

# **Exhibit 7**

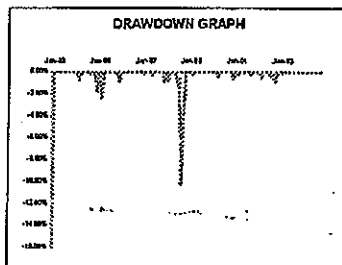
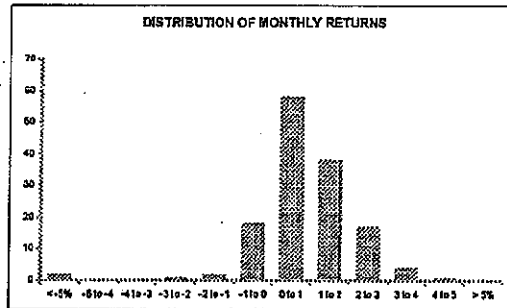
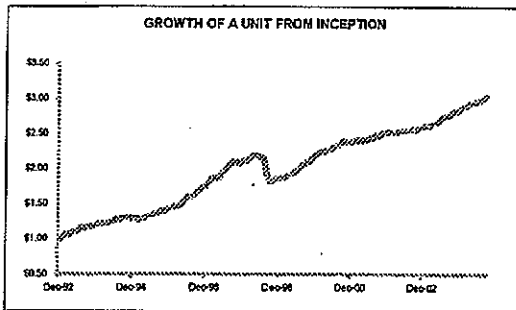
## **Part 2 of 2**

# Distressed Manager A

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| FUND TERMS              |               |                          |               |
|-------------------------|---------------|--------------------------|---------------|
| Assets Under Management | \$500 Million | Lockup                   | None          |
| Fund Status             | Limited       | High Water Mark          | Yes           |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Semi-Annually |
| Fees                    | 1% + 20%      | Redemption Notice Period | 45 Days       |

| Year | MONTHLY PERFORMANCE |       |        |       |        |       |        |       |        |       |        |       | YTD     |
|------|---------------------|-------|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|---------|
|      | Jan                 | Feb   | Mar    | Apr   | May    | Jun   | Jul    | Aug   | Sep    | Oct   | Nov    | Dec   |         |
| 2004 | 0.80%               | 0.4%  | 0.69%  | 0.4%  | 0.49%  | 0.5%  | 0.83%  | 0.7%  | 0.50%  |       |        |       | 6.24%   |
| 2003 | 0.15%               | 0.12% | 0.70%  | 1.1%  | 1.06%  | 1.1%  | 0.83%  | 0.6%  | 1.39%  | 0.6%  | 0.16%  | 1.0%  | 9.14%   |
| 2002 | 0.40%               | 0.50% | 0.20%  | 0.4%  | 0.40%  | 0.5%  | -0.35% | 0.2%  | -0.93% | 0.6%  | 0.50%  | 1.5%  | 3.66%   |
| 2001 | 1.30%               | 0.20% | 0.30%  | 0.0%  | 0.80%  | 0.50% | 0.30%  | 1.50% | -0.30% | 1.8%  | 0.60%  | 0.00% | 6.04%   |
| 2000 | 0.60%               | 0.30% | -0.40% | 1.0%  | 1.30%  | 0.70% | 0.70%  | 1.50% | 1.00%  | 0.00% | -0.60% | 4.10% | 7.30%   |
| 1999 | 1.00%               | 0.20% | 1.80%  | 1.0%  | 1.10%  | 1.0%  | 1.60%  | 2.0%  | 1.70%  | 0.60% | 2.40%  | 2.50% | 18.93%  |
| 1998 | -0.80%              | 0.80% | 3.10%  | 0.90% | -0.30% | 1.20% | -0.70% | 0.90% | -5.20% | 0.00% | 2.10%  | 0.50% | -12.36% |
| 1997 | 3.50%               | 1.0%  | 0.20%  | -0.5% | 1.90%  | 1.5%  | 2.00%  | 2.5%  | 1.80%  | 0.80% | 0.90%  | 2.0%  | 21.20%  |
| 1996 | 1.20%               | 0.30% | 0.90%  | 2.20% | 2.10%  | 3.40% | 0.50%  | 1.50% | 1.50%  | 1.00% | 2.00%  | 0.10% | 22.01%  |
| 1995 | 1.00%               | 2.0%  | 1.10%  | 1.70% | 1.30%  | 1.70% | 0.90%  | 1.0%  | 1.90%  | 1.00% | -1.00% | 2.0%  | 11.68%  |
| 1994 | 1.00%               | 1.0%  | 0.50%  | 0.80% | 1.40%  | 1.60% | 0.90%  | 0.70% | 2.50%  | 0.7%  | -0.90% | 1.50% | 6.50%   |
| 1993 | 2.20%               | 1.7%  | 0.20%  | 1.60% | 0.70%  | 2.4%  | 2.40%  | 0.0%  | 0.80%  | 1.0%  | 0.30%  | 2.30% | 20.88%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 9.90%  |
| Rolling 12m Average             | 9.75%  |
| Monthly Average Geometric       | 0.79%  |
| Standard Deviation              | 5.29%  |
| Average Positive Return Monthly | 1.22%  |
| Average Negative Return Monthly | -1.33% |

| RISK METRICS                   |                           |        |
|--------------------------------|---------------------------|--------|
| Largest Drawdown               | -16.82% # Positive Months | 118    |
| Longest Recovery Period        | 15 # Negative Months      | 23     |
| Average of 5 Largest Drawdowns | -4.74% # Positive Months  | 83.69% |



