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HENNESSEE

HEDGE FUND REVIEW®

JANUARY 2012
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	DEC	YTD
Hennessee Hedge Fund Index	-0.45%	-4.31%
S&P 500	+0.85%	-0.02%
Long/Short Equity	-0.63%	-3.73%
Arbitrage/Event Driven	+0.08%	-2.42%
Global/Macro	-0.69%	-8.10%

Percentage Of Hedge Funds Managers Outperforming The:

	DEC	YTD
S&P 500	20%	37%

Top (3) Performing:	DEC		YTD
PIPEs/Private Financing	+1.36%	Short Biased	+3.95%
Healthcare and Biotech	+0.92%	Market Neutral	+3.57%
Distressed	+0.39%	Fixed Income	+2.73%

Bottom (3) Performing:	DEC		YTD
Telecom and Media	-2.14%	Emerging Markets	-13.32%
Growth	-1.98%	Europe	-12.82%
Financial Equities	-1.59%	Latin America	-10.52%

MARKET SUMMARY - 2011

While some asset classes finished the year in positive territory, most hedge fund strategies struggled in 2011, posting losses. **High levels of uncertainty and the highest daily average volatility in 50 years resulted in managers getting 'whipsawed'.** While risk management dictated reduced exposures going into the fourth quarter, it precluded hedge funds from participating in a strong beta rally. In addition, alpha generation was challenging throughout the year due to a macro-driven, high correlation environment. **The Hennessee Hedge Fund Index declined -0.45% in December and -4.31% for the year.**

Top performing strategies for December included PIPEs/Private Financing (+1.36%), Healthcare and Biotech (+0.92%) and Distressed (+0.39%). The worst performing strategies included Telecom and Media (-2.14%), Growth (-1.98%) and Financial Equities (-1.59%).

Top performing strategies for the year included Short Biased (+3.95%), Market Neutral (+3.57%) and Fixed Income (+2.73%). The worst performing strategies included Emerging Markets (-13.32%), Europe (-12.82%) and Latin America (-10.52%).

The S&P 500 advanced +0.85% during the month (-0.02% YTD), while the NASDAQ fell –0.58% (-1.81% YTD). The Dow Jones Industrial Average advanced +1.43% (+5.52% YTD). Small cap stocks increased, as the Russell 2000 advanced +0.47% during the month, but fell -5.45% for the year.

International stocks were negative as the MSCI EAFE Index fell –1.03% in December (-9.90% YTD).

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E. Lee Hennessee
Managing Principal

Charles J. Gradante
Managing Principal

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Hennessee Group LLC
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Emerging markets faced even greater losses as the MSCI Emerging Markets Index fell –1.29% in December (-20.41% YTD).

Bonds were positive as the Barclays Aggregate Bond Index was up +1.10% (+7.86% YTD). **The S&P/BG Cantor 7-10 Year Treasury Bond Index increased +1.84% (+15.60%) during the month, as the 10-year Treasury yield declined 19 basis points to 1.89%.** The Barclays High Yield Credit Bond Index also advanced, up +2.66% in December(+4.98% YTD).

The S&P Goldman Sachs Commodity Index declined -2.11% in December, pushing the index back into negative territory for the 2012 year (-1.18% YTD). From a currency perspective, the **U.S. Dollar Index increased +2.31% in December (+1.46% YTD).**

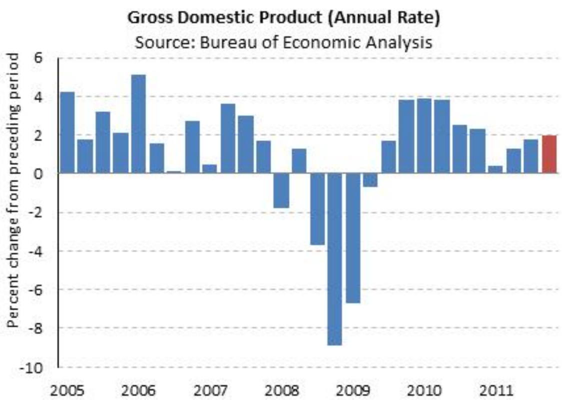
Economic Overview

In 2011, global markets were largely driven by macro events, including unrest in the Middle East, the earthquake, tsunami and nuclear disaster in Japan, and the sovereign debt crisis in Europe. The European debt crisis was the main focus of investors for most the year, as investors feared contagion would threaten the larger economies. The result was in wild swings between "risk on" and "risk off" investing.

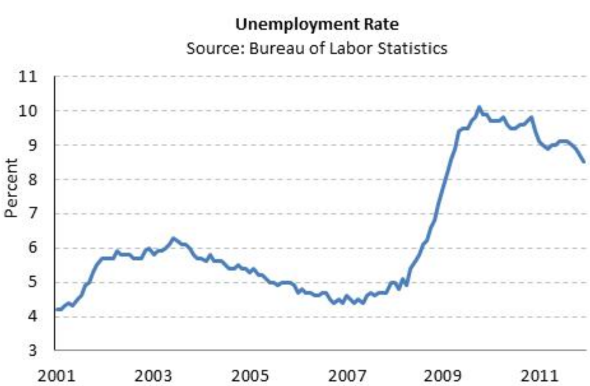
In the U.S., a congressional stalemate over the debt ceiling in August sparked concerns about the governments inability to act, negatively affected the country's credit worthiness and prompted a downgrade. Later in the year, the super committee failed to prevent $1.2 trillion in budget cuts scheduled to start in 2013. Many are concerned about the effect of politics in 2012 and the impact of the election process.

Despite the disorder caused by the global financial system's need to deleverage, the U.S. economy ended the year looking stronger. Most feel that there is increased potential for continued recovery in 2012. After a slow start, +0.4% during the first quarter, the economy gradually began to improve. Though third quarter's +1.8% annualized gross domestic product was lower than 2010's +2.5%, it kept hope alive for continued economic expansion and recovery in 2012.

