strategies ranging from relative value based trades (basis, TEDs, yield curve, etc.) to directional bets on interest rate shifts. Style also includes credit related arbitrage, which typically involves the purchasing (or selling) of corporate issues and the simultaneous selling (or purchasing) of government issues.*
GROWTH	*Funds typically have long and short equity positions in companies that exhibit an acceleration (or deceleration) of earnings growth, revenues, and market share.*
HEALTHCARE/ BIOTECH	*Funds typically have long and short equity positions in medical related stocks, which include biotechnology, pharmaceuticals, HMO's, medical devices, etc.*
HIGH YIELD	*Funds typically have long and short equity positions in non-investment grade corporate bonds, which offer attractive coupon yields. Interest rate risk may or may not be hedged.*
INTERNATIONAL	*Funds typically have long and short equity positions in the stocks of international companies. Positions can be either growth or value and, in addition to global investments, funds typically have exposure to U.S. companies.*
LATIN AMERICA	*Funds typically have long and short equity and/or debt positions in companies located in Latin American countries such as Chile, Mexico, Venezuela, Argentina, Brazil, and Ecuador.*

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HENNESSEE HEDGE FUND STYLE DEFINITIONS

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STYLE	DEFINITION
MACRO	Dominant investment theme is to capitalize on changes in the global macroeconomic environment through participation in the various capital markets. A top-down methodology allows managers of this strategy to utilize all asset classes (equities, bonds, currencies, derivatives) available in the global capital markets.
MARKET NEUTRAL	Funds typically have long and short equity positions with approximately zero net dollar exposure. In addition, some funds will attempt to be beta, sector, and market cap neutral to further reduce equity market risk. Funds within this style utilize a range of methods from quantitative modeling to fundamental pairs trading.
MERGER ARBITRAGE	Style typically involves the simultaneous purchase of stock in a company being acquired and the short sale of stock in the respective acquirer. Many merger arbitrage managers attempt to mitigate deal risk by engaging only in strategic takeovers after they have been announced.
MULTIPLE ARBITRAGE	Style includes funds that employ more than one arbitrage strategy. The portfolio manager opportunistically allocates capital among the various strategies in an attempt to create the best risk/reward profile for the overall fund. Common strategies include merger arbitrage, convertible arbitrage, fixed income arbitrage, long/short equity pairs trading, quantitative equity trading, volatility arbitrage, and distressed investments.
OPPORTUNISTIC	Funds typically have long and short equity positions while maintaining a flexible net exposure to reflect the changing dynamics of the market on a minute-to-minute or day-to-day basis. Investments can be initiated from technical and/or fundamental analysis and portfolio turnover is typically high as managers have a short term investment time horizon.
PIPES/ PRIVATE FINANCING	PIPEs (private investments in public entities) are transactions by which publicly traded companies access new capital through the sale of stock directly to private investors. PIPEs can be transacted with a number of financial instruments, including the issuance of common stock, convertible securities, or warrants. Private financing includes asset based lending/acquisitions and direct loan investing such as mezzanine financing, bridge loans, and debtor in possession financing.
SHORT BIAS	Funds typically have long and short equity positions with an overall net short exposure to the market. Investments can be fundamental, technical, or event driven. This style can be used as a hedge against long-only portfolios and by investors who feel the market is approaching or in a bearish cycle.
TECHNOLOGY	Funds typically have long and short equity positions in technology-related sectors such as semiconductors, hardware, software, networking devices, etc.
TELECOM/ MEDIA	Funds typically have long and short equity positions in the telecommunication and media sectors such as telecommunication services, fiber optics, cable services, publishing, entertainment, programming, broadcasting, etc.
VALUE	Funds typically have long and short equity positions in undervalued companies which trade below their intrinsic value. Undervalued securities may be defined as, but not limited to, equities with low price-to-earnings ratios or low price-to-book value ratios. Managers also focus on companies that generate substantial free cash flow and utilize cash for debt retirement, share repurchase programs, and other methods utilized to realize shareholder value.