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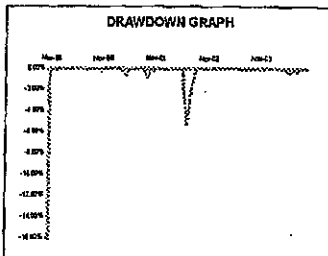
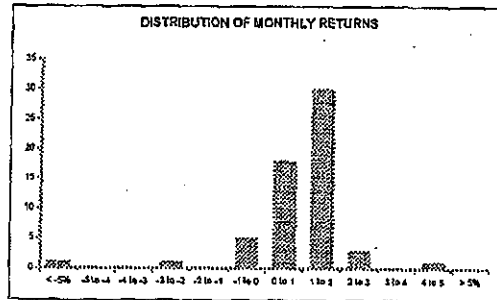
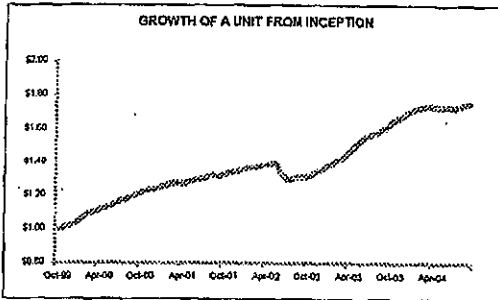
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# Distressed Manager B

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| FUND TERMS              |             |                          |         |
|-------------------------|-------------|--------------------------|---------|
| Assets Under Management | \$4 Billion | Lockup                   | 3 Years |
| Fund Status             | Closed      | High Water Mark          | Yes     |
| Minimum Investment      | \$1,000,000 | Redemption Frequency     | 3 Years |
| Fees                    | 1% + 18%    | Redemption Notice Period | 90 Days |

| MONTHLY PERFORMANCE |       |       |       |       |        |        |        |       |       |       |       |      |        |
|---------------------|-------|-------|-------|-------|--------|--------|--------|-------|-------|-------|-------|------|--------|
| Year                | Jan   | Feb   | Mar   | Apr   | May    | Jun    | Jul    | Aug   | Sep   | Oct   | Nov   | Dec  | YTD    |
| 2004                | 1.59% | 0.62% | 0.35% | 0.22% | -0.37% | -0.17% | -0.22% | 0.08% | 0.62% | 0.19% | 1.70% | 1.2% | 3.64%  |
| 2003                | 1.83% | 1.1%  | 1.61% | 2.16% | 2.86%  | 2.8%   | 0.78%  | 0.04% | 1.47% | 0.31% | 1.70% | 1.2% | 23.93% |
| 2002                | 1.32% | 0.43% | 0.65% | 0.4%  | 0.85%  | 0.2%   | -2.66% | 0.0%  | 0.04% | 0.34% | 1.96% | 0.4% | 1.24%  |
| 2001                | 1.62% | 0.7%  | 0.47% | 0.6%  | 1.54%  | 0.8%   | 0.77%  | 1.3%  | -0.8% | 0.7%  | 0.7%  | 0.4% | 8.94%  |
| 2000                | 1.95% | 0.9%  | 1.40% | 1.7%  | 1.13%  | 1.2%   | 1.67%  | 1.5%  | 1.48% | 1.4%  | 1.15% | 0.7% | 20.69% |
| 1999                |       |       |       |       |        |        |        |       |       |       | 1.43% | 0.6% | 2.53%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 12.09% |
| Rolling 12m Average             | 12.03% |
| Monthly Average Geometric       | 0.96%  |
| Standard Deviation              | 4.37%  |
| Average Positive Return Monthly | 1.28%  |
| Average Negative Return Monthly | -1.38% |

| RISK METRICS                   |                                 |
|--------------------------------|---------------------------------|
| Largest Drawdown               | -7.22% # Positive Months 52     |
| Longest Recovery Period        | 7 # Negative Months 7           |
| Average of 5 Largest Drawdowns | -2.36% # Positive Months 88.14% |



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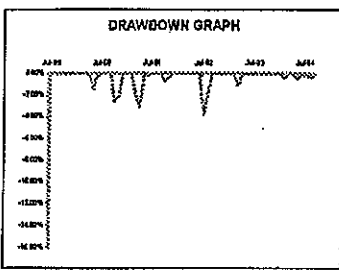
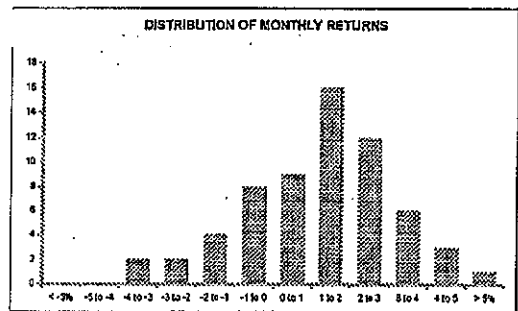
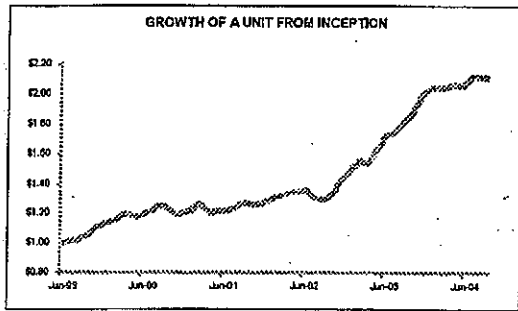
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# Distressed Manager C

