HENNESSEE GROUP LLC
HEDGE FUND ADVISORY

HENNESSEE HEDGE FUND REVIEW™

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	DEC 1999	YTD
HENNESSEE HEDGE FUND INDEX™	+7.48%	+32.59%
S&P 500 (with income)	+5.89%	+21.03%
LIPPER MUTUAL FUNDS[1]	+8.98%	+14.33%
CORRELATED HEDGE FUNDS	+9.90%	+41.88%
NON-CORRELATED HEDGE FUNDS	+1.72%	+14.59%
GLOBAL HEDGE FUNDS	+11.33%	+42.73%

PERCENTAGE OF CORRELATED MANAGERS OUTPERFORMING THE:

	DEC 1999	YTD
S & P 500	+60%	+51%
Lipper Mutual Funds[1]	+75%	+77%

TOP (3) PERFORMING STYLES:

DEC 1999		YTD	
Healthcare	+21.62%	Technology	+101.53%
Latin American	+20.47%	Pacific Rim	+81.12%
Technology	+15.18%	Latin American	+74.11%

BOTTOM (3) PERFORMING STYLES:

DEC 1999		YTD	
Short Only	-5.16%	Short Only	-9.91%
Financial Equities	-1.40%	Market Neutral	-0.84%
Market Neutral	+0.20%	Financial Equities	+4.63%

[1] *Equally weighted composite of Lipper Mutual Fund indices including: Capital Appreciation, Growth, Small Cap, Growth & Income, Equity Income, Science and Technology, International, Balanced, Emerging Markets Equity, High Current Yield and Global Income Bond.*

MARKET SUMMARY-DECEMBER

The technology laden NASDAQ index gained +21.98% in December bringing its year-to-date return to +85.60%, by far the best annual performance since the inception of the index. Adding 1999's return to the preceding four years, the NASDAQ has advanced over +900% over the last five years.

While these returns have dominated the media recently, let us not forget the S&P 500 and the Dow Jones Industrials which also posted strong gains in 1999. Finishing in record territory as well, the S&P 500 gained +5.89% in December (+21.03% for the year) and the Dow climbed +5.81% for the month (+27.26 for the year). The five year return for the Dow was +197% while the S&P 500 advanced +219%, spectacular returns in their own right, but paling in comparison to the NASDAQ.

As for the Russell 2000, predominantly comprised of small capitalization stocks, December served to more than double its annual return by advancing +11.32% for the month bringing its year-to-date return to +21.26%.

The NASDAQ's feverish climb however, has punctured further holes in virtually every conceivable barometer of fundamental value. Perhaps the most glaring illustration was portrayed in a chart printed in Barrons on Jan. 3rd, appropriately titled, "All P, No E". To save some space we will describe it to you. Draw a squiggly line ranging between 20 and 40 on the vertical axis which spans the period covering the late 1980s up to 1997.

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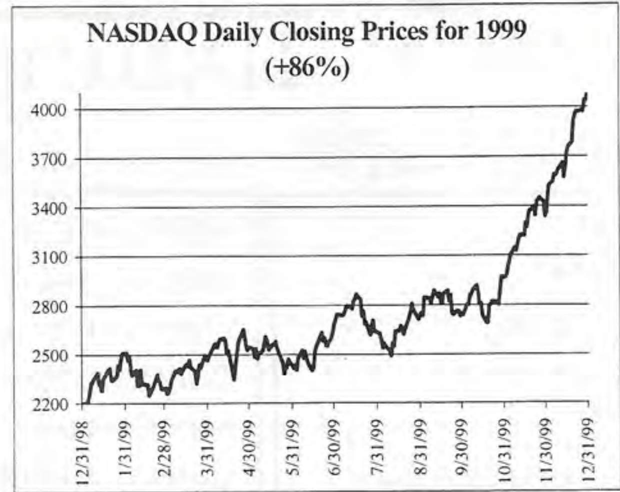
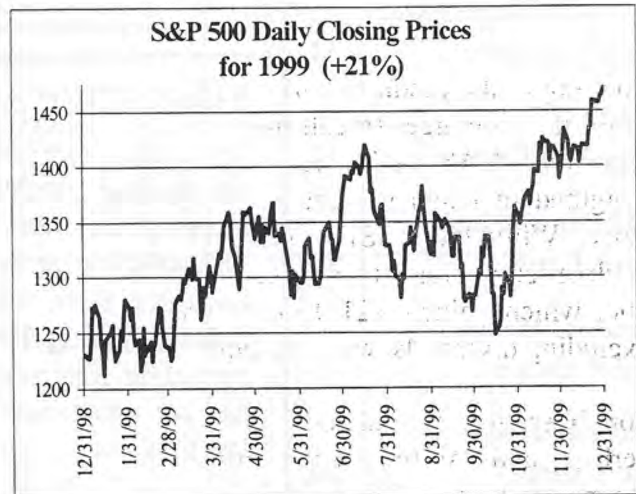


Then extend that line strait up to the top of the page (add additional sheets if necessary). What you have just done is chart the price/earnings ratio for the NASDAQ. Of particular importance, be sure to tack on an additional 30 points or so for the month of December alone, bringing the final close for 1999 somewhere near 200! This is truly a dizzying level even for the market's most euphoric pundits.

Compared to the NASDAQ, the S&P 500 looks downright cheap. As of year end, the P/E, based on forward earning, for S&P 500 in year 2000 was more in the neighborhood of 25. Of course the top 25 performing stocks in the index carry a much higher P/E of roughly 47 while the remain-



ing 475 components had a P/E of roughly 20, highlighingt another important issue. High P/E stocks continued to perform better than low P/E stocks during the year.

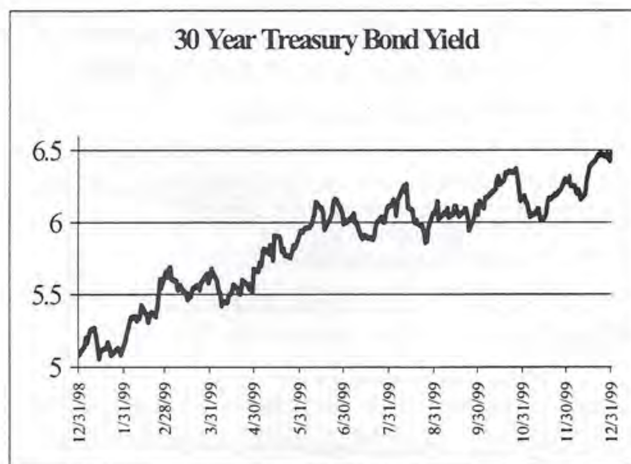
Indeed, over the last several years, fewer and fewer stocks have been responsible for the gains in the supposedly "broad" market indices. Last year, the top 25 performing stocks in the S&P 500 accounted for 100% of the index's +21.03% gain. Even more startling, 51.4% of stocks in the S&P 500 actually declined last year!

Attribution of the S&P 500 Index (w/o Dividends)				
	1999	1998	1997	1996
% of Index return from top 5 stocks	43%	26%	15%	21%
% of Index return from top 10 stocks	65%	43%	25%	30%
% of Index return from top 25 stocks	100%	67%	44%	48%
% of stocks in Index that declined	51%	42%	19%	24%

The NASDAQ faired similarly. Roughly half of the stocks that comprise the NASDAQ ended the year lower and at year-end (with the index in record territory) and the average NASDAQ stock was down more than 30% from its 52-week high.

Looking at the median return for the components of these two indices (recall that both the S&P 500 and the NASDAQ are both capitalization weighted indexes) we get a similarly surprising story. While the NASDAQ returned +85.6%, the median return was a mere +0.3% and for the S&P 500, which gained +21.03%, the median return, excluding dividends, was a negative –2.9%.

For those of you who thought the markets were perhaps a bit frothy as we embarked on 1999, maybe "risk-free" US Treasury Bonds seemed a reasonable alternative. Well, guess again. The



30-year yield increased from 5.084% on 12/31/98 to 6.477% by the close of 1999.

That translated into a –14.78% return after factoring in price changes and reinvestment. Maybe not having enough of the overpriced technology sector is a more risky proposition. (Imagine sitting down with your financial advisors and hearing them say, "well, it looks like the stocks in your portfolio are a little too rich in the earnings department, maybe you should consider adding some NASDAQ 100 futures.)

While no one knows what the current year will hold, the above analysis seems to confirm two major themes that have been espoused by hedge fund managers lately. First, there are an incredible number of stocks that seem right for a correction, and secondly, there are an even larger number that seem to offer decent value that have yet to receive invitations to the party.

Finally, on the lighter side, and perhaps appropriate as we enter the election year, investors who still choose to do a little homework on the businesses they devote their money to should consider this: The following is a profile on a group of 500 people with the same job; can you guess what their job is?

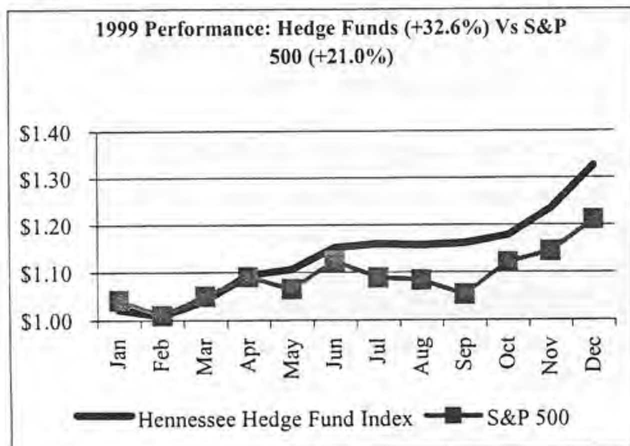
- 29 have been accused of <u>spousal abuse</u>

- 7 have been arrested for fraud
- 19 have been accused of writing bad checks
- 117 have bankrupted at least two businesses
- 3 have been arrested for assault
- 71 cannot get a credit card due to bad credit
- 14 have been arrested on drug-related charges
- 8 have been arrested for shoplifting
- 21 are current defendants in lawsuits
- In 1998 alone, 84 were stopped for drunk driving

Give up? It's the 535 members of the United States Congress. May 2000 bring continued prosperity and may "God Bless America!"