New issuance was strong in September, with 16 new issues coming to the market in the U.S., raising a total of $5.4 billion in proceeds. The largest deal was a $2.5 billion convertible issued by US Bancorp. For the first time in a while, new issuance outpaced redemptions (convertibles that have matured, been put back to the company, or been called by the company), which totaled $3.5 billion. The majority of the redemption amount was Medtronic, which saw $2.1 billion put back to the company by investors. For the year, new issuance has totaled $45.5 billion in comparison to $21.6 billion in the first nine months of 2005. Redemptions have totaled $55 billion for the year, still outpacing new issuance.

Whereas convertibles have historically traded at a discount to theoretical value, convertibles are now trading at a premium to theoretical value. According to Merrill Lynch, the average premium to theoretical value for the All US Convertibles Index decreased slightly from 0.38% to 0.35% rich, based upon prevailing levels of implied volatility, credit spreads, stock prices, and interest rates. **This remains close to the richest level the index has been at since April 2004, just prior to a prolonged draw-down for convertibles.**

Managers are becoming more skeptical of the convert market given the increase in valuations over the past year. Investor demand for convertible funds has increased despite data showing valuations are not cheap. Ironically, several managers have noted that investor flows into convertible funds have actually picked up in recent months, just as valuations have become more stretched. As such, most managers expect muted returns over the next twelve months, unless an increase in volatility occurs.

Credit strategies were also strong in September, as the Hennessee Distressed Index advanced +0.22% to bring year-to-date returns to +9.48%.

The continued strength of the high yield market has been a surprise to most hedge fund managers, as the Distressed Index is the second best performing strategy among the 23 covered by the Hennessee Group. **Most credit managers remain cautious on the credit markets and are attempting to construct portfolios that are hedged against a widening of spreads.**

Spreads on the Merrill Lynch High Yield Master Index tightened from 3.58% to 3.50% over the 10 Year Treasury Note. However, credits were actually much stronger as the yield on Merrill Lynch High Yield Master Index fell from 8.32% to 8.14%. The small decline in the spread over Treasuries was due to the fact that the yield on the 10 Year Treasury fell from 4.74% to 4.64%.

Delphi continued to recover throughout September. Several distressed funds have purchased stock, which has recovered from $0.50 to $1.95 since it announced bankruptcy in Oct 2005. General Motors also was stronger, although came under pressure in early October as the partnership with Renault was put on hold and Kirk Kerkorian's interest in the company appeared to weaken. Enron debt also continued to appreciate as the company continues to liquidate and sell assets.

Hedge funds continue to become increasingly involved in the credit derivatives markets, as managers continue to search for the least expensive way to hedge their portfolios. **The International Swaps and Derivatives Association (ISDA) announced that the total notional value of credit derivatives rose 52% in the first six months of 2006 from $17.1 trillion to $26 trillion.** The organization also noted that the notional amount is vastly larger than the amount of bonds they protect.

A recent theme among credit-oriented managers has been long the bonds and long the credit default swap (effectively short the credit) on the same company following rumors of a potential leveraged buyout (LBO). LBO activity is often a trigger for allowing specific bonds to be put back to the company at a premium, while the credit quality generally weakens because of the higher likelihood that more debt will be applied to the capital structure. Furthermore, since the fund is typically long the same amount of bonds as it is long credit default swaps, most believe that exposure to a general widening of credit spreads across the economy is minimal (effectively hedged). Many managers expect this strategy to continue generating profits as it has in the last year should the LBO trend continue.

Global/Macro
(YTD: +3.30% / SEP: -0.37%)

While international managers posted modest gains in September, macro managers suffered through a fifth negative month in a row as bond yields continued to decline, U.S. markets outperformed international markets, energy and commodity prices declined, and the U.S. dollar strengthened.