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| FUND DETAILS            |               |                          |         |
|-------------------------|---------------|--------------------------|---------|
| Assets Under Management | \$142 Million | Lockup                   | None    |
| Fund Status             | Open          | High Water Mark          | Yes     |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Monthly |
| Fees                    | 1% + 20%      | Redemption Notice Period | 30 Days |

| MONTHLY PERFORMANCE |       |       |        |       |        |       |        |        |        |       |        |       |        |
|---------------------|-------|-------|--------|-------|--------|-------|--------|--------|--------|-------|--------|-------|--------|
| Year                | Jan   | Feb   | Mar    | Apr   | May    | Jun   | Jul    | Aug    | Sep    | Oct   | Nov    | Dec   | YTD    |
| 2004                | 1.70% | 0.41% | 0.38%  | 0.99% | -0.55% | 0.7%  | 2.50%  | -0.35% | -0.20% |       |        |       | 4.78%  |
| 2003                | 3.69% | 2.0%  | -1.15% | 0.6%  | 4.08%  | 4.18% | 1.07%  | 1.97%  | 2.56%  | 2.40% | 4.40%  | 2.50% | 37.47% |
| 2002                | 2.09% | 2.9%  | 1.23%  | 1.10% | 0.26%  | 1.8%  | -3.82% | 1.52%  | 0.36%  | 1.0%  | 6.10%  | 1.1%  | 15.17% |
| 2001                | 0.83% | 3.1%  | -1.04% | 1.0%  | 0.92%  | 1.2%  | 1.20%  | 1.2%   | 1.11%  | 1.7%  | -0.26% | 1.7%  | 5.48%  |
| 2000                | 1.35% | 1.31% | 2.30%  | 0.0%  | -1.45% | 1.8%  | 1.35%  | 2.65%  | 0.09%  | 2.1%  | -2.13% | 0.7%  | 6.95%  |
| 1999                |       |       |        |       |        |       | 1.30%  | 3.35%  | 2.41%  | 1.5%  | 3.81%  | 0.1%  | 12.76% |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 15.29% |
| Rolling 12m Average             | 15.95% |
| Monthly Average Geometric       | 1.19%  |
| Standard Deviation              | 6.63%  |
| Average Positive Return Monthly | 2.06%  |
| Average Negative Return Monthly | -1.27% |

| RISK METRICS                   |        |                   |        |
|--------------------------------|--------|-------------------|--------|
| Largest Drawdown               | -5.31% | # Positive Months | 47     |
| Longest Recovery Period        |        | # Negative Months | 16     |
| Average of 5 Largest Drawdowns | -3.48% | % Positive Months | 74.60% |



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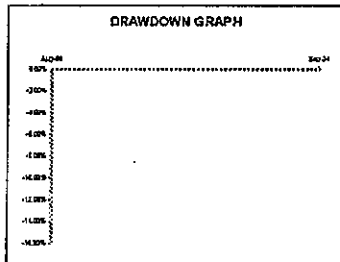
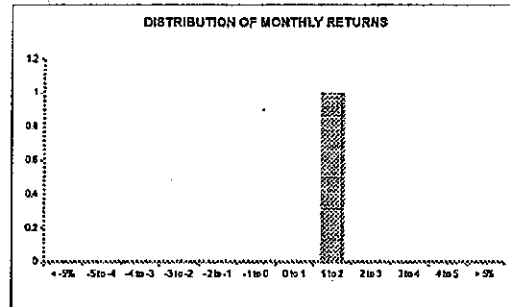
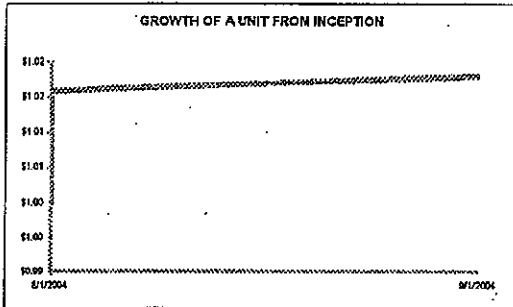
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# Distressed Manager D

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| FUND DETAILS            |               |                          |           |
|-------------------------|---------------|--------------------------|-----------|
| Assets Under Management | \$220 Million | Lockup                   | 1 Year    |
| Fund Status             | Open          | High Water Mark          | Yes       |
| Minimum Investment      | \$500,000     | Redemption Frequency     | Quarterly |
| Fees                    | 2% + 20%      | Redemption Notice Period | 60 Days   |

| MONTHLY PERFORMANCE |     |     |     |     |     |     |     |     |       |     |     |     |       |
|---------------------|-----|-----|-----|-----|-----|-----|-----|-----|-------|-----|-----|-----|-------|
| Year                | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep   | Oct | Nov | Dec | YTD   |
| 2004                |     |     |     |     |     |     |     |     | 1.80% |     |     |     | 1.80% |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 23.87% |
| Rolling 12m Average             | N/A    |
| Monthly Average Geometric       | 1.80%  |
| Standard Deviation              | N/A    |
| Average Positive Return Monthly | 1.80%  |
| Average Negative Return Monthly | N/A    |

| RISK METRICS                   |     |                           |
|--------------------------------|-----|---------------------------|
| Largest Drawdown               | N/A | # Positive Months 1       |
| Longest Recovery Period        | N/A | # Negative Months 0       |
| Average of 5 Largest Drawdowns | N/A | % Positive Months 100.00% |