HEDGE FUND PERORMANCE SUMMARY- DECEMBER

Hedge Funds outperformed the broad market indices this year while maintaining hedges and short exposure with significantly less net exposure to the market. The Hennessee Hedge Fund Index gained +7.48% in December bringing 1999 to a close with a respectable +32.59%. Correlated Hedge Funds gained +9.90% (+41.88% YTD) while Non-Correlated Hedge Funds gained +1.72% in December (+14.59% YTD). By comparison, in December, the S&P 500 advanced +5.89% (+21.03% YTD), the Dow Jones Industrials gained +5.81% (+27.26% YTD), and the NASDAQ tacked on an additional +21.98% (+85.60% YTD).



Broken down by style, the top performing hedge fund categories during December were: Healthcare (+21.62% DEC / +60.53% YTD), Latin America (+20.47% DEC / +74.11% YTD), and Technology (+15.18% DEC / +101.53% YTD). The worst performing styles during December were: Market Neutral (+0.20% DEC / -0.84% YTD), Financial Equities (-1.40% DEC / +4.63% YTD), and, not surprisingly, Short Only (-5.16% DEC / -9.91% YTD).

The Hennessee Healthcare Index finished the year strong (+60.53%) with its largest monthly gain of the year by far (+21.62%). In December, Managers received most of their gains from exposure to biotech during the month as the NASDAQ Biotech Index gained +30.26% in December alone. Several managers who reported the strongest gains also benefited from short exposure to larger pharmaceutical companies (AMEX Pharma Index –9.40% DEC) which was used as a hedge to the long portfolio. Looking forward, most managers remain enthusiastic about the prospects for companies that are focusing on mapping the human genome. This niche sector of the market could hold significant implications for future research and drug development.

The Latin American category of managers, which gained +20.47% in December to bring the year-to-date return to +74.11%, was the month's second most profitable group. Latin American managers enjoyed the best of both worlds as emerging market bonds rallied, namely corporate paper, and the equity markets were carried by the technology mania that has spread to the region. Improved economic growth forecasts also supported the rally and served to attract foreign investors to join increased domestic investment.

The technology sector on average was up 102% for the year which shouldn't have come as any surprise, as there has been an unquenchable thirst for technology, evidenced by the NASDAQ's appreciation in 1999. Technology is revolutionizing

the world and those invested in technology have done exceptionally well.

Market Neutral managers finished a disappointing year (-0.84%) with a +0.20% gain in December as the sector once again fell victim to a powerful momentum-driven rally. The NASDAQ finished 1999 (+85.60%) with a gain of +21.98%, led by technology and telecommunications stocks. Such high-flying stocks did not permit the necessary mean reversion, or consolidation of stock prices, that market neutral managers depend upon.

It was a difficult month and year for those invested in Financial Equities and a rising interest rate environment may cause additional pain. Those invested in regional type of banks had particular difficulty and announced negative earnings, in part, due to plateauing credit card growth.

Short Only managers suffered again in December (-5.16% DEC) as richly valued stocks continued to defy gravity. While Short Only managers finished the year down –9.91%, investors should give them some credit for stock selection and portfolio management which prevented most funds from being the mirror image of the major indices which all closed the year with spectacular gains.

STYLE PERFORMANCE SUMMARIES- DECEMBER
(Annual/Month)

Europe
(YTD: +36.57% / DEC: +13.59%)

European managers concluded the year in style by notching their largest monthly gain of +13.59% to conclude 1999 with a cumulative return of +36.57%. **Many managers hope to see a transfer of the U.S. paradigm of high growth with low inflation to European markets, as business sentiment and corporate restructuring efforts continue to improve, while investor appetites for "New Economy" stocks remain insatiable.**

"The year 2000 may see the beginning of cross border consolidation in Europe." Such a comment by a prominent hedge fund manager is the result of several key discussions currently taking place involving European financial institutions. This same manager referenced the German government's proposal to abolish a corporate-gains tax on sales of domestic shareholdings. Such a regulation might open avenues for industrial and banking mergers, as banks begin to sell more of their industrial company holdings. Finally, cross-border deals may invoke larger than expected spreads as target shareholders prefer, or are required, to sell their shares before the closing of a deal. Thus, wider than usual spreads on certain cross border deals are more a result of technical factors than the inherent risk of the merger failing.

Performance for the month should come as no surprise as the Wall Street Journal reported in the title of a mid-month article: "In Europe, Hunger for 'New Economy' Stocks Blows Away Traditional year-end Slowdown." Hedge fund managers took advantage of investor cravings for a diverse array of technology stocks within the telecommunications, internet, and media industries. Mobile operators, fixed line businesses, e-commerce, internet service providers, IT consulting firms, semiconductor manufacturers, and computer services firms all contributed to gains. Such technology stocks led the European markets through mid-month until positive German business sentiments and tax reforms spurred industrial and financial stocks as the technology sector fell victim to bouts of profit-taking.

Finally, as the month came to a close, many managers chose to reduce net investment exposure through hedging more aggressively, in order to maintain profits and protect against any Y2K issues. Other managers are looking to improved business sentiment and economic growth reports in order to increase cyclical and oil industry expo-

sure while judging the technology sector to be at the extreme valuation levels.

Below is a chart detailing the impressive approximate performance of the major European markets for the year of 1999:

1999 Return in U.S. $ terms	
Finland (HEX 20)	+189%
Sweden (OMX)	+71%
France (CAC 40)	+51%
Germany (DAX)	+39%
Netherlands (AEX)	+25%
Italy (MIB30)	+22%
Spain (IBEX 35)	+18%
UK (FTSE 100)	+18%
Switzerland (SMI)	+6%

Value
(YTD: +24.58% / DEC: +7.32%)

Hedge fund managers who invested in the value sector have continued their momentum from November, with performance for the month of December at (+7.32%) bringing the year-to-date total to (+24.58%). The performance of the S&P 500, was up (+5.89%) for the month and stands at (+21.03%) for the year. The Russell 2000 had a positive return of +11.32% for the month of December and stands at +21.26% for the year. For the first time since 1993, the Russell 2000 actually beat the S&P 500 benchmark. This shift began to occur at the start of the second quarter of 1999. During this nine month period, the Russell 2000 was up +28.20% as compared to +15.27% for the S&P.

Managers remained cautious in December and plan to do so going forward. For December, managers made money on both the long and short side of their portfolios as value stocks followed the markets to new highs. Many believe volatility will continue to be on the rise, driven by an overvaluation of numerous market sectors, excess liquidity in the system, an unusually high level of consumer confidence and all major geographical regions having expanding economies simultaneously.

Managers believe the current environment of depressed small-cap stocks is providing many attractive investment opportunities. However, small caps may not return to favor until the major "tech mania" breaks. In terms of relative performance, small caps should outperform during a correction because it is the large cap stocks that are most extended. Some speculate that capital will begin to come out of the larger cap technology names at an accelerated pace, as they may have peaked after a fantastic 1999.

Valuations may come back into the equation and investors may start looking at the price-to-earnings ratio instead of the price to fantasy ratio currently being used. This has been the case in 1999, as herds of investors ran to purchase shares of high-flying internet companies disregarding the fact that the "E" in the P/E ratio stands for earnings. Now stocks are being priced on future possibilities. In addition, managers find that the markets in general, simply put, are overvalued. Based on the S&P's industrial index, stocks are at their most expensive levels ever to book value. Looking at the Russell 2000 Growth and Value Indices, the 44.6% spread between the two is the widest in the 20 years for which the data is available.

	4Q99	1999	10 yrs
Russell 2000 Growth Index	33.40%	43.10%	13.50%
Russell 2000 Value Index	1.50%	-1.50%	12.50%
Spreads	31.90%	44.60%	1.00%

Managers are also hoping that in the rising interest rate environment of 2000, investors will look at small cap stocks as priced cheaply, since they

are trading at just two times earnings with positive EBITDA. They will also pay particular attention to the short side of their portfolios to provide profit opportunities as stocks typically go down much faster than they go up. With the current market environment, there are ample short opportunities, as evidenced by the fact that the majority of stocks in the NASDAQ, NYSE, and S&P were actually down for 1999.

In 2000, managers will continue to buy overly depressed stocks that have solid businesses, strong cash flows and considerable assets. Yet due to recent events and market sentiment, a temporary black cloud is hanging over these shares. With patience, prudent managers will wait for such companies to rebound and will be rewarded with long-term capital gains.

A final thought from Professor Burton G. Malkiel quoted from a Jan 2, 2000 article from the New York Times, "It is well to remember that investments in transforming technologies have not always rewarded investors. Electric power companies, rail roads, airlines, television and radio manufacturers transformed our country into greatness but most investors lost their shirts. Many automakers ended up as roadkill, even though the future of the industry was brilliant. The lessons here are clear, occasionally groups of stocks associated with new technologies get caught in a speculative bubble, and it appears that the sky is the limit but gravity prevails and the market price corrects, eventually!"

Growth
(YTD: +53.20% / DEC: +12.01%)

For the month of December, Growth managers averaged a performance of (+12.01%) and 53.20% for the year as technology stocks continued to rise to new heights. Growth managers have clearly outperformed, as 80% of the managers beat the S&P, which finished the year at +21.03%. If we single out managers with a pure technology focus, returns averaged 14.77% for the month of December and stand at 100.81% for the year.