The manufacturing and services sectors both avoided contraction, and by the third quarter, corporate after-tax profits were up more than +11% from a year earlier. Recent economic data in the U.S. has been stronger than expected and the uncertainty around the payroll tax cut was temporarily removed. **This has led economists to revise their GDP growth forecast for 2012 upwards.**

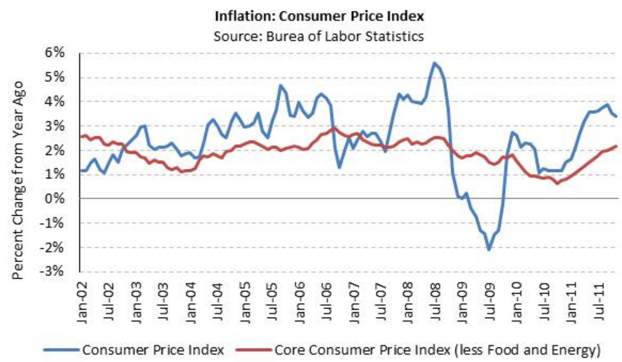


Unemployment started the year at 9.4% in December 2010, and it remained stuck within a point or two of 9% until November, when the biggest monthly decline in more than 13 years cut it to 8.6%, a level last seen in March 2009. Cuts in state, local, and federal government employment partly offset gains in private-sector jobs.



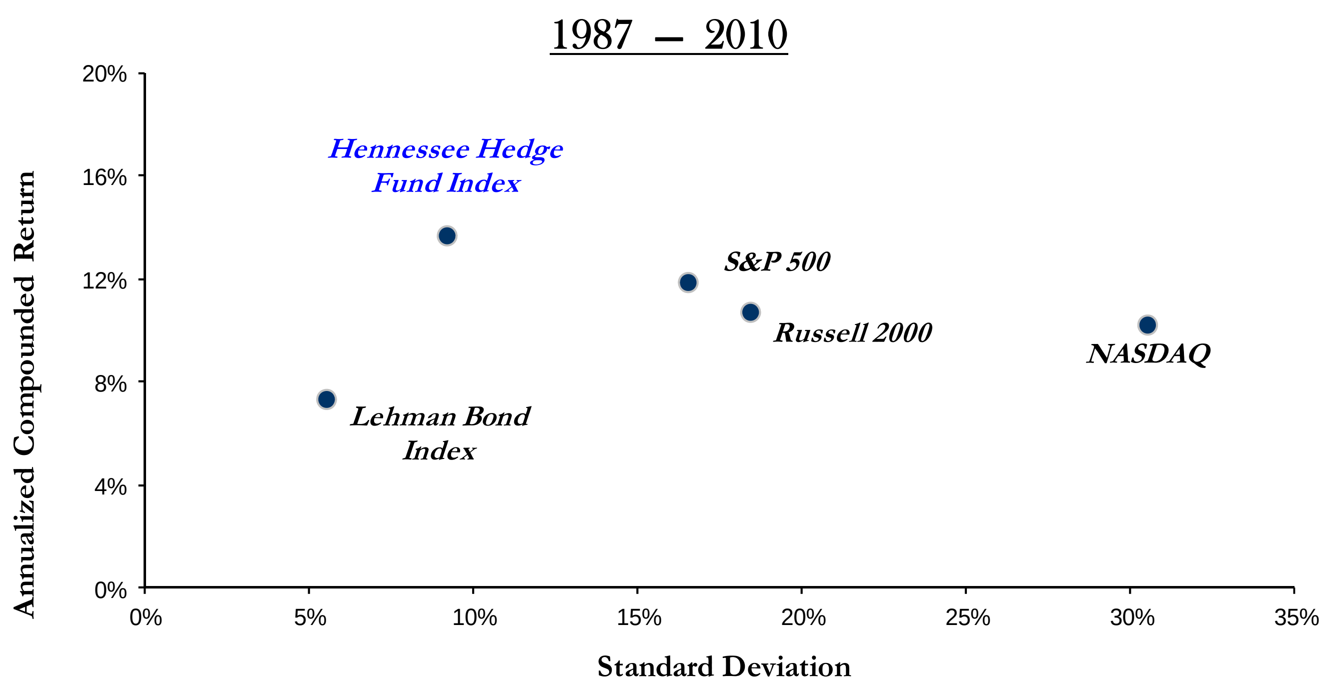
During the first quarter, high inflation at the wholesale level did not flow through to consumers as retail spending remained tentative for much of the year. Retail spending data got a boost during the weekend after Thanksgiving.

By November, consumer inflation was running at an annualized 3.4%, but wholesale prices were up 5.7% year over year. While most feel that inflation has peaked, there is concern about the potential for inflation due to the printing of money over the longer term as well as deflation due to global economic slowdown.



Housing stats and home sales showed signs of life by year's end. Housing starts were up 24% from last November, and new home sales were almost 10% higher. Though home prices seemed to stabilize a bit, by October they were back to mid-2003 levels and 3.4% lower than a year earlier.

Looking forward, managers are somewhat bullish as economic data continues to better than expected. However, they have caution as the extension of additional fiscal stimulus is uncertain as significant differences exist between the executive and legislative branches of the U.S. government. **The environment to pass critical legislation in the U.S. will be challenging due to this year's presidential election. This may be one of the greatest risks to the market for 2012.** There are also longer term concerns about term fiscal consolidation.