Foreign equity markets were relatively flat in September, as the MSCI EAFE Price Index was down -0.01% for the month. International hedge fund managers' performance was modestly superior, as the Hennessee International Index was up +0.48% for the month. **For the year, international stocks have outperformed U.S. equities, as the MSCI EAFE Index is up +12.20%, versus the S&P 500, which is up +8.54%.** The decision by the Federal Reserve to likely end its monetary tightening in the U.S. has encouraged investors back into global equities.

The European stock market performance continues to be strong as the MSCI Europe Index was up +0.80% (+12.21% YTD). Hedge fund managers continue to like opportunities in Europe as merger and acquisition activity continues to be robust and companies continue to work towards unlocking shareholder value through stock-buybacks and restructurings. Some managers express concern that European companies will be affected by a decrease in demand for exports to the U.S. as the U.S. consumer faces several negative headwinds. In early October, the European Central Bank raised interest rates to +3.25% despite the fact that inflation has been benign. Despite the rate hike, the FTS Eurofirst 300 index hit a 5 year high in early October.

In Asia, managers believe the Japanese government may increase interest rates in the future, but economic growth after a prolonged economic downturn should continue. **In September, economic data showed that Japanese business sentiment improved unexpectedly, reinforcing expectations that the Bank of Japan will raise rates in the first quarter of next year. The Chinese stock market continues to soar as the Shanghai and Shenzhen B Shares are up +74% and +65% for the year, respectively.** China continues to attempt to curb speculative investment through bank restrictions and interest rates. Managers state that it is also likely that China will allow the yuan to increase faster than in the past in order to help moderate the economy.

In Latin America, performance was mixed with the overall MSCI Latin America Index up +0.80% for the month. Mexico was the strong performer for the month as the Mexican IPC stock index increased +4.2% and hit record highs. However, managers state that the country would be very vulnerable if the U.S. economy slows. Another source of profits continues to be Venezuela as the Venezuelan IBC General Index is now up 60% for the year.

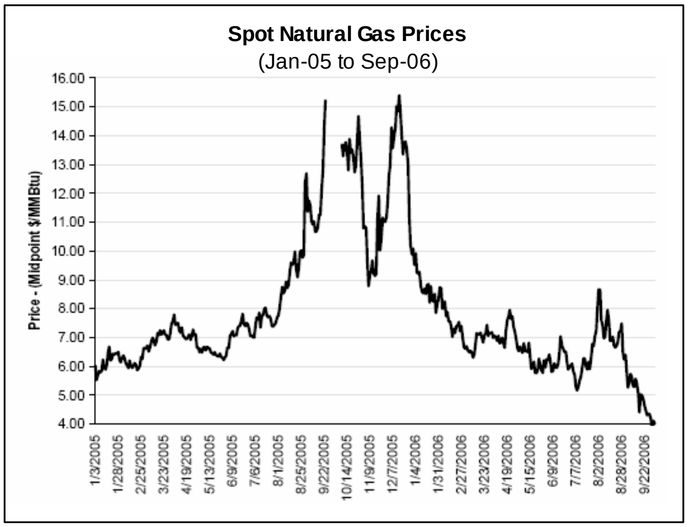
International managers' major concern is the extent of the slowdown in the U.S. economy. **Managers have reduced portfolio risk they realize that a hard landing in the U.S. could have a negative impact on global markets, especially emerging markets.**

Macro managers were the worst performing strategy for the second month in a row as the Hennessee Macro Index was down -2.12% and the strategy is now down -0.57% for the year through September.

The bond market continued to strengthen as the Lehman Aggregate Bond Index was up +0.88% in September. **The yield on the 10-Year Treasury note declined from 4.73% to 4.64% and the 2-Year Treasury note went from 4.77% to 4.71%.** Managers state that the bond market is forecasting an economic slowdown and interest rate cuts early next year, somewhat in contradiction to the equity markets. The yield curve remains significantly inverted compared to the Fed Funds rate which is at 5.25%. Managers continue to like the idea of a steeper U.S. yield curve, especially in the 3-5 year versus 30 year sectors. There has been little movement in the curve as of late, as US inflation numbers appear tame with the housing market and economy slowing.