The U.S. equity markets continued the historic ascent with the NASDAQ up +21.98% for December and finishing the year at +85.60%, with 48% of performance coming from the fourth quarter of 1999 alone. The NASDAQ through Dec 31st posted records in 32 of its last 44 trading sessions and closed above 4000 just 36 sessions after closing above 3000. Interestingly enough though, without the top 100 NASDAQ stocks (i.e. technology) outperforming, the NASDAQ would have been flat for the year. It is important not to discount the fact that the five largest tech stocks command 40% of the market cap of the NASDAQ 100 index.

It was a record year for IPO's which raised $69.2 billion in 1999, far surpassing the previous high of $49.9 billion in 1996. What makes this data particularly interesting is that there were 546 IPO's in 1999 as compared with 872 IPO's in 1996, with 73% of 99's new issues having negative or no earnings.

Managers made money in enterprise software, internet software and telecommunications on the long side of their portfolios in December and over the course of the year. Managers took advantage of repeated new highs in various technology names like: Cisco, Qualcomm, Microsoft and a small variety of others.

Managers believe technology will continue to drive strong performance on a highly selective basis and by focusing on quality it will enable them to deliver on their objective of achieving consistent rates of return in varying market environments. Technology spending now accounts for nearly one-half of total capital spending. Though tech spending amounts to 4.5% of GDP, it has accounted for one-third of GDP growth in recent years.

Having said that, managers are moving away from pure play internet companies, which many view as being a reckless bet. Instead, they will focus on searching for companies that have credible business plans, combined with, do I dare say a solid financial foundation (i.e. positive earnings) and a competitive edge created by the internet. This concept is quite a divergence from what was seen throughout 1999.

Over the course of 1999 "bricks and mortar" businesses were hastily written off as passé with the internet revolution at hand, however, after a profitable Christmas season managers are moving away from e-tailers because they generate huge revenues at margins that barely cover their cost of capital. As the shake out continues only those e-commerce businesses that can build real brand name recognition will be successful. This may cause these "bricks and mortar" companies to be seen in a new light as e-commerce businesses look to establish a foundation in order to create a long-term presence in the marketplace.

Managers do see an abnormal amount of risk because of the valuation levels achieved in 1999. Also managers foresee increased pressure coming from rising interest rates as well as stronger due to a growing number of momentum traders, who can quickly change market perception. As a result, managers will focus on the dominant players in the market. Some will look to lower the beta of their portfolios, as it relates to technology while still maintaining a net long posture.

The perception going forward is that strong earnings from the dominant players in technology will lead to a continuation of investor enthusiasm in the sector with broadband access being one specific area of focus. Managers reiterated that it will be harder to make money in 2000 and that good stock selection will prove more rewarding than ever for the year ahead.

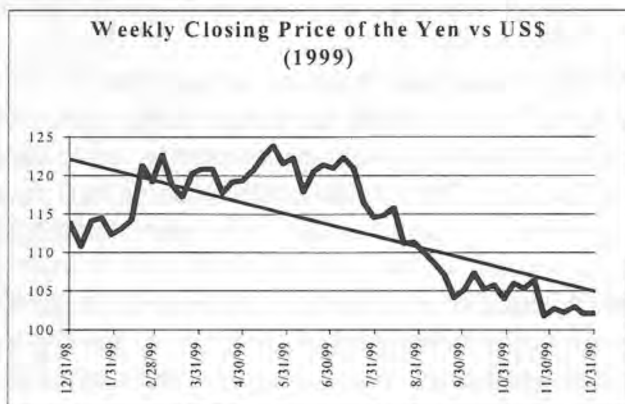
Macro (YTD: +7.90% / DEC: +5.55%)

Marco managers posted their best month of the year in December gaining +5.55%, which when combined with November's revised performance of +3.04%, helped to raise their year-to-date performance to +7.90%. Several notable managers within the Hennessee Macro Index ended the year poorly with double-digit losses.

For the most part, December's gain reflected exposure to technology related stocks, which not only continued their torrid advances but actually picked up speed as the final weeks of the year wound to a close. **Better late than never seems appropriate to say as the lack of meaningful technology exposure was the most noticeably absent allocation in many managers' portfolios throughout the year.** However, while coming late to the party is not necessarily a crime, being the last one to leave may be a lethal injection for this group of recent under-performers. Investors should look out for signs of a late departure from this richly valued segment of the market as the mere size of many of these manager's portfolios can make selling as difficult as turning the Titanic to avoid an approaching iceberg.

Hedging exposure was extremely costly, not only in December, but throughout the year. Several managers, perhaps reeling from the global crisis that erupted during the latter half of 1998, sought refuge in companies with stable businesses and real earnings prospects while "hedging" the portfolio through index futures. As the market rose throughout the year, managers' long portfolios languished while their shorts went against them, serving as yet another reminder that some "hedges" are just short bets in drag and that low net exposure should not necessarily be construed as low risk.

Looking out upon 2000, many economists feel the yen will likely weaken from its year-end levels.



Coupled with the rise in US interest rates and the continued concerns over Japan's nascent recovery, investors should watch for an increase in carry trades.

Financial Equities (YTD: +4.63% / DEC: -1.40%)

Managers in financial equities gave back ground this month as the group had performance of –1.40% in December, with a profitable fourth quarter of +2.82% and year-to-date of +4.63%. Unfortunately financial equities represented one of the worst performing styles not just for December but for the year. Only 11% of the managers invested in financial equities outperformed the S&P 500 benchmark in 1999. Relative to Financial equities, the BIX index completed 1999 at –15.27% and the NASDAQ Financial Index stands at –7.98% for the year.

Managers remained invested in healthy companies at low price to earnings multiples but in most cases managers saw that while earnings continue to improve for these companies, valuations keep falling and have crossed the line with the value players in the market.

During the year the markets saw extreme volatility. At the high points of such volatility, the small caps stocks appeared incredibly undervalued as many awaited the ripple effects of merger activity. At the low points, small cap stocks were suffering from a lack of liquidity, no merger activity and remained very cheap. As a result some managers moved up market capitalization through investing in larger and better companies than their small cap counterparts, which typically have less experienced management teams.

The sentiment was that during the fourth quarter bank stocks would have a renewed interest as a result of repealing the Glass Steagall Act and the elimination of pooling of interests. With these significant changes came the thought that merger activity would be re-ignited in the sector, unfortunately bank stocks remained out of favor and merger activity never picked up. In fact, managers saw and continue to see money flows out of financial stocks into the technology sector and a series of rate hikes looming in 2000 could produce another leg down for the sector at a time when investors in financial equities are extremely skeptical.

In December, regional banks were pounded with U.S. Bancorp leading the sell off, as they once again announced that fourth quarter earnings would fall far short of expectations, stemming from rising interest rates, which will continue to squeeze loan margins. Regional banks, those that tend to focus more on doing business around the block instead of around the world, are particularly exposed. This is due to the fact that regional banks are more reliant on traditional banking businesses, differentiating themselves from larger money-center institutions who earn a majority of revenue from fees on financial services such as underwriting (which looking at the IPO's in 1999 is lucrative). Since many of these regional banks rely on loans for revenue, a series of rate hikes would not bode well for these banks, especially if their loan to deposit ratios are out of balance.

Managers believe large institutional banks have done well and should continue to do so. As long as there is not a major correction, these money centers have a clear edge. Additionally, the pri-

mary way for banks to increase earnings is to make costly investments in new businesses and new technologies, an area in which large institutional banks have a head start.

Managers mentioned that the sector is more sensitive than ever to daily news and is populated by day traders and not long-term investors. **They believe the most recent sell off in bank stocks has been exacerbated and the first companies to make a comeback will be the larger ones.** Many believe that large money center banks will fall the hardest if a major correction occurs.

Managers will continue to invest in selected thrifts that are growing book value through retained earnings and share repurchases at prices below book value. It remains a tough environment; however, managers believe there is an enormous profit potential.

Distressed:
(YTD: +24.80% / DEC: +3.40%)

The month of December proved to be a solid one as Distressed managers were up on average +3.39% and closed at +24.97% for the 1999 calendar year. Approximately one-third of the managers outperformed the S&P for the year. A few managers demonstrated unusually impressive performance in December as some positions that had been discounted on the books were market to market at year-end causing a spike in performance.

Managers continue to be excited over the outlook for distressed debt. Default rates rose all year setting the stage for fresh opportunities for distressed investors. Despite raging economic growth, 1999 produced the largest number of corporate rated bond defaults ever. A total of 89 rated corporate bond issues valued at $24.2 billion dollars defaulted, exceeding the previous record in 1991. According to Standard and Poor's, including defaulted corporate bank loans, 104 issues defaulted totaling $38.4 billion dollars.

Moody's Investors Services default rate for 1999 was 5.51%, up from 3.4% in 1998, which includes global corporate and sovereign debt. Most concur that 1999's unusually high default rates can be traced back to 1997-'98 when credit markets seemed to be open to about any company. Many deals were issued at rich prices that should have never been done at any price, simply because investors in the marketplace demonstrated a high tolerance for risk.

Throughout 1999 and going forward, credit quality remains the main issue at hand among managers, financial institutions and regulators alike. Bank lenders have demonstrated extreme caution and many have exited this investment strategy, as there is still fundamental weaknesses in the high yield market. Unfortunately, this backdrop has not improved as much as many anticipated. Further exacerbating this is the fact that as money flows out of distressed investments there is little or no dip buying.

There continues to be an increasing supply not met with the appropriate level of demand. Over the long run this may produce attractive returns, however the short-term outlook is less optimistic creating further illiquidity in the marketplace. During the fourth quarter, high yield and distressed debt prices were generally flat to lower, extending the year's pricing trend as the factors being discussed, increased supply, reduced demand, and poor liquidity continue to weigh on the market. Outflows in high yield funds for the month of December alone reached $980 million dollars.