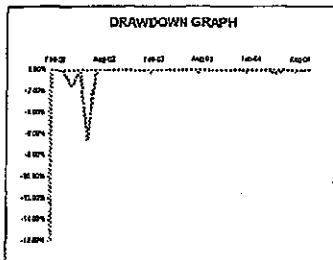
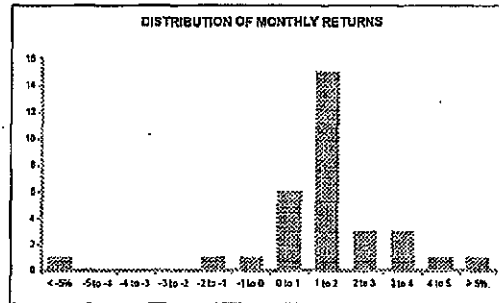
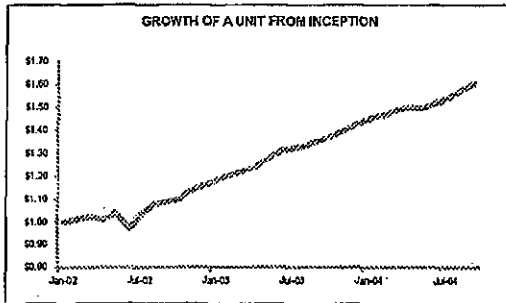
EVENT DRIVEN | 31

# L/S Credit Manager A

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| FUND DETAILS            |               |                          |                           |
|-------------------------|---------------|--------------------------|---------------------------|
| Assets Under Management | \$600 Million | Lockup                   | 1 Year                    |
| Fund Status             | Closed        | High Water Mark          | Yes                       |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | End of 1st or 2nd Quarter |
| Fees                    | 1.75% + 20%   | Redemption Notice Period | 90 Days                   |

| MONTHLY PERFORMANCE |       |       |       |       |        |       |       |       |       |       |       |       |        |
|---------------------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|--------|
| Year                | Jan   | Feb   | Mar   | Apr   | May    | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | YTD    |
| 2004                | 1.65% | 0.40% | 1.33% | 0.99% | -0.30% | 1.53% | 1.50% | 1.49% | 1.82% |       |       |       | 12.02% |
| 2003                | 2.03% | 1.81% | 1.37% | 7.5%  | 3.03%  | 2.75% | 0.91% | 0.95% | 1.56% | 1.61% | 1.75% | 2.02% | 23.03% |
| 2002                | 1.60% | 1.60% | 1.25% | 1.60% | 3.00%  | 2.60% | 1.00% | 1.00% | 1.00% | 3.92% | 1.25% |       | 16.35% |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 19.37% |
| Rolling 12m Average             | 21.70% |
| Monthly Average Geometric       | 1.49%  |
| Standard Deviation              | 6.86%  |
| Average Positive Return Monthly | 1.95%  |
| Average Negative Return Monthly | -2.77% |

| RISK METRICS                   |        |                          |
|--------------------------------|--------|--------------------------|
| Largest Drawdown               | -6.50% | # Positive Months 29     |
| Longest Recovery Period        | 2      | # Negative Months 3      |
| Average of 5 Largest Drawdowns | -2.77% | % Positive Months 90.63% |



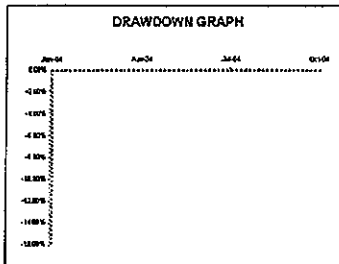
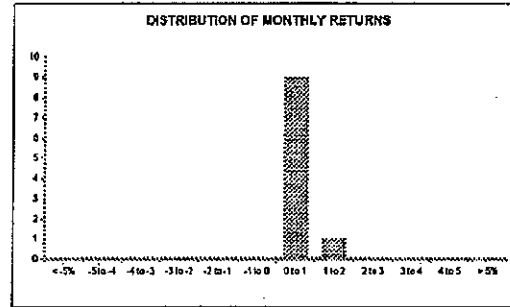
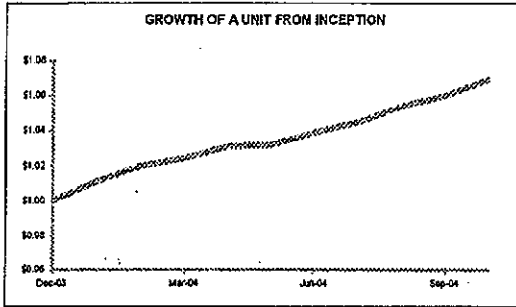
# L/S Credit Manager B

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|                         |               |                          |                  |
|-------------------------|---------------|--------------------------|------------------|
| Assets Under Management | \$3.7 Billion | Lockup                   | 3% within 1 year |
| Fund Status             | Closed        | High Water Mark          | Yes              |
| Minimum Investment      | \$2,000,000   | Redemption Frequency     | Quarterly        |
| Fees                    | 1.5% + 20%    | Redemption Notice Period | 60 Days          |

| Year | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov | Dec | YTD   |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|-----|-------|
| 2004 | 1.11% | 0.89% | 0.43% | 0.84% | 0.10% | 0.57% | 0.59% | 0.89% | 0.57% | 0.82% |     |     | 6.93% |



| PERFORMANCE                     |       |
|---------------------------------|-------|
| Annualized Average Geometric    | 6.38% |
| Rolling 12m Average             | N/A   |
| Monthly Average Geometric       | 0.67% |
| Standard Deviation              | 0.98% |
| Average Positive Return Monthly | 0.67% |
| Average Negative Return Monthly | N/A   |

| RISK METRICS                   |     |                            |
|--------------------------------|-----|----------------------------|
| Largest Drawdown               | N/A | # Positive Months: 10      |
| Longest Recovery Period        | N/A | # Negative Months: 0       |
| Average of 5 Largest Drawdowns | N/A | % Positive Months: 100.00% |