Oil prices continued to slide as a weak storm season, increased inventories, and an easing of geopolitical issues in the Middle East calmed concerns about supply disruptions. **Oil prices declined to end the month at $63 per barrel, before reaching $59 in early October.** During the month, OPEC stated it would cut oil production by one million barrels a day to target a $60 per barrel target. **Natural gas prices**

fell dramatically from $5.80 to $3.66, a decline of 37% in September. Sharp price moves in the energy sector have reportedly whipsawed several energy-trading hedge funds, including MotherRock and Amaranth Advisors. Managers are somewhat divided on expectations for energy prices, however most believe that oil may remain close to $60 and expect natural gas to bottom out in approaching weeks and then increase to a more-average price during the winter.



The slide in energy prices affected other commodities as gold and copper prices fell. Gold prices fell from $623 to $595 in September, before reaching a price of $566 in early October. **Gold prices were also negatively affected by the strong surge in U.S. equities, a weaker energy market and a firmer U.S. dollar.**

Despite September being a seasonally weak month for the U.S. dollar, the currency strengthened in September, though remained in a trading range. The Euro weakened versus the dollar going from $1.283 to $1.268 as concerns about a hard landing for the U.S. economy lessened. Dollar also strengthened against the yen as the dollar went from 117.2 to 117.9 yen. In early October, the dollar reached its highest level against the yen in 2006.

Macro managers took losses in September as several themes went against managers, including a continued decline in bond yields and flat yield curve, good weather and a decline in energy prices, outperformance by U.S. equities compared to international equities, and a shift out of commodities and energy into tech and retail sectors. Managers remained concerned about the economic slowdown and can be expected to remain cautious, with reduced exposures, until they have more conviction.

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 are long natural gas believing that inventories should decline as we enter the winter heating season. **We are long the 2-Year Treasury** believing that the Fed's next move will be to lower rates.

We are short banks as we think that the deterioration in the housing market will have a negative effect on consumer credit quality.

We are short steel stocks because we believe steel inventories will likely increase as China adds capacity, causing steel prices to fall.

We believe that the U.S. economy is heading for a recession led by a decline in consumer spending and tighter monetary policy in China.

We have covered our homebuilder shorts because prices have fallen to book value with limited downside left in the stocks.

We are shorting Internet companies because we believe the prices paid for recent acquisitions of MySpace and YouTube are ridiculous.

We are short the dollar as we are convinced that the Fed is done raising rates which will likely lead to easier monetary policy.

We think Japan remains an excellent area for investment as valuations remain low, growth is accelerating, and deflation is over.

We have completely exited the high yield bond sector. While bond issuance is at all time highs, risk premiums are at multi-year lows.


RISK
RETURN
Sometimes Risk Outgrows Return.

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MONTHLY RANK 2006 (Net)	YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	21	13	23	2	14	21	21	21	12	12			
CONVERTIBLE ARBITRAGE INDEX	4	15	4	15	21	3	10	4	13	4			
DISTRESSED INDEX	2	18	14	14	3	2	14	12	8	14			
EMERGING MARKETS INDEX	14	6	8	20	4	17	16	1	15	18			
EUROPE INDEX	13	10	3	8	6	18	17	20	10	10			
EVENT DRIVEN INDEX	8	11	22	11	7	9	8	18	11	9			
FINANCIAL EQUITIES INDEX	7	19	11	13	8	10	13	16	9	3			
FIXED INCOME INDEX	17	21	19	17	10	4	6	11	17	17			
GROWTH INDEX	12	3	13	3	15	16	18	22	7	13			
HEALTHCARE AND BIOTECH INDEX	20	9	2	18	23	14	19	15	6	16			
HIGH YIELD INDEX	9	20	5	16	17	5	11	5	20	6			
INTERNATIONAL INDEX	15	7	16	7	5	20	20	8	5	8			
LATIN AMERICA INDEX	19	1	1	23	1	23	1	23	23	15			
MACRO INDEX	23	16	18	21	9	11	12	14	22	22			
MARKET NEUTRAL INDEX	18	22	10	19	22	8	4	10	19	7			
MERGER ARBITRAGE INDEX	3	14	7	12	16	7	5	6	16	11			
MULTIPLE ARBITRAGE INDEX	16	17	9	10	12	6	7	9	14	23			
OPPORTUNISTIC INDEX	5	2	21	4	2	15	22	2	4	20			
PIPES/PRIVATE FINANCING INDEX	11	5	6	5	18	13	9	17	18	19			
SHORT BIASED INDEX	22	23	12	22	20	1	2	3	21	21			
TECHNOLOGY INDEX	6	4	20	6	19	19	23	13	1	2			
TELECOM AND MEDIA INDEX	1	8	15	1	13	22	3	7	2	1			
VALUE INDEX	10	12	17	9	11	12	15	19	3	5			