Healthcare and Energy companies were among the sectors with the highest defaults in 1999. Some large scale defaults included TransAmerican Energy which defaulted on $1.6 billion of bonds in April 1999; Iridium which defaulted on $1.6 billion in July, never even made it out of the

capital raising phase, and Integrated Health Services which defaulted on $1.3 billion in November. In December, Fruit-of-the-Loom whose name was trademarked back in 1871 filed for bankruptcy protection as it has been dragged down by its heavy debt load and continued financial fallout from its operational foul-ups.

Managers reiterated that the distressed markets are extremely undervalued and that inefficiencies still exist. Some managers are finding non-performing or sub-performing small bank loan portfolios an attractive avenue to pursue. Most will steer clear of single B type paper and will focus on more senior secured types of debt.

In addition, managers concur that if interest rates rise, GDP drops and there are genuine signs of inflation, there will most likely be a pick-up in default rates in 2000. Based on this scenario Moody's estimates default rates for 2000 to be approximately six percent.

Merger Arbitrage (YTD: +16.03% / DEC: +0.46%)

For the month of December, Merger Arbitrage managers gained +0.46%, bringing their year-to-date return to +16.03%. The performance of the S&P 500 was up (+5.89%) for the month and stands at +21.03% for the year. For the year, 100% of the managers in the Hennessee Merger Arbitrage Index were profitable. Positives for the month included many wide spreads coming in and negatives arose from breaks in deals and the widening of spreads in anti-trust risk deals. New deal announcements continued strong in December at 52, versus the January-November average of 46.4 per month. In addition, some managers and proprietary desks went to cash at year-end, which caused some spread widening. HSBC's acquisition was completed on Dec 31st, making it the last major deal to close before the new millennium.
There was a marked decline of activity towards year-end in the financial services sector due in part to Y2K issues and unprecedented volatility, which had an unusual effect on spreads. A number of mergers in this sector were postponed in 1999 and many believe that there is a backlog of transactions that have not been announced yet. We must also keep in mind the effects of Glass-Steagall and the elimination of the pooling of interests accounting.

Some outstanding opportunities for merger arbitrage presented themselves at the onset of 1999 because a number of players exited the market and several prime brokers reduced their clients use of leverage. A continued robust economy allowed the remaining players to profit. **The environment remains near perfect for the strategy with robust stock prices and low inflation, which has made it difficult for companies to boost profits by raising prices. For many industries a merger produces a cost savings necessary in assuring future earnings.**

Despite predictions that *"merger mania"* would slow after the blistering pace set in 1998 the total value of announced deals worldwide was up more than 36% in 1999. This past year was an extremely active year for mergers and acquisitions with over $3.9 trillion dollars in transactions announced worldwide and ten deals valued at $35 billion dollars or more. More than half of the deals announced in the 1990's (10 years) occurred during 1998 and 1999. For the first time ever in a single year, financial institutions advised on more than $1 trillion dollars in worldwide mergers in 1999.

	Value of Deals (billions of $)	Number of '99 deals
Goldman Sachs	1,350.62	419
Morgan/Witter	1,134.66	458
Merrill Lynch	1,098.49	385
Credit Suisse	529.35	331
J.P. Morgan	516.24	245

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HENNESSEE HEDGE FUND STYLE DEFINITIONS™

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STYLE	DEFINITION	Typical Holding Period of Manager's Position	Expected Volatility
CONVERTIBLE ARBITRAGE	This type of arbitrage involves the simultaneous purchase of a convertible bond and the short sale of shares of the underlying stock. Interest rate risk may or may not be hedged.	Medium Term	Low
DISTRESSED	Primary investment focus involves securities of companies that have declared bankruptcy and 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).	Medium/Long Term	Moderate
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, the Pacific Rim and Africa. Asset classes range from equities and bonds to local currencies.	Short/Medium Term	High
EUROPE	Style predominately entails investing in and shorting of European equities that may include peripheral eastern and central regions.	Medium Term	High
EVENT DRIVEN	This strategy combines merger arbitrage, distressed and high yield investing, in addition to value oriented equity investing. Usually dependent on an "event" as the catalyst to release the position's intrinsic value.	Medium Term	Moderate
FINANCIAL EQUITIES	Style predominately entails investing in and shorting of bank stocks and other financial institutions.	Medium/Long Term	Moderate
FIXED INCOME	Employs 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.	Short/Medium Term	High
GROWTH	Style predominately entails investing in and shorting stocks of companies that exhibit an acceleration (or deceleration) of earnings growth, revenues and market share.	Medium Term	Moderate
HEALTHCARE	Style predominately entails investing in and shorting of medical related stocks, which include biotechnology, pharmaceuticals, HMO's, medical information, etc.	Medium Term	High
HIGH YIELD	Style predominately entails investing in and shorting of non-investment grade corporate bonds, which offer attractive coupon yields. Interest rate risk may or may not be hedged.	Medium Term	Moderate
INTERNATIONAL	Participants of this style tend to be bottom-up stock pickers within global regions that are undergoing economic changes. Conversely, International managers will short global equities whose underlying company fundamentals remain poor amidst a backdrop of poor economic conditions.	Medium Term	Moderate
LATIN AMERICA	Style predominately entails investing in and shorting of equity and/or debt within the various Latin American regions.	Medium Term	High

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STYLE	DEFINITION	Typical Holding Period of Manager's Position	Expected Volatility
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.	Medium Term	High
MARKET NEUTRAL	Equal long and short equity exposure combines to produce a low net exposure. In theory, systemic market risk is greatly reduced by being dollar, beta, sector and market cap neutral. Strategies within this style range from quantitative modeling ("black box," or statistical arbitrage) to fundamental pairs trading.	Short/Medium Term	Low
MERGER ARBITRAGE	Style typically involves the simultaneous purchase of stock in a company being acquired and the sale of stock in its acquirer. Many merger arbitrage managers attempt to mitigate deal risk by engaging only in strategic takeovers after they are announced.	Medium Term	Moderate
MULTIPLE ARBITRAGE	Category includes hedge funds that employ more than one arbitrage strategy. Portfolio manager opportunistically allocates capital among the various strategies in order to create the best risk/reward profile for the overall fund. Common strategies include merger arbitrage, convertible arbitrage, fixed income arbitrage, long/short equities pairs trading and volatility arbitrage.	Medium Term	Moderate
OPPORTUNISTIC	Long/short equities managers who maintain a flexible net exposure to reflect the changing dynamics of the market environment. Managers typically utilize technical and/or fundamental (GARP) analysis. Portfolio turnover can be high as participants implement trading disciplines such as tight stop losses and defined exit levels.	Short Term	Low/ Moderate
PACIFIC RIM	Style predominately entails investing in and shorting of Japanese and other Asian equities. Many managers also include Australia and New Zealand as regional investment choices.	Medium Term	High
SHORT ONLY	The entire portfolio consists of short sales, usually fundamental, technical or event driven. This style is used as a hedge for long-only portfolios and by those who feel the market is approaching a bearish cycle.	Medium Term	High
TECHNOLOGY	Manager invests at least 50% of partnership capital in technology related positions. Many managers may also invest in companies with superior technology platforms.	Medium Term	Moderate
VALUE	Style predominately entails investing in undervalued equities which trade below "intrinsic," or "net asset value." Undervalued securities may be defined as, but not limited to, equities with low P/E ratios or low price-to-book value ratios. Manager's focus on companies that generate substantial "free cash flow" and pay special attention to the use of the cash to retire debt, institute share repurchase programs, and other methods to realize shareholder value.	Long Term	Low/ Moderate

There is a debate going on inside and outside the government. The issue lies as to what extent in mergers with some anti-trust problems should you work to fix them or simply oppose the deal (there is a policy speech regarding the subject on Feb 7th). Still in the pipeline is the BP Amoco PLC's pending $32 billion dollar purchase of Atlantic Richfield, which faces a challenge from the FTC. The Alza/Abbott was a deal that did not come to fruition due to the inability to come to terms with the FTC and there will be others as the result of extreme activity in telecommunications, technology and utilities.

Managers concur that 2000 looks bright for the strategy. They will be looking at a host of industry sectors for waves of consolidation including: media, financial services, utilities, technology, telecommunications, and pharmaceuticals in both the U.S. and Europe. In this fast changing environment, it is quicker, although not always easier to merge and acquire than to build.

Convertible Arbitrage
(YTD +16.20% / DEC +3.37%)

December was by far the best performing month for Convertible Arbitrage managers who gained +3.37%, bringing their year to a close at +16.20%. By comparison, the Merrill Lynch All-Convertible Index rose +39.6% in 1999 breaking all of its historical annual performance records. For those of you questioning this apparent aberration, read on.

A dichotomy has developed in the convertible world which is essentially that same as what has occurred in the equity world: large capitalization growth companies (especially anything technology related) have absolutely dominated the performance rankings while virtually everything else has languished (see nearby chart).

Convertible managers with significant exposure to technology issues (see chart) trading far in excess of par value have done well while managers with a bias towards attractively priced issues (typically below par) with solid credits and an ability to pay their coupons have experienced lackluster performance.

1999 Convertible Performance by Sector

Sector	1999 Performance
Technology	+58.19%
Consumer Services	+2.43%
Utilities	+0.60%
Energy	+0.56%
Basic Industries	+0.02%
Conglomerate	0.00%
Capital Goods	-0.01%
Credit Cyclicals	-0.06%
Transportation	-0.07%
Consumer Cyclicals	-0.10%
Financial	-0.24%

1999 Convertible Performance by Market Capitalization

Market Cap	1999 Performance
Large Cap	+57.68%
Medium Cap	+11.66%
Small Cap	-17.90%

Essentially, convertible bonds with high equity sensitivity had a spectacular 1999 and an incredibly strong December, which saw the NASDAQ appreciate by nearly 22%! In fact, with the full year completed, convertible issues included in the

Merrill equity oriented index with a delta of .8 or higher on average gained +115.6% last year!