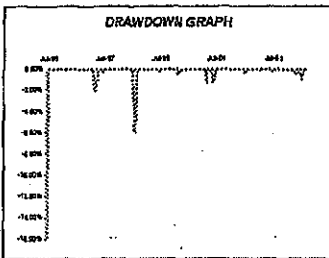
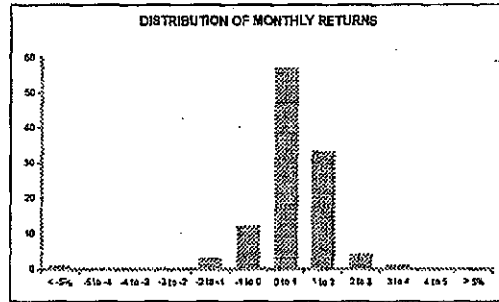
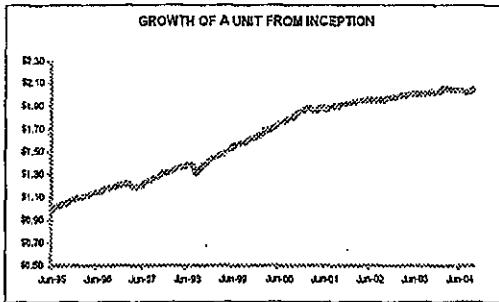


# Merger Arbitrage Manager A

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| FUND DETAILS            |               |                          |           |
|-------------------------|---------------|--------------------------|-----------|
| Assets Under Management | \$325 Million | Lockup                   | None      |
| Fund Status             | Open          | High Water Mark          | Yes       |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Quarterly |
| Fees                    | 1% + 20%      | Redemption Notice Period | 45 Days   |

| Year | MONTHLY PERFORMANCE |       |        |       |        |       |        |       |        |        |       |       | YTD   |        |
|------|---------------------|-------|--------|-------|--------|-------|--------|-------|--------|--------|-------|-------|-------|--------|
|      | Jan                 | Feb   | Mar    | Apr   | May    | Jun   | Jul    | Aug   | Sep    | Oct    | Nov   | Dec   |       |        |
| 2004 | 1.09%               | 0.20% | -0.21% | 0.33% | -0.35% | 0.24% | -0.85% | 0.92% | 0.97%  |        |       |       |       | 0.95%  |
| 2003 | -0.06%              | 0.50% | -0.05% | 0.40% | 0.23%  | 0.77% | -0.26% | 0.00% | 0.24%  | 0.31%  | 0.21% | 0.40% | 0.40% | 2.24%  |
| 2002 | 0.72%               | 0.71% | 0.51%  | 0.26% | 0.15%  | 0.18% | -0.33% | 0.20% | -0.05% | 0.84%  | 0.48% | 0.47% | 0.47% | 3.33%  |
| 2001 | 0.86%               | 0.74% | -1.27% | 0.64% | 1.06%  | 1.28% | 0.84%  | 0.65% | 0.13%  | 0.63%  | 0.20% | 0.41% | 0.41% | 3.35%  |
| 2000 | 1.55%               | 2.47% | -0.42% | 0.57% | 0.78%  | 1.58% | 0.81%  | 0.77% | 0.94%  | 1.60%  | 0.61% | 0.61% | 0.61% | 14.19% |
| 1999 | 1.55%               | 1.01% | 0.88%  | 0.54% | 0.97%  | 1.44% | 1.01%  | 0.91% | 0.41%  | 0.40%  | 1.12% | 0.20% | 0.20% | 13.80% |
| 1998 | 0.60%               | 0.28% | 1.36%  | 0.24% | 0.36%  | 1.10% | 0.11%  | 0.85% | 3.16%  | 2.75%  | 0.83% | 0.69% | 0.69% | 9.10%  |
| 1997 | 0.68%               | 0.04% | -1.99% | 0.21% | 1.27%  | 1.28% | 1.55%  | 0.77% | 1.49%  | 0.74%  | 1.63% | 0.21% | 0.21% | 8.47%  |
| 1996 | 0.64%               | 0.01% | 1.14%  | 0.60% | 1.05%  | 0.34% | 1.99%  | 0.87% | 0.10%  | -0.25% | 1.33% | 0.17% | 0.17% | 11.47% |
| 1995 |                     |       |        |       |        |       | 1.38%  | 0.95% | 1.13%  | 0.35%  | 2.46% | 0.06% | 0.06% | 8.42%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 8.07%  |
| Rolling 12m Average             | 8.14%  |
| Monthly Average Geometric       | 0.65%  |
| Standard Deviation              | 3.52%  |
| Average Positive Return Monthly | 0.91%  |
| Average Negative Return Monthly | -0.86% |

| RISK METRICS                   |                                 |
|--------------------------------|---------------------------------|
| Largest Drawdown               | -5.89% # Positive Months 95     |
| Longest Recovery Period        | 3 # Negative Months 16          |
| Average of 5 Largest Drawdowns | -2.44% # Positive Months 85.59% |