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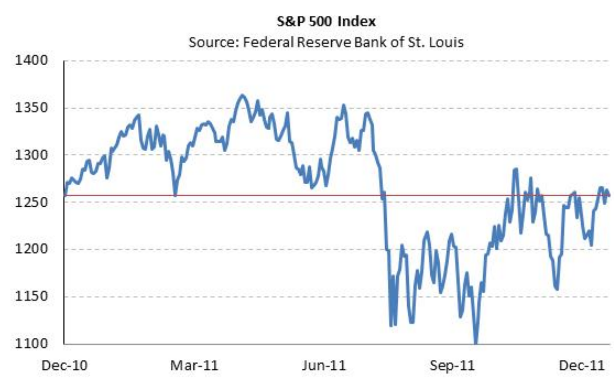
Your Strategic Partner In Hedge Fund Investing

Long/Short Equity

(DEC: -0.63% / YTD: -3.73%)

The Hennessee Long/Short Equity Index dropped -0.63% in December and was down –3.73% for the full year. 2011 was a challenging year for long/short hedge funds, with the average fund underperforming long only benchmarks. Managers struggled to generate alpha in an environment where macro issues overshadowed strong corporate earnings and an improving economy.

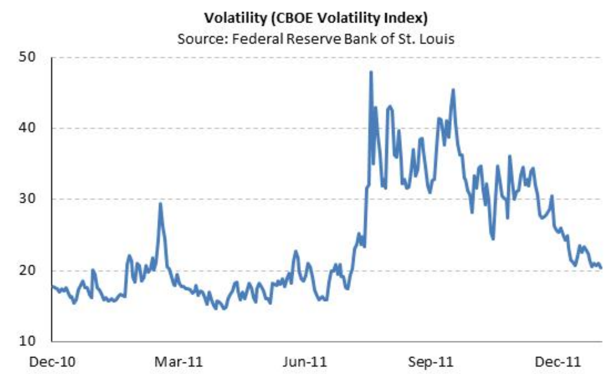
December was another month where asset prices were affected more by headline news than by fundamentals. During the last two weeks of the December, high correlations started to break down as risk assets rallied, but managers failed to capitalize as levels of gross leverage remained low. As a result, hedge fund managers posted negative performance while most traditional equity benchmarks were positive.



For the year, the S&P 500 Index was volatile but ended the year virtually unchanged. While the S&P closed the year down –0.02%, large caps performed well as the Dow was up +5.52%. Small caps underperformed as the Russell 2000 declined -5.45%.

There were two distinct market environments in 2011. During the first half of the year, volatility was low and managers were able to generate alpha and post positive performance. During the second half, high correlation, poor liquidity and high volatility created a challenging backdrop for investing. **The escalation of European sovereign credit crisis in August caught investors by surprise, triggering a series of "risk on" to "risk off" reversals.** The drop in equity liquidity and the rise of correlations effectively shut off equity markets for fundamental stock investors.

For most hedge fund managers, the majority of losses were experienced in August and September. After the tumultuous third quarter, the equity markets rapidly rebounded in early October on stronger U.S. economic data and the notion that Eurozone leaders could devise a plan to stabilize their debt crisis. Managers lagged in October due to lower exposures and conservative positioning. Notwithstanding continued high volatility, the markets sustained the early October gains into year end.

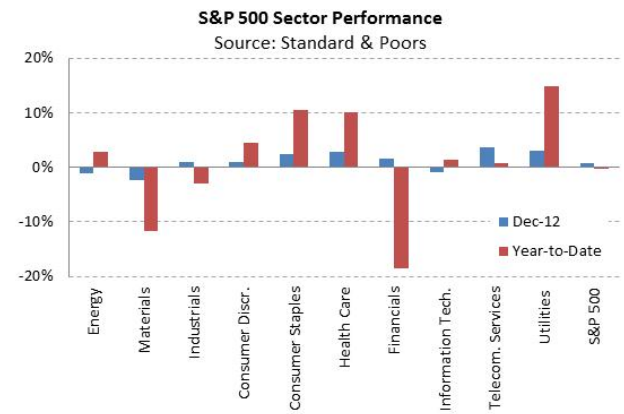


There were several reasons for why long/short equity funds underperformed in 2011, including: (1) reduced exposures, (2) underweight top performing sectors, (3) lack of dispersion, and (4) underperformance of longs.

Fundamental managers with long biases were among the most affected by the high correlation, headline-driven environment of the second half of 2011. **Managers suffered steep losses, most heavily on economically sensitive long positions in August and September.** Risk management dictated that reduce exposures in order to protect capital. Hedge fund managers were reluctant to deploy capital due to large drawdown risks. **Managers were caught off guard by the double digit rally in equity markets and failed to fully participate due to low exposures. According to J.P. Morgan, net leverage and net exposure have reached 2-year lows.**

For the year, top performing hedge funds were concentrated in better performing sectors, such as utilities, consumer staples and healthcare. Although the S&P

500 was flat, **sectors showed a wide variance, with utilities performing the best, up +14.83%, followed by consumer staples (+10.53%) and healthcare (+10.18%).** Financials and materials were the worst performing sectors, down -18.41% and -11.64%, respectively.



Within each sector, lower than average stock dispersion within each S&P 500 sectors made stock picking challenging for hedge funds manages. **Several sectors, such as consumer discretionary, staples, industrials, materials and utilities, dispersions were close to the lowest levels of the last 20 years.** With lower stock dispersions, there are fewer opportunities to realize alpha.

Many managers experienced frustration with long positions, stating that underperformance of the long portfolios was the key driver of underperformance for the year. Managers cite many examples of companies that delivered and exceeded expectations but still declined more than the broad indices. J.P. Morgan constructed a hypothetical value strategy that was long the cheapest companies and short the most expensive companies based on a valuation variable. **This strategy would have been down 14.71% for the year.** The strategy experienced the majority of its losses in the second half of the year, a period high asset correlations and macro economic uncertainty. The long side that would have yielded positive returns until July, but produced large losses in the second half to end the year down almost -13%. The short side of the trading strategy was fairly stable, delivering a loss of 3.5%. **For hedge funds, while long portfolios failed to meet expectations, shorting was very profitable for managers, though most report that they should have had more invested on the short side.**

Looking forward, managers state that equities look cheap relative to expected earnings and interest rates, but they remain concerned about slowing global economic growth and European sovereign debt issues, which should keep multiples low. **If the European sovereign debt crisis can be contained, and there is some improvement in the housing and employment, it would be very bullish for equities in 2012.** Volatility should decline relative to second half of 2011. Despite lingering macroeconomic, political and geopolitical risks, cyclical forces will likely reduce unsustainable levels of correlation.