1999 Convertible Performance by Category	
Style	1999 Performance
Growth	+68.49%
Value	-9.20%

By comparison, "total return" issues, which have deltas between .8 and .4, returned a much more modest +11.5%, while issues trading primarily on a yield basis with deltas below .4 were negative for the year at –9.25%.

As most dedicated long-term Convertible Arbitrage managers tend to focus primarily on stable absolute returns, it is a miracle they performed as well as they did. **Additionally, 1999 saw strong new issuance volume, which exceeded that which was removed from the market through redemptions, maturities, and conversions. This surge, which exceeded 1998's issuance, came amidst a backdrop of declining demand as total assets dedicated to Convertible Arbitrage actually shrank over the last two years.**

International
(YTD: +44.35% / DEC: +9.63%)

While most investors predicted a slowdown in global market activity during December in response to the coming of Y2K, International hedge fund managers took advantage of the increased liquidity provided by central banks and the continued enthusiasm surrounding technology and telecommunications stocks. International managers contributed a monthly gain of +9.63% to an impressive year-to-date performance of +44.35%.

"The decade ends with global stock market capitalization having surpassed world GDP. Morgan Stanley Capital International estimates the market value of stocks traded on the world's 48 largest markets hit $31.7 trillion at November's end. Global GDP is estimated at $30.1 trillion according to the IMF." This quote from the Wall Street Journal confirms a "global equity culture" that has arisen to close the century. The technology/ telecommunications industry was one sector that not only served as a catalyst for this "global culture," but also powered gains in December.

Within Asia, mobile phone operators, electronics companies, semiconductor manufacturers, and internet service providers all provided gains to international portfolios. European cellular franchises along with U.S. business-to-business internet companies, biotechnology firms, and internet service providers boosted gains as well. Latin America was not to be denied its piece of the technology "mania" sweeping the globe as Brazilian telecommunications and internet carriers, along with cable television providers, rallied during the month.

In the words of one hedge fund manager, "We must constantly remind ourselves that the current environment is not normal." Thus, what might bring an end to the party? Several managers commented that perhaps the underestimation of the growth in the world economy is distracting investors from realizing the height to which global interest rates might rise. Coupled with the fact that monetary growth, namely within the U.S., will be trimmed as central banks look to control inflation, causing high-flying technology stocks may see their borrowing rates increase dramatically. As a result, certain more "risk-averse" managers are beginning to reallocate funds from telecom related businesses in favor of basic industries to take advantage of stronger global growth while hedging more through index futures, stocks short sales, and U.S. index put options.

Pacific Rim
(YTD: +81.12% / DEC: +10.67%)

Pacific Rim managers took advantage of another extraordinary rally in technology/internet stocks to improve their year-to-date performance (+81.12%) with a December gain of +10.67%. The rally was broad and powerful as the Asian markets disregarded early month bouts of profit taking and discouraging Japanese economic growth figures.

Once again the technology market disobeyed all laws of pricing fundamentals and took most Asian markets to new heights. Japan, Korea, Taiwan, India, and Singapore all contributed to the strong performance enjoyed by managers. The technology, internet, and telecommunication sectors offered spectacular gains. Value areas, such as pharmaceuticals and non-bank financials, continued to disappoint.

Due to the sharp run-up in technology stocks some managers foresee a certain level of price consolidation. As a result, economic-sensitive consumer issues and index futures used to hedge portfolio exposure, have become more attractive as a "reshuffling of assets" takes place. Yet, following a report that Japan's economy shrank at a –3.8% annual pace in the fiscal third quarter, following two quarters of growth, many hedge fund managers commented that this might serve to only increase interest in technology stocks at the expense of domestic oriented and cyclical stocks. This discrepancy between "Old Japan" and "New Japan" type companies might become even more pronounced in an economic downturn due to retail and construction firms' dependence upon a strong domestic economy.

Singapore and India are two Asian markets beginning to receive increased attention from hedge fund managers. Singapore continues to lead in restructuring efforts, namely within the financial industry, which will allow the country to take advantage of an economic rebound in Asia. Also, the telecommunications and internet mania that has run rampant throughout Asia is not as prevalent within Singapore. India's technology sector will also command increased exposure to certain hedge fund managers' portfolios as " this sector is to account for 7.5% of India's GDP by 2008 and 35% of India's exports."

Many Pacific Rim managers are optimistic in regard to Asian prospects in 2000. Most managers believe that Asian equities are still attractively priced in comparison to U.S. markets. Sectors of interest include not only the technology and semiconductor stocks that have performed so well in 1999, but bank and brokerage stocks that will hopefully contribute in the future. Meanwhile, a significant correlation exists between the NASDAQ and Asian technology stocks. Any sharp downturn in U.S. technology shares would likely affect Asian markets as well.

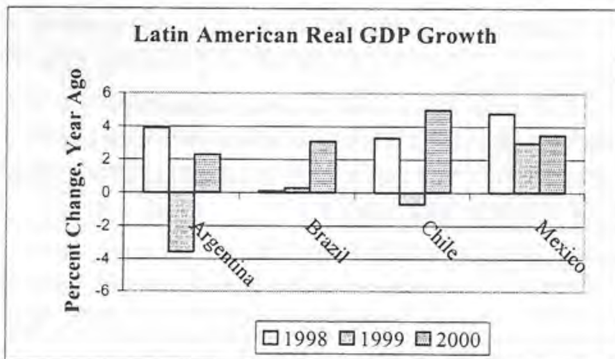
Latin America
(YTD: +74.11% / DEC: +20.47%)

Latin American markets defied the foregone conclusion that Y2K would deter investors from participating in most emerging markets come December. Latin American managers enjoyed one of their best months of the year with a gain of +20.47%, bringing their year-to-date performance to +74.11%.

Once again, hedge fund managers capitalized on telecommunications and technology shares located primarily in Mexico and Brazil. Hedge fund managers commented that although valuation continues to rise in the telecommunications industry, the sector trades cheap in comparison to global telecommunications stocks. Foreign money managers are beginning to return to the emerging markets, namely Latin America, as domestic investors continue to show increased interest.

"New Economy" stocks such as: Telesp Cellular, a Brazilian cellular phone operator, Grupo Televisa, Mexico's dominant media/cable company, and Telefonos de Mexico, or Telmex, Mexico's leading telecommunication carrier and internet service provider, are three names that have powered Latin American markets ahead. Latin American hedge fund managers remain invested in such stocks and are finding attractive opportunities in internet, cable television providers, television broadcasters, and long distance telephone operators.

During the fourth quarter, international bond markets, with the exception of Latin America, were hindered by the return of inflation fears. Latin American sovereign bonds strengthened amidst this backdrop, much to the benefit of hedge fund managers, as global economic sentiment improved. Economists have forecasted Latin American GDP growth at 3.0-3.5%.



Spreads against U.S. treasuries narrowed throughout the region as Brazilian spreads contracted to approximately 350 bps and Mexican spreads fell to approximately 300 bps. Managers commented that spreads still remain relatively wide and will reflect increased issuance of sovereign and corporate eurobond deals to be placed in January. Yet, managers are confident that the Latin American bond market will benefit from signs of economic recovery, however volatility will be present if global inflation becomes apparent.

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 Hedge Fund Advisory Group:

"The broad equity market (ex-technology) is not overvalued. Excluding technology, the P/E for the S&P 500 is just 20 times year 2000 earnings. If you include the Russell 2000 (ex-technology), the P/E is just about 17.5."

"We see the Dow breaking 12,600 by June 30, then re-testing its January lows, of 11,497 followed by a resumption of the bull market to end the year at 12,850 Dow."

"We are bullish on small and mid-cap stocks, which both broke a downtrend (dating back to 1995) during the second quarter of 1999."

"Technology, banking consolidation, biotech, media/ telecom and healthcare are the sectors we think will do well in year 2000."

"We are taking profits in Latin America and Russia and redeploying them to Europe (especially Greece and Germany) and Asia (Hong Kong and Japan)."

"We are going long the bond market. Recently the treasury announced its plan to buy back 30 billion of longer-term securities within the next few months through its "reverse action" process. Reducing supply will eventually create a bond rally as the corporate bond issuance calendar winds down sometime in June and pension funds reallocate their over weighting in equities to bonds."

"It's 1987 all over again! The equity market is rallying despite interest rates going up. This happened in the first quarter of 1987 also. In 1987, we had a big fiscal deficit and large trade deficit, which caused a major devaluation of the dollar. Greenspan responded with raising rates in September by 100 basis points, which prompted a move from equities to bonds. Well,

we have all these elements except the dollar is strong and we have a fiscal surplus. We are watching the presidential elections and what it will mean to the dollar and the surplus in 2001 and 2002."

"No wonder the year has been strong. With real estate and the bank assets being offered to non-Japanese investors at 20% of their 1990 value, money flows into Japan drove the yen to its recent high. Japan will undoubtedly be the world's largest borrower in the global capital markets, which should move their rate higher. We are now short the yen and short Japanese bonds."

"We are ready to put on the dollar/yen trade again. We believe U.S. yields will peak out by June, after which, there will be a bond rally due to less supply of corporate and treasury paper. We also think the Bank of Japan will gradually devalue the yen to 115 to encourage Japanese investors to hold onto their U.S. Bonds."

"The treasury buy back program will add more liquidity to the banking system, which in turn will help economic growth. Expect an equity and bond market rally in the second half of 2000."

"A strong dollar is key in 2000. This is why the treasury is so focused on the trade deficit, which is 4% of GDP. With economic turnarounds in Europe and Asia there will be a propensity to expatriate US equity and bond assets back to their home markets. A strong dollar will help prevent a major correction in the market."

"We are increasing our exposure to distressed managers in 2000. We see a return of inefficiencies in the distressed market. Overall decline in credit quality issuers is the return of deferred pay bonds (zero coupon bonds and payment in kind issues). These companies, which would have done cosmetic refinancing in the past, are unable to do so today so the universe of distressed securities is expanding. Bankruptcies are up dramatically, but there are a lot of "credit quality land mines" to navigate."