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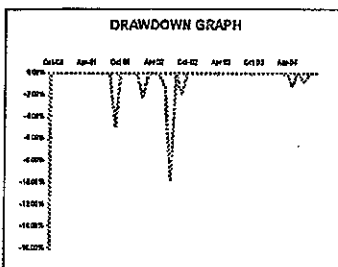
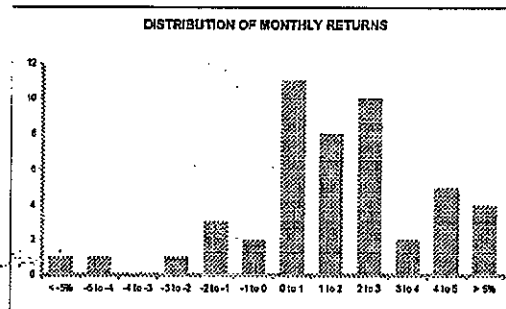
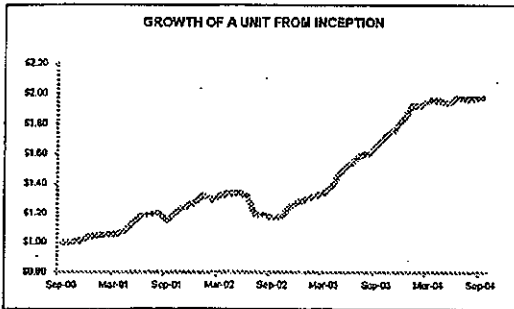


# Event Manager A

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| FUND TERMS              |               |                          |          |
|-------------------------|---------------|--------------------------|----------|
| Assets Under Management | \$120 Million | Lockup                   | 1 Year   |
| Fund Status             | Open          | High Water Mark          | Yes      |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Annually |
| Fees                    | 1.5% + 20%    | Redemption Notice Period | 45 Days  |

| MONTHLY PERFORMANCE |       |       |       |       |        |       |        |       |        |       |       |       |        |
|---------------------|-------|-------|-------|-------|--------|-------|--------|-------|--------|-------|-------|-------|--------|
| Year                | Jan   | Feb   | Mar   | Apr   | May    | Jun   | Jul    | Aug   | Sep    | Oct   | Nov   | Dec   | YTD    |
| 2004                | 4.30% | 0.00% | 2.00% | 0.00% | -1.21% | 2.50% | -0.85% | 0.10% | 0.40%  |       |       |       | 7.58%  |
| 2003                | 1.81% | 1.88% | 1.61% | 6.10% | 5.71%  | 2.50% | 3.50%  | 1.00% | 4.10%  | 2.80% | 2.90% | 4.10% | 43.93% |
| 2002                | 3.63% | 2.31% | 2.14% | 8.00% | 0.19%  | 1.70% | -9.65% | 0.70% | -1.83% | 0.40% | 5.65% | 2.15% | 0.15%  |
| 2001                | 1.00% | 0.40% | 0.00% | 1.00% | 4.62%  | 4.80% | 1.25%  | 0.50% | -4.86% | 0.10% | 2.44% | 2.50% | 22.95% |
| 2000                |       |       |       |       |        |       |        |       |        |       | 0.67% | 2.62% | 3.66%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 18.56% |
| Rolling 12m Average             | 21.28% |
| Monthly Average Geometric       | 1.43%  |
| Standard Deviation              | 9.62%  |
| Average Positive Return Monthly | 2.32%  |
| Average Negative Return Monthly | -2.78% |

| RISK METRICS                   |                     |                          |
|--------------------------------|---------------------|--------------------------|
| Largest Drawdown               | -12.72%             | # Positive Months 40     |
| Longest Recovery Period        | 6 # Negative Months | 8                        |
| Average of 5 Largest Drawdowns | -4.37%              | % Positive Months 83.33% |



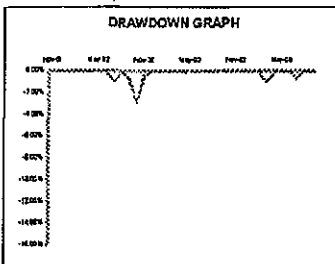
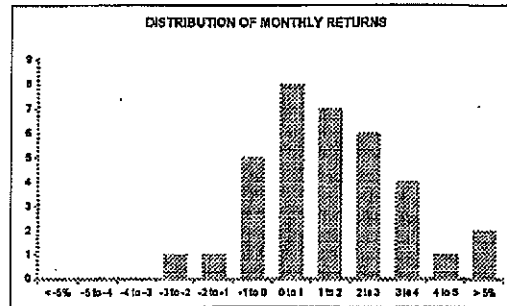
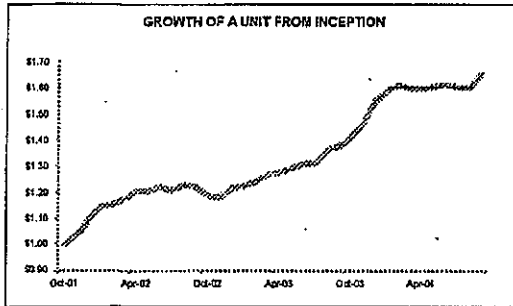
EVENT DRIVEN | 35