Political risk and uncertainty related to the European monetary and fiscal policies related are likely to remain the main drivers of market volatility. The capacity of the financial system to take risk has been diminished by deleveraging and by regulatory changes that have eliminated proprietary desks. The diminished risk-taking capacity has resulted and is likely to affect correlation and volatility.

Some have questioned whether there is a real structural decline in hedge funds' ability to generate alpha. Critics point to Reg FD disclosure requirements, the creation of exchange-traded funds, high-frequency trading computers and other technical changes, which have altered the landscape. **However, most feel that 2011 was an anomaly with unique circumstances of 2011, such as the first U.S. ratings downgrade in 100 years and unraveling of the European Monetary Union.** There were several factors that made 2011 a very difficult year for the hedge fund industry. These factors are likely to dissipate as earnings and fundamentals return to importance. **Managers are optimistic on the opportunity set and 2012 is an important year for the industry to regain momentum.**

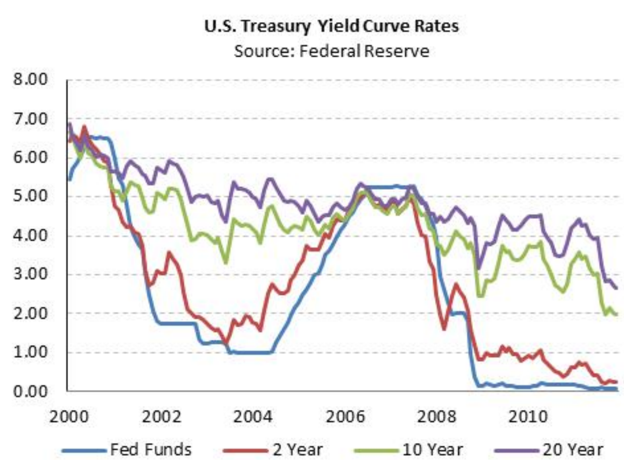
Arbitrage/Event Driven

(DEC: -0.08% / YTD: -2.17%)

The Hennessee Arbitrage/Event Driven Index fell slightly in December, declining -0.08%. For the year, the index was down -2.17%, making it the best performing hedge fund sub-strategy. While managers were able to generate some gains in credit, event driven and distressed portfolios experienced losses as riskier assets underperformed.

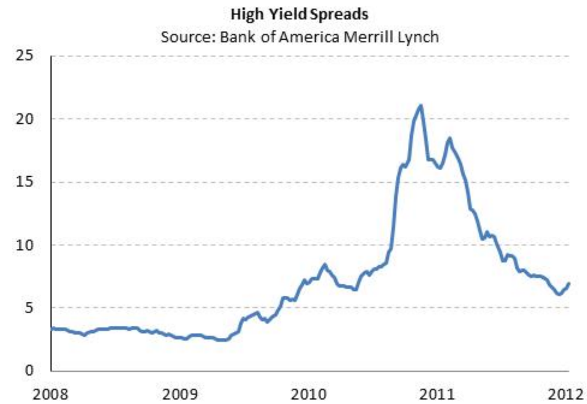
Fixed Income

Fixed income performed well in 2011. In December, the Barclays Aggregate Bond Index gained +1.10%, leaving the index up +7.86% for the year. **Treasuries were one of the best performing assets for 2011, as the S&P/BG Cantor 7-10 Year Treasury Bond Index advanced +1.84% in December (+15.60%).** Yields on the 10 Year Treasury declined 147 basis points during the year from 3.36% to 1.89%. Managers positioned for tightening generated significant profits in 2011, and some feel that there may be additional tightening in the short term. Some managers were initially bearish on Treasuries, which resulted in losses.



Many managers feel that U.S. Treasuries and high investment grade are currently expensive, while most other debt is currently cheap. Interest rates for fixed income are at historic lows both nominally and compared to inflation expectations. The Five-Year U.S. Treasury yield is below 1%, while five-year inflation expectations are 1.8%. The actual last 12 months increase in the Consumer Price Index as reported by the government was 3.4%. **While managers are reluctant to short Treasuries in the short term, many feel that once rates begin to move up, they may move rapidly. Short treasuries will likely generate gains, but timing will be critical.**

High yield was also positive as the Barclays High Yield Credit Bond Index advanced +2.66% (+4.98% YTD). High yield credit spreads tightened from 779 basis points to 723 basis points in December. Spreads over treasuries are higher than the historical average. Managers report that supply demand dynamics for credit remain strong, and they are finding attractive investment opportunities in high yield and leveraged loans.



As 2012 begins, managers remain cautious but see opportunity to generate returns as markets have stabilized. Current yields will deliver part of returns with the balance coming from a combination of high yield spread tightening, the new issue market, special situations and active trading. The outlook remains positive. **Corporate balance sheets are in good shape with abundant liquidity, default rates remain low, the U.S. economy appears to be stabilizing, and the Federal Reserve remains accommodative.**

Distressed

The Hennessee Distressed Index advanced +0.81% in December (-2.36% YTD). 2011 was a challenging year for distressed investing. Many managers were biased towards post reorganization equities, which remained unloved by the market.

In addition, the European sovereign debt crisis shook confidence, delayed catalysts and pressured valuations. That said, managers feel conditions are improving and positions should realize value.

Even though there is a lot of macro uncertainty, fundamentals and corporate balance sheets remain strong while default rates are forecast to stay between 2-3% for the foreseeable future. **In addition, managers are looking towards a wave of loan refinancing in 2013/14 as a significant source of opportunity.**

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Merger Arbitrage

Merger arbitrage funds ended the year with a modest loss, as the Hennessee Merger Arbitrage Index decreased -0.08% (+0.18% YTD). December was somewhat uneventful for most funds. Some deal spreads widened, resulting in losses, while other deal spreads tightened. Several managers put money to work in December, as there were ten mergers announced during the month, with six of having greater than $1 billion in transaction value.