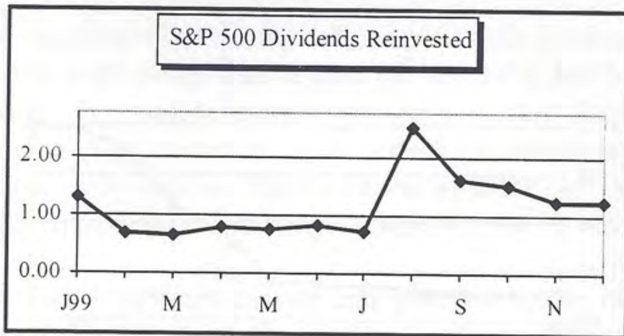
"The year 2000 is an election year, so our net long position will be bullish but we probably will have more portfolio turnover as market volatility should mirror 1999. We are more concerned with year 2001 when we see lower GDP growth, capital spending, and productivity with high wages and no pricing power."

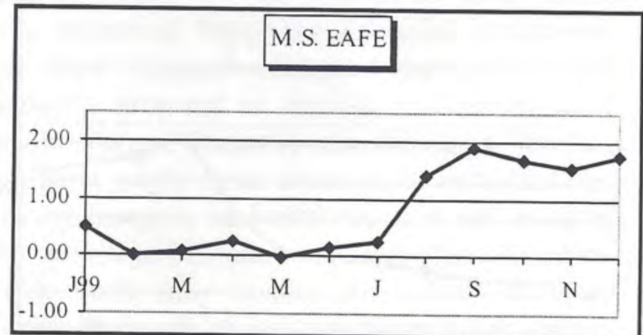
HEDGE HOG CORNER
Dow Jones Technical Analysis

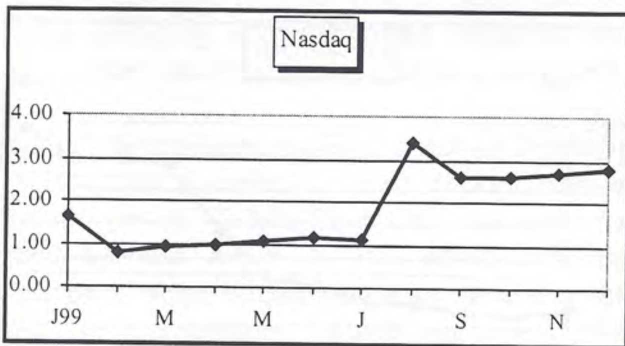
Dow Jones Close (as of 1/24/00)	11,008
Short-term Trading Range	10,900-11,800
Upper Resistance Level I	12,100
Lower Support Level I	10,600
Upper Resistance Level II	12,600
Lower Support Level II	10,200
Hennessee Ratio* (1/24/00)	0.52
Hennessee Ratio* (12/21/99)	0.78
Hennessee Ratio* (11/16/99)	0.99
Hennessee Ratio* (10/20/99)	0.85
Hennessee Ratio* (9/15/99)	1.01
Hennessee Ratio* (8/15/99)	2.60
Hennessee Ratio* (7/15/99)	1.78
Hennessee Ratio* (6/16/99)	2.11
Hennessee Ratio* (5/19/99)	1.31

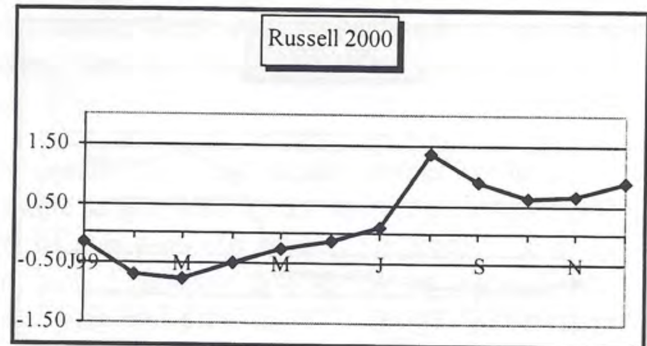
*Ratio of Dow Jones close to maximum upside potential and maximum downside risk levels. A ratio above 1.0 expresses more relative risk in the market than reward.

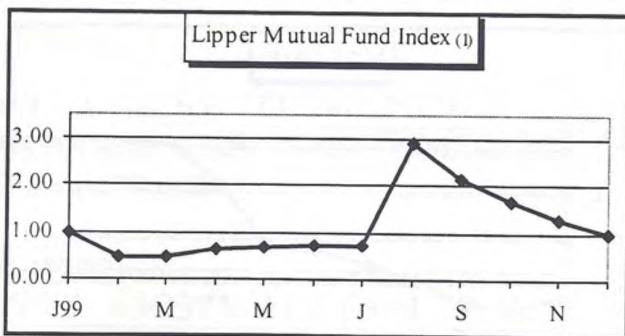
12 MONTH ROLLING SHARPE RATIO

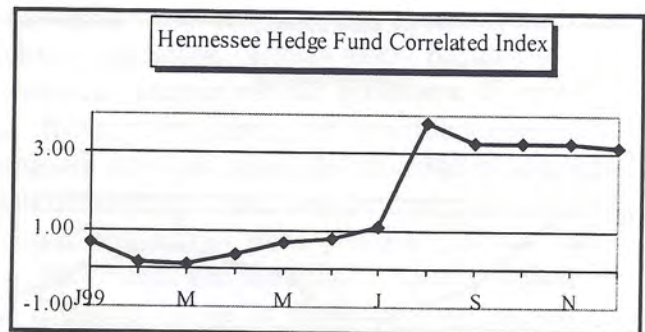










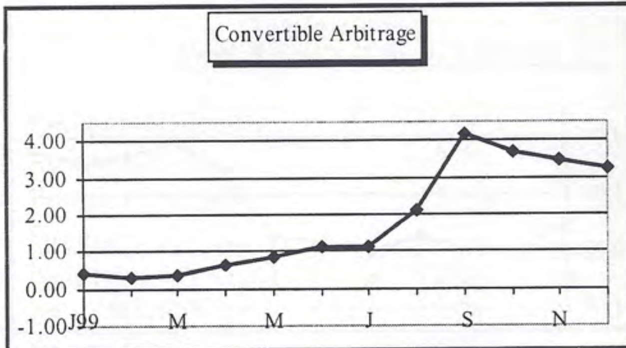


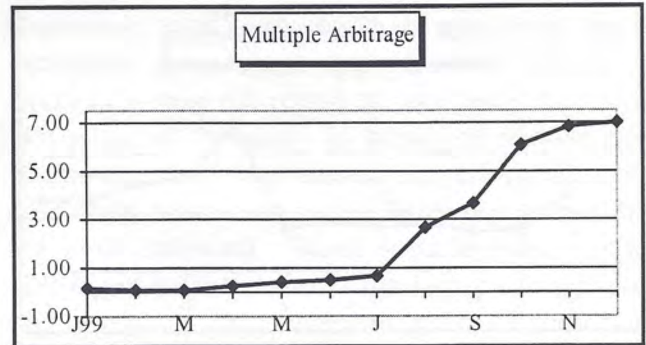
Sharpe Ratio = $\dfrac{\textit{Annualized Return - Risk Free Rate of Return *}}{\textit{Annualized Standard Deviation}}$

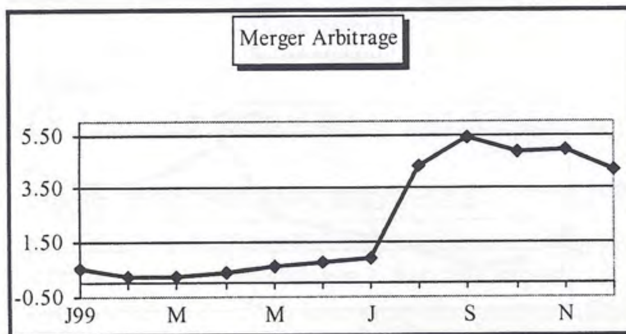
***90 day T-bill**

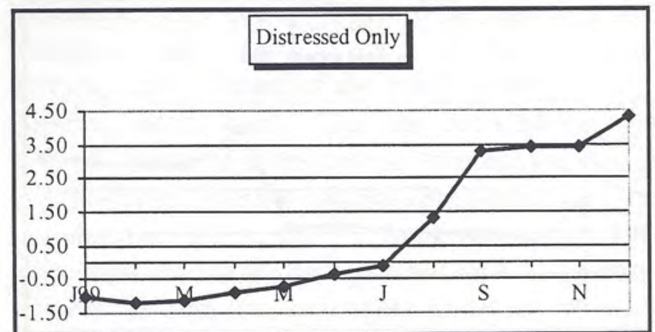
(1) Equally weighted composite of Lipper Mutual Fund indices including: Capital Appreciation, Growth, Small Cap, Growth & Income, Equity Income, Science and Technology, International, Balanced, Emerging Markets Equity, High Current Yield and Global Income Bond. Prior to January 1999, the Rolling Sharpe analysis utilized the Lipper Growth index only.