# Event Manager B

CONFIDENTIAL

| FUND TERMS              |               |                          |           |
|-------------------------|---------------|--------------------------|-----------|
| Assets Under Management | \$650 Million | Lockup                   | No        |
| Fund Status             | Open          | High Water Mark          | Yes       |
| Minimum Investment      | \$2,000,000   | Redemption Frequency     | Quarterly |
| Fees                    | 1.5% + 20%    | Redemption Notice Period | 45 Days   |

| MONTHLY PERFORMANCE |       |       |        |       |       |       |        |       |        |        |        |       |        |
|---------------------|-------|-------|--------|-------|-------|-------|--------|-------|--------|--------|--------|-------|--------|
| Year                | Jan   | Feb   | Mar    | Apr   | May   | Jun   | Jul    | Aug   | Sep    | Oct    | Nov    | Dec   | YTD    |
| 2004                | 2.44% | 1.82% | -1.08% | 0.07% | 0.58% | 0.14% | -0.63% | 0.01% | 3.18%  | 2.46%  | 3.71%  | 0.71% | 6.58%  |
| 2003                | 0.82% | 1.11% | 2.66%  | 0.51% | 1.15% | 0.61% | 0.14%  | 3.64% | 1.18%  | 2.46%  | -0.39% | 2.89% | 27.47% |
| 2002                | 4.73% | 0.62% | 2.18%  | 3.96% | 0.14% | 1.38% | -0.94% | 1.70% | -0.63% | -2.99% | -0.39% | 2.89% | 11.18% |
| 2001                |       |       |        |       |       |       |        |       |        |        | 3.36%  | 0.01% | 9.57%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 18.86% |
| Rolling 12m Average             | 16.95% |
| Monthly Average Geometric       | 1.45%  |
| Standard Deviation              | 6.75%  |
| Average Positive Return Monthly | 2.07%  |
| Average Negative Return Monthly | -0.95% |

| RISK METRICS                   |                          |        |
|--------------------------------|--------------------------|--------|
| Largest Drawdown               | -3.85% # Positive Months | 28     |
| Longest Recovery Period        | 3 # Negative Months      | 7      |
| Average of 5 Largest Drawdowns | -1.65% # Positive Months | 80.00% |



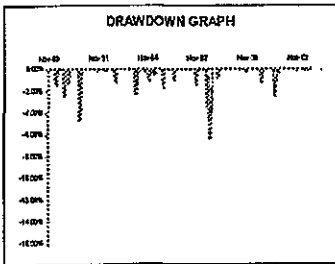
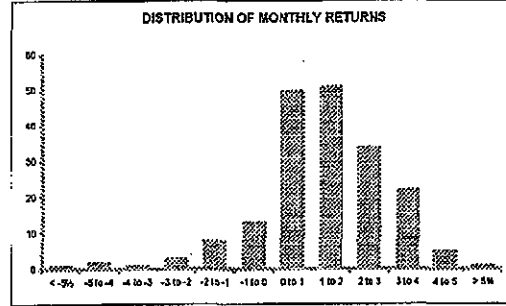
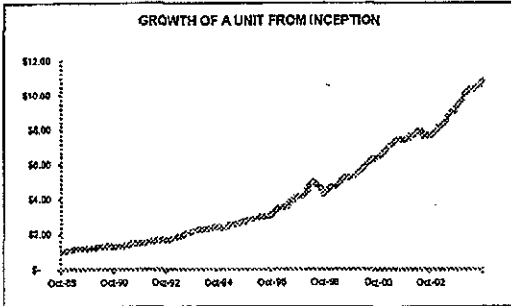
EVENT DRIVEN | 36

# Event Manager C

CONFIDENTIAL

| FUND FACTS              |               |                          |          |
|-------------------------|---------------|--------------------------|----------|
| Assets Under Management | \$6.2 Billion | Lockup                   | 2 Years  |
| Fund Status             | Closed        | High Water Mark          | Yes      |
| Minimum Investment      | \$25,000,000  | Redemption Frequency     | Annually |
| Fees                    | 1% + 20%      | Redemption Notice Period | 90 Days  |