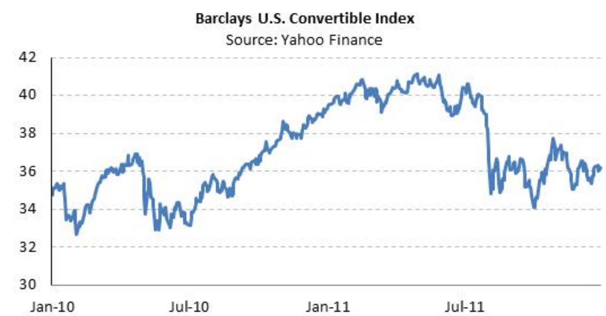
While there was attractive deal flow during 2011, **high volatility and low interest rates detracted from performance, leaving funds roughly flat.** Merger activity was robust until the Europe's sovereign-debt crisis shattered the confidence of company executives to do deals despite cash rich balance sheets and low interest rates.

The total dollar value of corporate mergers and acquisitions in 2011 reached $2.81 trillion, a 3% increase from 2010, according to Dealogic. Despite the loss of steam around the world, the mergers-and-acquisitions market in the U.S. was strong in 2011. The combined dollar value of 2011 takeovers of U.S. companies rose 15% from 2010. The total dollar value, $1.03 trillion, was the largest takeover total since 2008. The largest deals for the year included Kinder Morgan-El Paso, Express Scripts-Medco, Duke Energy-Progress Energy, Nippon Steel-Sumitomo Metal Industries, and Johnson & Johnson-Synthes.

Managers are optimistic that high cash levels and low multiples will drive merger and acquisition opportunities in 2012, especially if the Euro crisis subsides. While the markets are likely to remain volatile, companies will pursue opportunity to grow, especially in a low economic growth environment. Many companies have delayed additional merger activity, leading to pent up demand. With corporate confidence on the upswing again, companies will look to better deploy capital and acquire growth in 2012.

Convertible Arbitrage

The Hennessee Convertible Arbitrage Index was up +0.25% in December (-1.02% YTD). It was a challenging environment as the U.S. convertible bond market underperformed the equity market in 2011. When markets rallied in the fourth quarter, convertible issues struggled going into year-end and some moved lower as a result of European contagion concerns and a shift into more defensive investment grade bonds. **The Barclays US convertible bond composite index returned -5.3% compared to the S&P 500 return of +0.02% and the return for the 7-10 year Barclays US Treasury index of +15.6%.**



Issuance in the U.S. convertible bond market was disappointing in 2011, totaling just $24 billion. **Persistently low interest rates and cheap capital from the high yield and bank loan markets have shifted corporate funding decisions away from the hybrid convertible market.** Most feel that the convertible market will not expand in any meaningful way until interest rates move higher. That said, there is substantial refinancing that will take place in the U.S. convert market in the coming two years, which should lead to issuance in 2012 being relatively stable.

The convertible arbitrage market has become smaller over the past two years, and is dominated by a small number of outright owners who invest for yield and/or to track an index. The composition of the market continues to shift towards directional and cross-over investors. **Some dealers estimate that about 50% of US convertible bonds are held by these non-arbitrage investors.**

Convertibles underperformed in 2011 and are now materially cheap. The Barclays index showed that the convertible market was 50 basis points rich in January 2011. The market peaked in April at 1.5% rich, but fell to 1.5% cheap at year end. **Managers are optimistic that the next 12-18 months will be good for generating gains. Leverage remains low, and managers are maintaining dry powder in order to take advantage of opportunities.**

Global/Macro

(DEC: -0.64% / YTD: -8.04%)

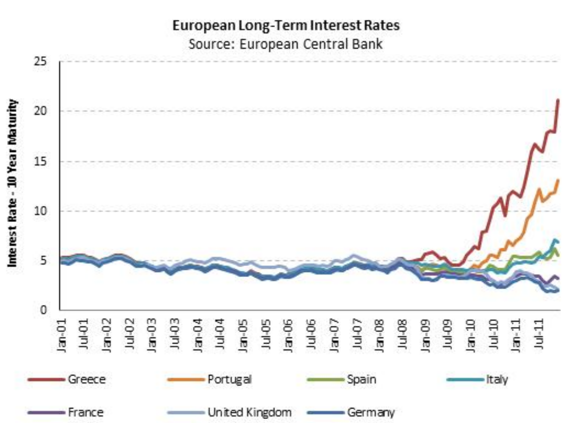
The Hennessee Global/Macro Index declined -0.64% in December (-8.04% YTD), driven by losses in international and emerging markets.

Global

Global markets were plagued with uncertainty and high volatility in 2011. Throughout the year, international markets were battered by macro headwinds and unexpected developments, such as the Japanese Tsunami, Middle East rebellion, European sovereign debt crisis and U.S. debt downgrade. However, a seemingly coordinated move to cut rates from multiple central banks and China's lowering of bank reserve requirements led markets to rally strongly into the end of the year, erasing much of the previous period's losses.

International markets underperformed domestic markets for the month and year, as the MSCI EAFE was down -1.03% for December and down -14.82% for the year. Several key markets were down more than the benchmark, including Hong Kong (-20%), China (-25%), India (-25%), Japan (-17%), Brazil (-18%), Germany (-15%), and Italy (-25%). **International hedge fund managers outperformed, but were still down as the Hennessee International Index fell -0.76% in December and -6.39% year to date.**

The European sovereign debt crisis intensified dramatically in 2011 and was a key driver asset prices. The crisis spread outside of Greece, infecting Italy and seriously threatening the core Eurozone countries. The crisis eventually spread to the real economy, pushing the region into recession.