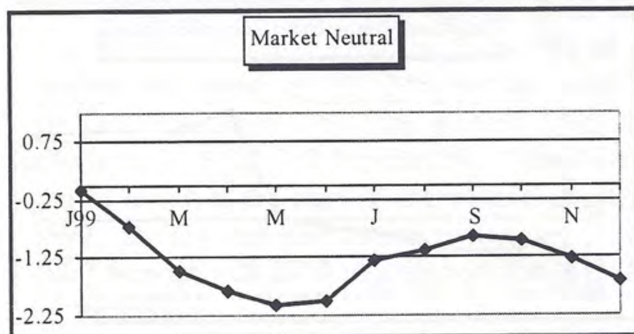
12 MONTH ROLLING SHARPE RATIO

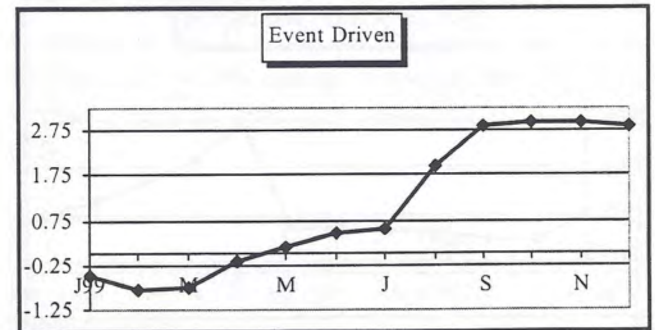












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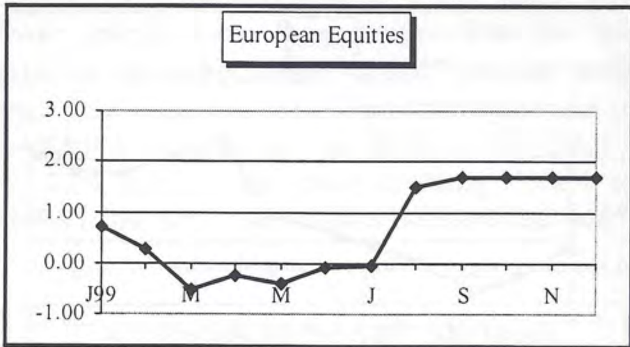
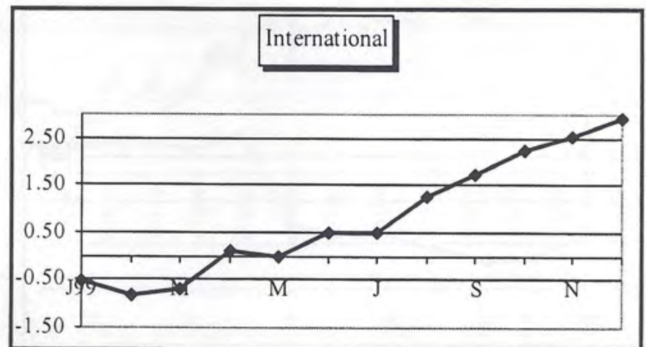
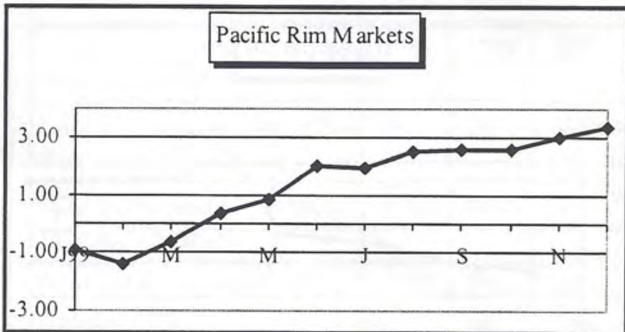
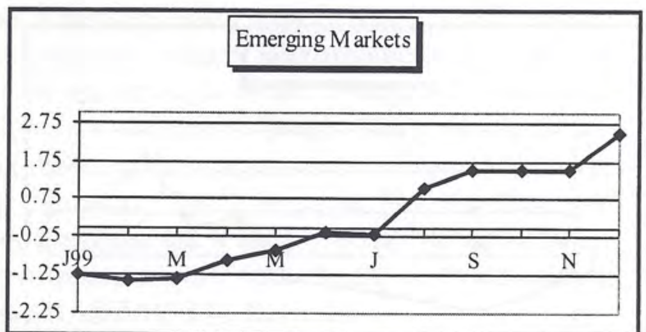
****90 day T-bill***

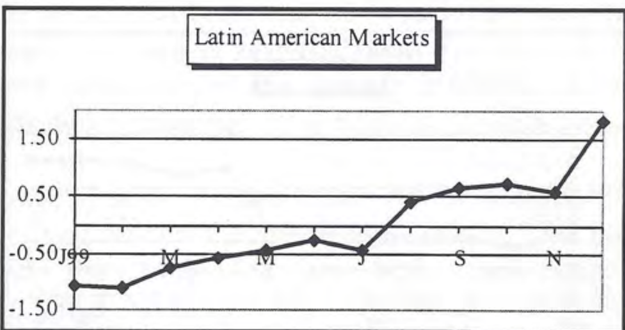
12 MONTH ROLLING SHARPE RATIO

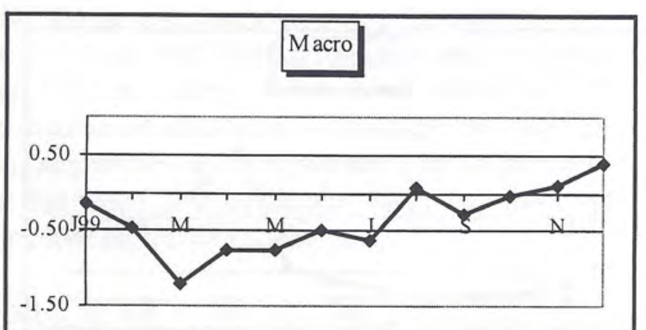












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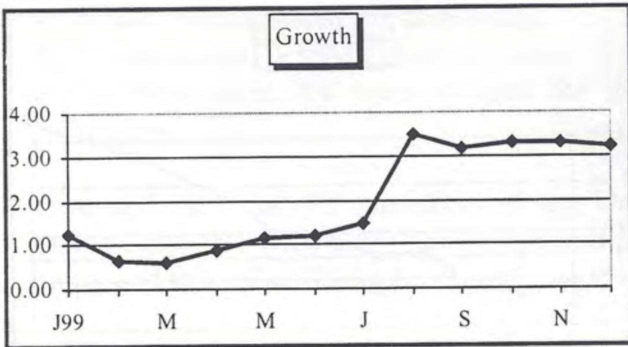
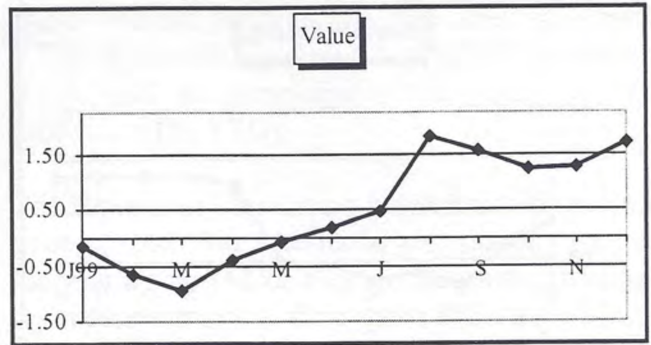
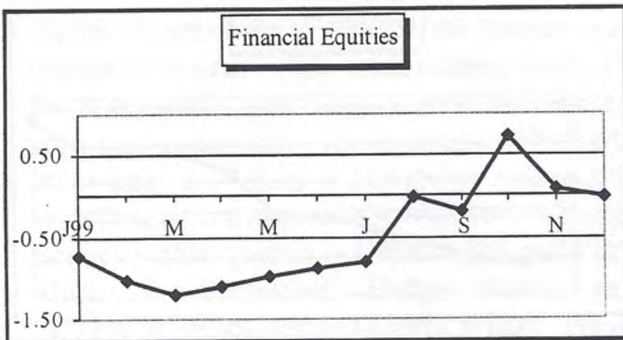
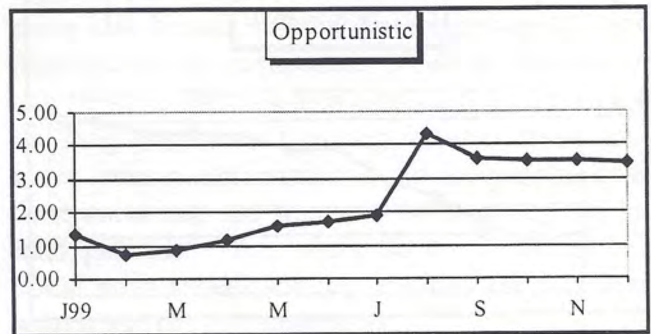
***90 day T-bill**

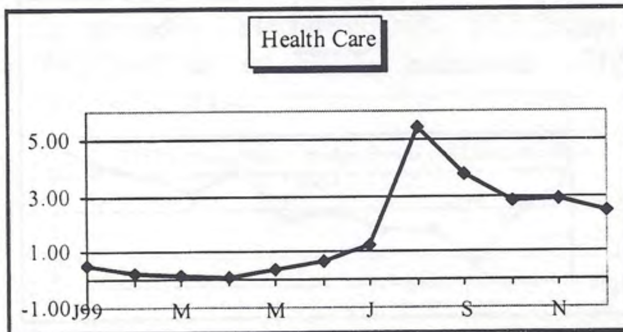
12 MONTH ROLLING SHARPE RATIO

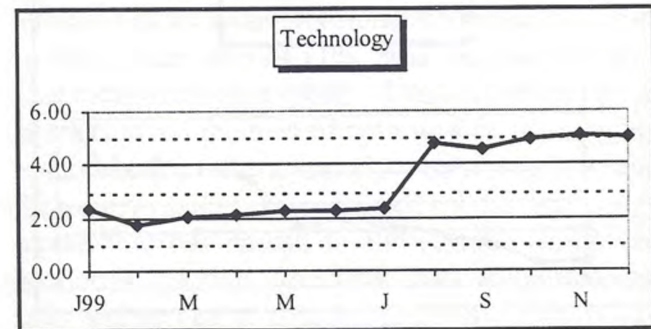












Sharpe Ratio = $\dfrac{\textit{Annualized Return - Risk Free Rate of Return *}}{\textit{Annualized Standard Deviation}}$