The Hennessee Hedge Fund Indices® are calculated from performance data supplied by a diversified group of hedge funds monitored by the Hennessee Hedge Fund Advisory Group. 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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2006 (Net)	YTD	YTD RANK	% of mgrs. >S&P, ytd	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	**2.10%**	**21**	**25%**	3.36%	-0.76%	3.09%	1.19%	-3.52%	-1.28%	-1.20%	1.02%	0.37%			
CONVERTIBLE ARBITRAGE INDEX	**8.94%**	**4**	**47%**	2.50%	1.30%	1.06%	0.33%	1.00%	0.01%	0.57%	0.99%	0.86%			
DISTRESSED INDEX	**9.48%**	**2**	**36%**	2.24%	0.48%	1.42%	2.15%	1.56%	-0.21%	0.08%	1.21%	0.22%			
EMERGING MARKETS INDEX	**6.46%**	**14**	**32%**	4.31%	0.92%	0.62%	2.04%	-2.31%	-0.62%	0.87%	0.66%	-0.09%			
EUROPE INDEX	**6.81%**	**13**	**39%**	3.60%	1.93%	1.98%	1.97%	-2.73%	-0.76%	-0.85%	1.16%	0.45%			
EVENT DRIVEN INDEX	**7.40%**	**8**	**35%**	3.48%	-0.52%	1.61%	1.80%	-0.07%	0.03%	-0.64%	1.08%	0.47%			
FINANCIAL EQUITIES INDEX	**7.72%**	**7**	**35%**	2.07%	0.66%	1.49%	1.79%	-0.64%	-0.14%	-0.37%	1.19%	1.45%			
FIXED INCOME INDEX	**5.63%**	**17**	**8%**	0.82%	0.29%	0.86%	1.61%	0.84%	0.43%	0.11%	0.55%	0.00%			
GROWTH INDEX	**6.81%**	**12**	**30%**	4.94%	0.57%	2.72%	1.18%	-2.18%	-0.77%	-1.24%	1.24%	0.32%			
HEALTHCARE AND BIOTECH IN-	**2.49%**	**20**	**27%**	3.71%	2.18%	0.78%	-2.36%	-1.84%	-0.88%	-0.26%	1.24%	0.04%			
HIGH YIELD INDEX	**7.10%**	**9**	**19%**	1.58%	1.10%	0.97%	1.05%	0.51%	-0.08%	0.56%	0.48%	0.73%			
INTERNATIONAL INDEX	**6.06%**	**15**	**21%**	3.77%	0.41%	2.00%	2.01%	-3.33%	-1.04%	0.43%	1.35%	0.48%			
LATIN AMERICA INDEX	**3.69%**	**19**	**38%**	10.16%	5.65%	-2.90%	2.93%	-9.86%	2.71%	-2.15%	-1.74%	0.15%			
MACRO INDEX	**-0.57%**	**23**	**14%**	2.49%	0.37%	0.36%	1.65%	-1.58%	-0.09%	-0.12%	-1.38%	-2.18%			
MARKET NEUTRAL INDEX	**4.41%**	**18**	**13%**	0.74%	0.69%	0.78%	0.23%	-0.02%	0.68%	0.21%	0.50%	0.52%			