Looking ahead into 2012, there are two key factors that will drive the outlook for the region. First, the depth and duration of the recession will have a profound impact on the global economy. **European data continues to disappoint with European manufacturing indicators and consumer confidence coming out weaker than expected.**

Second, governments and banks will face serious funding pressures. **The ECB is already responding to the deteriorating macroeconomic outlook by lowering its main policy interest rate, and it has taken aggressive and pre-emptive action to ease the funding constraints faced by banks.** In December the ECB announced the three year long-term repo facility, which is aimed to provide the banks with cheaper access to USD. That said, while the liquidity injection from the ECB relieved an immediate funding stress in the European banking system, there are outstanding issues that governments must address.

Supply concerns will continue dominate the European government bond markets with a heavy issuance calendar for France, Germany and Italy in the first quarter 2012, as well as the EFSF bonds to refinance the Irish and Portuguese debt. Relatively low bid/cover ratios in bond auctions in the first week of the year and poor performance of bank stocks are reminders that raising bank capital could be challenging in this environment. The deadline to restructure Greek debt is looming as Greece currently does not have enough liquidity to refinance March maturities. **Managers are closely monitoring the situation which is likely to drive continued volatility and frustration for investors..**

Emerging Markets

Many managers were positioned for a decoupling of emerging markets from developed markets and upside from continued strong growth. **However, throughout the year, investors grew concerned about slowing growth and recession in the emerging markets, and markets plunged.** The MSCI Emerging Markets Index lost -1.29% for the month, leaving it down -20.41% for the year. **The Hennessee Emerging Markets Index was down -0.55% in December and down -12.85% for the year as hedge funds benefited from reduced exposures and hedges.**

2012 looks to be challenging for emerging markets. Markets expect a relatively benign path for emerging market inflation in the beginning of 2012 due to favorable base effects and weaker growth. However, some managers state that in addition to the challenges created by slowing growth in Europe, emerging markets will likely face higher food costs next year. **This will make setting monetary policy difficult.** If this is the case, the inflation relief that most were expecting may not come after all.

Despite Chinese trade and monetary data pointing to a smaller risk of a hard landing, uncertainties in Europe continue to weigh heavily on Asian assets. In late December, data on Asia showed continued evidence of decelerating growth. China's upcoming fourth quarter 2011 GDP should show a steadying in domestic activity but with weak external performance. Managers are forecasting 8.5% year over year growth, with early 2012 downside risk expected due to the continued slowing of Europe. **Despite recent weakness, managers believe that waning inflation should create scope for greater monetary policy easing in Asia. Overall, many believe that Asian economies are more domestically oriented and may help drive outperformance in 2012.**

Macro

The Hennessee Macro Index was down -0.48% in December (-2.14% YTD). Performance of macro funds was disperse. The best performing funds were positioned conservatively, long Treasuries, TIPS, and Bunds, as well as gold.

U.S. Treasury bonds and the German bunds were top performers in 2011, posting double digit gains. Interest rates continued to decrease in December, as debt and policy issues in the U.S. and Europe played the central role. The 10-year Treasury dropped 21 basis points during the month to close at 1.88%. The 30-year Treasury decreased to 2.90%, down from 4.34% at the end of 2010. **Managers long the "safe havens" posted strong gains, while other European sovereign debt was a disaster.**

The commodities run ended abruptly in 2011**. The S&P GSCI declined -2.11% in December and was down -1.18% for the year.** One of the most significant commodity themes was the dichotomy between strength in energy prices and weakness in most other commodities, with the notable exception of gold. **Gold ended the year at $1,568 down from $1,751 in November due to profit taking, but still up +10% for the year.**

Led by petroleum, as measured by the 7.55% YTD increase in the S&P GSCI Petroleum index, the S&P GSCI Energy index increased 4.86% in 2011. By comparison, the S&P GSCI Non-Energy index ended the year with a decline of 13.27%. The industrial metals sector was the leading sector loser in 2011, as measured by the 22.33% decline in the S&P GSCI Industrial Metals index.

Growth prospects for the US and Europe have darkened heading into 2012. Managers are cautious on the near-term outlook for commodities, especially ones which are not as supply constrained. Some are positioned for sudden swoon in spot prices should the Eurozone fracture and disrupt global trade flows. While bearish in the short term, most are longer term bulls. **On the 12 month horizon, the outlook is more favorable, as near-term economic damage will likely force a significant policy reaction that establishes the necessary floor for the next commodity advance.**

On the back of better-than-expected economic data and the continued compression of market interest rate differentials, the US Dollar continued to rally in December**. The U.S. Dollar Index advanced +2.31% during the month, pushing it in to positive territory for the year, up +1.46%.** Managers generated gains were short Euro and long Chinese Renminbi positions versus the US Dollar.

Despite the fact that the challenges of 2011 have not dissipated, managers are optimistic on 2012. Macro managers expect volatility to remain elevated and many have attractive option structures to benefit from volatility. **In addition, correctly predicting policy changes will be critical in 2012.**

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:

Since the October lows, the high cross correlations of components within the S&P 500 have declined sharply and are approaching levels which **favor active fundamental stock selection.**

We feel that **retail banks are massively mispriced**. Investor sentiment towards banks continues to be extremely negative, but we feel they are significantly undervalued. **We like J.P. Morgan and Wells Fargo.**

Apple trades at less than 11x our fiscal 2012 EPS estimate, and an 11% free cash flow yield. We believe that consensus expectations for 25% earnings growth in fiscal 2012 will prove too low.

As business cycles remain compressed and developed economies wrestle with debt deleveraging, the investment environment will continue to be volatile. **We are using a lot of options to express our positioning.**

The continuing impact of the Volker Rule, together with increasing bank regulation (Dodd-Frank, Basel III) will result in less competition for trades, with bigger dislocations and **potentially higher volatility than in the past**, as banks have a diminished capacity to warehouse risk.

We continue to feel that **megacap growth equities are likely to see material asset-allocation flows** over the next decade compared to all other assets, including cash.

In the next few months developments in Europe and China look likely to dominate market sentiment. The main risk factor is a slowdown in China.