****90 day T-bill***

HENNESSEE GROUP LLC
HEDGE FUND ADVISORY

HENNESSEE HEDGE FUND RANKINGS™

HENNESSEE
HEDGE FUND REVIEW™
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1999 (NET) MONTHLY RANK	YTD RANK	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
CONVERTIBLE ARBITRAGE	14	7	5	12	16	8	19	13	7	9	17	17	13
DISTRESSED ONLY	10	12	10	9	13	6	8	8	5	11	13	12	12
EMERGING MARKETS	6	19	4	5	3	17	2	20	19	17	7	7	5
EUROPE	9	8	13	19	10	16	14	2	11	14	16	4	4
EVENT DRIVEN	12	6	8	8	6	2	11	11	15	12	12	13	16
FINANCIAL EQUITIES	19	11	11	20	11	11	10	12	21	21	2	20	20
FIXED INCOME	16	21	2	11	17	15	16	15	10	4	9	19	14
GROWTH	5	15	3	7	8	10	5	7	16	5	5	5	6
HEALTHCARE	4	2	21	10	19	3	7	1	1	20	20	6	1
HIGH YIELD	17	3	18	13	12	18	20	16	13	15	15	16	17
INTERNATIONAL	7	9	7	4	4	20	4	6	18	6	6	8	8
LATIN AMERICA	3	14	12	1	2	21	6	21	4	3	3	2	2
MACRO	18	17	15	18	14	13	13	19	17	19	19	11	11
MARKET NEUTRAL	20	18	17	21	20	12	18	3	14	8	14	18	19
MERGER ARBITRAGE	15	13	9	16	15	5	15	5	6	7	10	14	18
MULTIPLE ARBITRAGE	13	10	6	14	18	9	17	4	8	10	11	15	15
OPPORTUNISTIC	8	4	19	6	9	4	9	14	9	13	8	9	10
PACIFIC RIM	2	16	14	3	1	7	1	18	12	18	4	1	7
SHORT ONLY	21	20	1	15	21	14	21	10	2	2	21	21	21
TECHNOLOGY	1	1	16	2	7	19	3	17	3	1	1	3	3
VALUE	11	5	20	17	5	1	12	9	20	16	18	10	9

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™ represents over half of the capital in the industry and is an equally weighted average of the Hennessee Hedge Fund Indices™ by style Index. The funds in the Hennessee Hedge Fund Index™ are statistically representative of the larger Hennessee Universe of over 3,000 hedge funds are net of fees and unaudited. Past performance is no guarantee of future returns. ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written consent of the publisher. *The technology index consists of managers that have a minimum of 50% of their assets invested in the technology sector.

HENNESSEE GROUP LLC HEDGE FUND ADVISORY

HENNESSEE HEDGE FUND INDICES™

HENNESSEE HEDGE FUND REVIEW™

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1999 (NET)	YTD	YTD RANK	% of mgrs > S&P, ytd	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
CONVERTIBLE ARBITRAGE	**16.20%**	**14**	**16%**	2.12%	0.78%	1.57%	2.45%	1.54%	0.95%	0.26%	0.56%	0.89%	-0.33%	1.01%	3.37%
DISTRESSED ONLY	**24.80%**	**10**	**33%**	1.32%	-0.18%	2.93%	3.40%	1.74%	3.91%	0.85%	1.30%	0.63%	0.56%	2.61%	3.40%
EMERGING MARKETS	**47.12%**	**6**	**64%**	-0.86%	0.80%	4.42%	9.96%	-0.34%	8.56%	-1.24%	-1.87%	-0.82%	2.46%	6.96%	12.51%
EUROPE	**36.57%**	**9**	**67%**	2.02%	-0.78%	0.64%	4.37%	-0.03%	2.20%	2.16%	-0.06%	-0.10%	-0.22%	8.76%	13.59%
EVENT DRIVEN	**24.36%**	**12**	**42%**	2.24%	-0.08%	3.07%	6.66%	2.80%	3.17%	0.51%	-0.71%	0.48%	0.56%	2.08%	1.43%
FINANCIAL EQUITIES	**4.63%**	**19**	**11%**	1.50%	-0.34%	0.25%	4.26%	0.49%	3.72%	0.40%	-4.18%	-3.04%	4.90%	-1.58%	-1.40%
FIXED INCOME	**14.64%**	**16**	**22%**	0.43%	2.58%	1.96%	2.31%	0.00%	1.72%	0.05%	0.11%	2.04%	1.20%	-0.36%	1.75%
GROWTH	**53.20%**	**5**	**80%**	6.61%	-3.94%	3.96%	5.13%	0.79%	6.53%	0.89%	-0.84%	1.96%	3.25%	8.08%	12.01%
HEALTHCARE	**60.53%**	**4**	**80%**	5.50%	-1.98%	2.31%	-0.68%	2.79%	4.46%	6.27%	5.50%	-2.44%	-0.81%	7.82%	21.62%
HIGH YIELD	**8.34%**	**17**	**0%**	1.58%	0.14%	1.53%	4.08%	-0.79%	-0.06%	0.03%	-0.23%	-0.55%	-0.16%	1.31%	1.26%
INTERNATIONAL	**44.35%**	**7**	**69%**	0.68%	-0.69%	4.85%	8.63%	-1.58%	6.65%	0.89%	-1.81%	1.61%	3.13%	6.09%	9.63%
LATIN AMERICA	**74.11%**	**3**	**83%**	-16.13%	3.17%	24.11%	11.26%	-2.76%	6.35%	-5.12%	3.26%	2.67%	4.39%	11.39%	20.47%
MACRO	**7.90%**	**18**	**29%**	-0.61%	-1.28%	0.67%	3.26%	0.30%	2.26%	-1.14%	-1.17%	-2.31%	-0.64%	3.04%	5.55%
MARKET NEUTRAL	**-0.84%**	**20**	**6%**	-0.81%	-1.66%	-1.18%	-1.00%	0.36%	1.09%	1.55%	-0.24%	1.03%	-0.12%	-0.01%	0.20%
MERGER ARBITRAGE	**16.03%**	**15**	**18%**	1.22%	-0.15%	1.06%	2.57%	1.99%	2.05%	1.18%	0.67%	1.08%	0.88%	1.98%	0.46%
MULTIPLE ARBITRAGE	**16.31%**	**13**	**29%**	1.53%	0.78%	1.35%	2.06%	1.50%	1.21%	1.53%	0.50%	0.83%	0.66%	1.57%	1.71%
OPPORTUNISTIC	**37.23%**	**8**	**68%**	3.46%	-2.42%	4.39%	4.84%	2.46%	3.80%	0.14%	0.34%	0.39%	2.42%	5.47%	7.16%
PACIFIC RIM	**81.12%**	**2**	**90%**	-0.39%	-1.11%	8.44%	14.70%	1.58%	14.51%	-0.88%	-0.07%	-1.28%	3.81%	13.14%	10.67%
SHORT ONLY	**-9.91%**	**21**	**0%**	-6.57%	7.38%	1.24%	-2.20%	0.22%	-4.18%	0.61%	5.04%	3.61%	-2.07%	-7.13%	-5.16%
TECHNOLOGY*	**101.53%**	**1**	**100%**	7.29%	-1.52%	14.51%	6.63%	-1.49%	7.14%	-0.39%	5.01%	4.48%	5.56%	11.37%	15.18%
VALUE	**24.58%**	**11**	**55%**	2.90%	-2.47%	1.01%	7.75%	3.00%	2.79%	0.83%	-2.49%	-0.81%	-0.40%	3.33%	7.32%
HENNESSEE H.F. INDEX	**32.59%**		**51%**	**2.13%**	**-1.27%**	**3.20%**	**5.10%**	**1.10%**	**4.13%**	**0.67%**	**-0.25%**	**0.38%**	**1.40%**	**4.83%**	**7.48%**
HENNESSEE CORRELATED	**41.88%**		**68%**	**4.66%**	**-2.70%**	**3.55%**	**5.50%**	**1.66%**	**4.70%**	**1.04%**	**-0.46%**	**0.41%**	**2.00%**	**5.84%**	**9.90%**
HENNESSEE NON-CORRELATED	**14.59%**		**21%**	**1.20%**	**-0.12%**	**1.32%**	**2.49%**	**1.45%**	**1.85%**	**0.94%**	**0.35%**	**0.78%**	**0.30%**	**1.45%**	**1.72%**
HENNESSEE GLOBAL	**42.73%**		**64%**	**-1.08%**	**-0.28%**	**5.12%**	**7.95%**	**-0.39%**	**6.21%**	**-0.34%**	**-0.71%**	**-0.20%**	**1.81%**	**7.66%**	**11.33%**
S&P 500 w/div.	**21.03%**			4.18%	-3.11%	4.00%	3.87%	-2.36%	5.55%	-3.12%	-0.50%	-2.74%	6.33%	2.03%	5.89%
DJIA	**27.26%**			2.07%	-0.42%	5.31%	10.38%	-2.01%	4.06%	-2.75%	1.76%	-4.39%	3.94%	1.51%	5.81%
EAFE	**26.97%**			-0.30%	-2.38%	4.17%	4.05%	-5.15%	3.90%	2.97%	0.37%	1.01%	3.75%	3.47%	8.98%
LIPPER MUTUAL FUNDS[1]	**14.33%**			2.35%	-3.59%	4.32%	4.85%	-1.38%	5.18%	-1.17%	-0.52%	-1.03%	0.85%	1.08%	2.96%
RUSSELL 2000	**21.26%**			1.33%	-8.10%	1.56%	8.96%	1.46%	4.52%	-2.74%	-3.70%	0.02%	0.41%	5.97%	11.32%
LEH BROS. GOVT/CORP.	**0.39%**			0.55%	-1.47%	0.75%	0.31%	-0.77%	0.07%	-0.09%	0.08%	0.93%	0.26%	0.12%	-0.33%
NASDAQ	**85.60%**			14.28%	-8.69%	7.58%	3.31%	-2.84%	8.73%	-1.77%	3.82%	0.25%	8.02%	12.46%	21.98%

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