MERGER ARBITRAGE INDEX	**9.03%**	**3**	**45%**	2.66%	0.94%	1.53%	1.17%	0.33%	0.52%	0.49%	0.65%	0.42%			
MULTIPLE ARBITRAGE INDEX	**5.91%**	**16**	**44%**	2.40%	0.89%	1.86%	1.52%	0.50%	0.33%	0.30%	0.87%	-2.81%			
OPPORTUNISTIC INDEX	**8.89%**	**5**	**38%**	5.43%	-0.02%	2.69%	2.21%	-2.16%	-1.31%	0.81%	1.70%	-0.56%			
PIPES/PRIVATE FINANCING INDEX	**7.02%**	**11**	**61%**	4.35%	1.01%	2.39%	0.89%	-1.61%	0.01%	-0.53%	0.53%	-0.11%			
SHORT BIASED INDEX	**-0.31%**	**22**	**18%**	-2.68%	0.58%	-0.79%	0.51%	3.84%	0.88%	0.79%	-1.17%	-2.12%			
TECHNOLOGY INDEX	**8.87%**	**6**	**48%**	4.88%	0.28%	2.21%	0.86%	-2.91%	-1.40%	0.03%	3.26%	1.56%			
TELECOM AND MEDIA INDEX	**13.98%**	**1**	**44%**	3.73%	0.43%	3.81%	1.30%	-3.61%	0.85%	0.47%	2.27%	4.18%			
VALUE INDEX	**7.02%**	**10**	**34%**	3.42%	0.40%	1.94%	1.57%	-1.61%	-0.52%	-0.78%	1.70%	0.79%			
HENNESSEE HEDGE FUND INDEX	**6.32%**		**32%**	**3.42%**	**0.57%**	**1.77%**	**1.27%**	**-1.29%**	**-0.39%**	**-0.27%**	**1.06%**	**0.08%**			
LONG/SHORT EQUITY	**6.66%**		**32%**	**3.72%**	**0.61%**	**1.99%**	**0.96%**	**-1.67%**	**-0.60%**	**-0.45%**	**1.48%**	**0.54%**			
ARBITRAGE/EVENT DRIVEN	**7.58%**		**38%**	**2.51%**	**0.63%**	**1.47%**	**1.38%**	**0.53%**	**0.13%**	**0.10%**	**0.88%**	**-0.26%**			
GLOBAL/MACRO	**3.30%**		**26%**	**3.77%**	**0.61%**	**1.60%**	**1.74%**	**-3.16%**	**-0.63%**	**-0.39%**	**0.23%**	**-0.37%**			
S&P 500 W/DIV	**8.54%**			2.65%	0.27%	1.25%	1.34%	-2.88%	0.14%	0.62%	2.38%	2.58%			
DJIA	**8.98%**			1.38%	1.18%	1.05%	2.32%	-1.75%	-0.16%	0.32%	1.75%	2.62%			
MSCI EAFE (USD) PRICE INDEX	**12.20%**			6.10%	-0.35%	2.88%	4.51%	-4.37%	-0.21%	0.92%	2.49%	-0.01%			
RUSSELL 2000	**8.68%**			8.97%	-0.28%	4.85%	-0.02%	-5.62%	0.64%	-3.25%	2.96%	0.83%			
NASDAQ	**2.40%**			4.56%	-1.06%	2.56%	-0.74%	-6.19%	-0.31%	-3.71%	4.41%	3.42%			
LEHMAN BROS. INT. GOVT. CORP.	**3.01%**			-0.02%	0.07%	-0.44%	0.05%	0.01%	0.15%	1.12%	1.25%	0.79%			

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