In historical terms, share **prices are not expensive.** For example, the spread between the S&P earnings yield, currently at 8.6%, and the 1.9% yield on 10-year U.S. treasury notes is at a historical high. This spread has only been wider twice in the recent history: in 1975 and in the spring of 2009.

The Australian, Canadian and New Zealand dollars are currently attractive, combining high exchange rates with low risk.

Investors continue to look seriously at gold because of fears about the consequences of looser monetary policy at the ECB and other central banks. Developing nations' central banks are interested to increase the share of gold in their reserves.

Commodities like steel, coal, industrial metals and agricultural products will show growth potential as soon as investors spy the light at the end of the dark economic tunnel that was the second half of 2011.

We have begun **buying non-property consumption plays in China and India,** and will increase exposure there when we get more signs of expansive fiscal and monetary policy.

We **added to health care, including biotech,** where we are earning good returns from industry consolidation.

Most of Europe is already in recession, and funding needs for this year are enormous. **The tail risk from Europe has been reduced but not removed.**

We are holding a decent cash balance in anticipation of future opportunities, **specifically in European distressed debt.**

We are **bullish on U.S. high yield,** which probably trades 200 basis points wider than it should. We are finding current yields in the 9% to 13% range.

Short the euro is one of our biggest themes at the moment. We don't think the Euro zone can hold itself together.

We took pain on our **bet that the Yen would appreciate**. However, we still have the position. Under several global scenarios, the Yen is significantly undervalued.

HENNESSEE HEDGE FUND RANKINGS

MONTHLY RANK 2010 (Net)	YTD	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	**19**	11	21	4	13	18	11	4	10	13	10	22	17
CONVERTIBLE ARBITRAGE INDEX	**8**	4	9	7	21	10	9	12	6	9	17	8	4
DISTRESSED INDEX	**14**	2	10	6	11	8	10	19	20	21	8	16	3
EMERGING MARKETS INDEX	**23**	17	20	3	12	21	21	5	14	23	7	23	16
EUROPE INDEX	**22**	18	14	12	10	12	23	23	22	12	16	20	12
EVENT DRIVEN INDEX	**12**	5	3	14	5	15	19	15	23	15	6	12	10
FINANCIAL EQUITIES INDEX	**20**	12	6	17	18	16	20	14	16	22	3	18	21
FIXED INCOME INDEX	**3**	3	15	15	14	3	4	8	7	2	18	7	6
GROWTH INDEX	**17**	9	2	19	9	20	22	13	17	14	4	15	22
HEALTHCARE AND BIOTECH INDEX	**4**	20	5	5	1	1	14	22	13	11	5	3	2
HIGH YIELD INDEX	**5**	1	13	10	19	7	8	7	3	4	20	14	14
INTERNATIONAL INDEX	**16**	16	12	18	6	19	18	6	21	10	14	10	15
LATIN AMERICA INDEX	**21**	21	22	8	8	4	17	9	4	18	12	21	20
MACRO INDEX	**9**	22	19	21	4	22	16	3	2	5	22	6	13
MARKET NEUTRAL INDEX	**2**	8	16	2	7	11	3	11	8	6	13	5	7
MERGER ARBITRAGE INDEX	**7**	13	18	9	16	6	6	16	5	7	15	4	8
MULTIPLE ARBITRAGE INDEX	**10**	7	17	11	20	9	7	10	9	8	19	11	11
OPPORTUNISTIC INDEX	**15**	10	11	20	15	13	12	18	12	19	1	17	18
PIPES/PRIVATE FINANCING INDEX	**11**	19	1	23	22	23	-	1	11	16	11	2	1
SHORT BIASED INDEX	**1**	23	23	22	23	2	1	2	1	1	23	1	19
TECHNOLOGY INDEX	**6**	6	8	16	3	5	2	20	19	3	9	13	5
TELECOM AND MEDIA INDEX	**18**	14	4	1	2	17	5	21	18	17	21	19	23
VALUE INDEX	**13**	15	7	13	17	14	15	17	15	20	2	9	9

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

HENNESSEE GROUP LLC

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010 (Net)	YTD	YTD RANK	% of mgrs.	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ASIA - PACIFIC INDEX	**-7.55%**	**19**		0.98%	-0.16%	0.69%	1.18%	-1.01%	-1.00%	0.96%	-2.89%	-4.11%	2.21%	-3.22%	-1.22%
CONVERTIBLE ARBITRAGE INDEX	**-0.56%**	**8**		1.71%	1.52%	0.38%	0.27%	-0.19%	-0.67%	-0.33%	-1.46%	-2.63%	1.21%	-0.67%	0.38%
DISTRESSED INDEX	**-5.79%**	**14**		2.05%	1.45%	0.40%	1.50%	-0.09%	-0.97%	-0.98%	-4.82%	-5.83%	2.53%	-1.21%	0.39%
EMERGING MARKETS INDEX	**-13.32%**	**23**		0.18%	0.47%	1.64%	1.23%	-1.92%	-2.07%	0.94%	-3.76%	-8.50%	2.98%	-3.89%	-0.93%
EUROPE INDEX	**-12.82%**	**22**		-0.13%	1.11%	0.13%	1.58%	-0.35%	-2.55%	-2.10%	-5.39%	-3.84%	1.31%	-2.84%	-0.29%
EVENT DRIVEN INDEX	**-4.86%**	**12**		1.68%	2.73%	-0.01%	1.76%	-0.75%	-1.50%	-0.58%	-5.64%	-4.88%	3.71%	-0.90%	-0.16%
FINANCIAL EQUITIES INDEX	**-9.41%**	**20**		0.96%	1.95%	-0.25%	0.92%	-0.88%	-1.58%	-0.57%	-4.07%	-6.83%	4.37%	-1.83%	-1.59%
FIXED INCOME INDEX	**2.73%**	**3**		1.84%	0.98%	-0.13%	1.06%	0.56%	-0.12%	0.16%	-1.78%	-0.79%	1.01%	-0.32%	0.28%
GROWTH INDEX	**-6.55%**	**17**		1.04%	2.90%	-0.36%	1.63%	-1.29%	-2.19%	-0.35%	-4.14%	-4.54%	3.87%	-0.98%	-1.98%
HEALTHCARE AND BIOTECH INDEX	**2.36%**	**4**		-0.79%	2.23%	0.67%	3.64%	1.91%	-1.14%	-1.86%	-3.70%	-3.48%	3.86%	0.43%	0.92%
HIGH YIELD INDEX	**1.59%**	**5**		2.12%	1.31%	0.18%	0.60%	0.00%	-0.63%	0.85%	-1.02%	-1.05%	0.60%	-0.94%	-0.38%
INTERNATIONAL INDEX	**-6.39%**	**16**		0.28%	1.37%	-0.26%	1.75%	-1.27%	-1.31%	0.93%	-5.08%	-2.88%	1.60%	-0.75%	-0.76%
LATIN AMERICA INDEX	**-10.52%**	**21**		-1.16%	-1.71%	0.37%	1.63%	0.29%	-1.28%	0.11%	-1.30%	-5.23%	1.81%	-3.01%	-1.37%
MACRO INDEX	**-1.61%**	**9**		-1.37%	0.64%	-0.45%	2.16%	-2.02%	-1.26%	1.84%	0.75%	-1.17%	-0.27%	-0.07%	-0.31%
MARKET NEUTRAL INDEX	**3.57%**	**2**		1.14%	0.90%	1.66%	1.67%	-0.27%	0.29%	-0.19%	-1.87%	-1.76%	1.76%	0.02%	0.25%
MERGER ARBITRAGE INDEX	**-0.23%**	**7**		0.92%	0.75%	0.28%	0.95%	0.08%	-0.42%	-0.72%	-1.35%	-2.12%	1.39%	0.06%	0.00%
MULTIPLE ARBITRAGE INDEX	**-2.48%**	**10**		1.33%	0.87%	0.16%	0.55%	-0.16%	-0.52%	0.01%	-2.23%	-2.27%	0.83%	-0.85%	-0.16%
OPPORTUNISTIC INDEX	**-6.34%**	**15**		1.00%	1.40%	-0.38%	0.99%	-0.44%	-1.05%	-0.88%	-3.66%	-5.46%	4.89%	-1.31%	-1.27%
PIPES/PRIVATE FINANCING INDEX	**-3.80%**	**11**		-0.25%	3.16%	-1.93%	-0.65%	-2.39%	-1.13%	3.27%	-2.99%	-4.93%	2.03%	0.93%	1.39%
SHORT BIASED INDEX	**3.95%**	**1**		-1.46%	-2.27%	-1.50%	-2.58%	0.81%	1.93%	2.73%	6.34%	5.78%	-6.10%	2.24%	-1.33%
TECHNOLOGY INDEX	**1.00%**	**6**		1.65%	1.64%	-0.17%	2.16%	0.08%	0.77%	-1.36%	-4.50%	-0.96%	2.46%	-0.92%	0.35%
TELECOM AND MEDIA INDEX	**-7.25%**	**18**		0.73%	2.27%	2.95%	3.37%	-0.98%	-0.16%	-1.54%	-4.30%	-5.00%	0.02%	-2.34%	-2.14%
VALUE INDEX	**-4.90%**	**13**		0.63%	1.70%	0.09%	0.95%	-0.55%	-1.20%	-0.77%	-3.98%	-5.50%	4.72%	-0.68%	-0.06%
HENNESSEE HEDGE FUND INDEX	**-4.31%**		**37%**	**0.80%**	**1.43%**	**0.14%**	**1.23%**	**-0.61%**	**-1.01%**	**-0.23%**	**-3.15%**	**-3.93%**	**2.55%**	**-0.97%**	**-0.45%**
LONG/SHORT EQUITY	**-3.73%**			**0.73%**	**1.78%**	**0.11%**	**1.40%**	**-0.39%**	**-0.95%**	**-0.67%**	**-3.55%**	**-4.19%**	**3.46%**	**-0.65%**	**-0.63%**
ARBITRAGE/EVENT DRIVEN	**-2.42%**			**1.46%**	**1.55%**	**-0.01%**	**0.85%**	**-0.32%**	**-0.75%**	**-0.23%**	**-2.85%**	**-3.19%**	**1.79%**	**-0.70%**	**0.08%**
GLOBAL/MACRO	**-8.10%**			**-0.17%**	**0.38%**	**0.40%**	**1.60%**	**-1.45%**	**-1.56%**	**0.83%**	**-2.61%**	**-4.27%**	**1.48%**	**-2.18%**	**-0.69%**
DJIA	**5.52%**			2.72%	2.81%	0.76%	3.98%	-1.88%	-1.24%	-2.18%	-4.36%	-6.03%	9.54%	0.76%	1.43%
BARCLAYS AGG. BOND INDEX	**7.86%**			0.12%	0.25%	0.06%	1.27%	1.31%	-0.29%	1.59%	1.46%	0.73%	0.11%	-0.09%	1.10%
MSCI EAFE (USD) PRICE INDEX	**-9.90%**			2.30%	3.10%	-2.66%	5.58%	-3.60%	-1.43%	-1.65%	-9.30%	-9.86%	9.59%	-4.85%	-1.03%
NASDAQ	**-1.81%**			1.78%	3.04%	-0.04%	3.32%	-1.33%	-2.18%	-2.18%	-6.42%	-6.36%	11.14%	-2.39%	-0.58%
RUSSELL 2000	**-5.45%**			-0.31%	5.40%	2.44%	2.58%	-1.96%	-2.46%	-3.67%	-8.81%	-11.37%	15.04%	-0.49%	0.47%
S&P 500	**-0.02%**			2.26%	3.20%	-0.10%	2.85%	-1.35%	-1.83%	-2.15%	-5.68%	-7.18%	10.77%	-0.51%	0.85%

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