| MONTHLY PERFORMANCE |        |        |       |       |        |        |        |       |        |       |        |        |        |
|---------------------|--------|--------|-------|-------|--------|--------|--------|-------|--------|-------|--------|--------|--------|
| Year                | Jan    | Feb    | Mar   | Apr   | May    | Jun    | Jul    | Aug   | Sep    | Oct   | Nov    | Dec    | YTD    |
| 2004                | 2.83%  | 1.54%  | 0.46% | 1.24% | -0.14% | 1.33%  | 0.19%  | 0.03% | 2.46%  | 1.44% | 2.84%  | 1.14%  | 10.91% |
| 2003                | 2.65%  | 0.33%  | 1.64% | 2.04% | 2.87%  | 0.41%  | 1.46%  | 1.44% | 1.96%  | 1.64% | 2.19%  | 1.00%  | 22.21% |
| 2002                | 1.73%  | 0.32%  | 1.23% | 1.24% | 0.46%  | 2.24%  | -1.61% | 1.00% | -0.30% | 0.44% | 2.19%  | 1.00%  | 5.43%  |
| 2001                | 2.77%  | 2.11%  | 1.58% | 0.91% | 1.41%  | 0.54%  | 0.40%  | 1.41% | -1.17% | 0.81% | 0.29%  | 1.00%  | 13.70% |
| 2000                | 2.19%  | 1.17%  | 3.65% | 0.69% | 1.32%  | 2.41%  | 2.32%  | 0.08% | 2.23%  | 0.81% | -0.25% | 1.29%  | 20.91% |
| 1999                | 0.49%  | -0.79% | 1.36% | 2.04% | 3.41%  | 1.49%  | 0.33%  | 0.41% | 0.07%  | 0.51% | 1.33%  | 1.52%  | 16.43% |
| 1998                | 1.53%  | -0.27% | 7.24% | 0.34% | 0.35%  | -0.69% | -0.72% | 0.33% | -4.66% | 1.71% | 3.67%  | -4.66% | 8.93%  |
| 1997                | 3.40%  | 0.72%  | 0.54% | 0.61% | 2.78%  | -0.92% | 3.46%  | 1.79% | 3.25%  | 1.36% | 1.37%  | 1.79%  | 27.77% |
| 1996                | 1.41%  | 0.73%  | 2.16% | 1.69% | 1.06%  | -0.51% | -0.03% | 0.69% | 2.59%  | 1.41% | 3.33%  | 1.29%  | 20.65% |
| 1995                | 0.90%  | 2.70%  | 3.09% | 0.31% | 0.37%  | 1.94%  | 2.32%  | 1.52% | 2.40%  | 1.29% | 2.04%  | 1.36%  | 17.68% |
| 1994                | 3.03%  | 1.20%  | 0.57% | 0.73% | 1.66%  | 0.38%  | 1.13%  | 2.46% | -0.21% | 1.91% | -1.03% | -1.03% | 6.30%  |
| 1993                | 2.04%  | 1.72%  | 3.42% | 0.07% | 2.40%  | -1.81% | 4.11%  | 1.10% | 0.56%  | 2.96% | 2.58%  | 0.89%  | 29.23% |
| 1992                | 1.56%  | 1.04%  | 3.17% | 0.30% | 0.27%  | 0.94%  | 0.16%  | 0.52% | 1.67%  | 0.24% | -1.11% | 0.34%  | 14.03% |
| 1991                | 0.78%  | 1.71%  | 2.47% | 2.51% | 1.39%  | 1.19%  | 0.84%  | 0.15% | 1.19%  | 1.41% | 0.55%  | 0.89%  | 17.03% |
| 1990                | -1.28% | 1.24%  | 3.65% | 0.63% | 1.02%  | 1.47%  | 1.26%  | 0.28% | -4.63% | 0.60% | 0.30%  | 1.52%  | 6.73%  |
| 1989                | 3.12%  | 0.33%  | 3.10% | 1.24% | 2.36%  | 2.24%  | 0.83%  | 1.44% | 0.12%  | 2.33% | 0.75%  | 0.57%  | 17.28% |
| 1988                |        |        |       |       |        |        |        |       |        | 1.44% | 1.00%  |        | 4.53%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 16.15% |
| Rolling 12m Average             | 16.11% |
| Monthly Average Geometric       | 1.26%  |
| Standard Deviation              | 5.89%  |
| Average Positive Return Monthly | 1.75%  |
| Average Negative Return Monthly | -1.51% |

| RISK METRICS                   |         |                          |
|--------------------------------|---------|--------------------------|
| Largest Drawdown               | -14.48% | # Positive Months 163    |
| Longest Recovery Period        | 9       | # Negative Months 28     |
| Average of 5 Largest Drawdowns | -5.66%  | % Positive Months 85.34% |



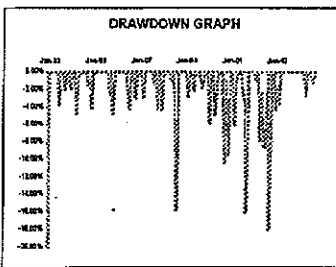
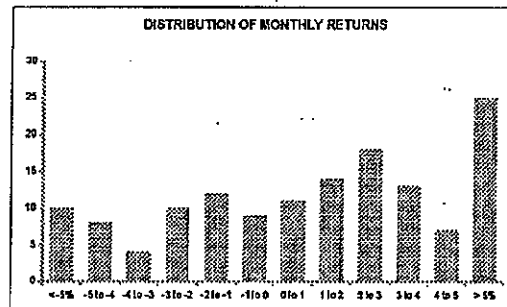
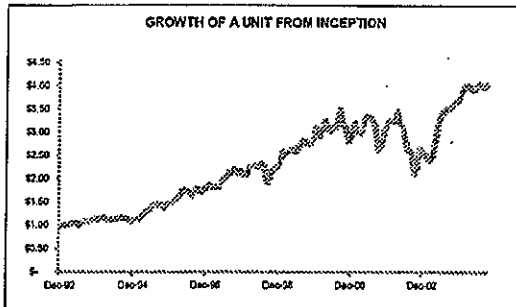
EVENT DRIVEN | 37

# L/S Generalist Manager A

CONFIDENTIAL

| FUND TERMS              |               |                          |          |
|-------------------------|---------------|--------------------------|----------|
| Assets Under Management | \$200 Million | Lockup                   | 1 Year   |
| Fund Status             | Closed        | High Water Mark          | Yes      |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Annually |
| Fees                    | 1% + 20%      | Redemption Notice Period | 45 Days  |

| MONTHLY PERFORMANCE |        |       |        |        |        |       |        |        |         |        |        |       |         |
|---------------------|--------|-------|--------|--------|--------|-------|--------|--------|---------|--------|--------|-------|---------|
| Year                | Jan    | Feb   | Mar    | Apr    | May    | Jun   | Jul    | Aug    | Sep     | Oct    | Nov    | Dec   | YTD     |
| 2004                | 3.53%  | 3.17% | -0.34% | -2.79% | 0.00%  | 1.65% | -0.50% | 1.20%  | 1.60%   | 1.20%  | 0.73%  | 2.64% | 7.36%   |
| 2003                | -1.91% | 3.00% | 2.20%  | 7.00%  | 10.62% | 8.57% | 1.77%  | 1.00%  | 0.08%   | 1.57%  | 0.73%  | 2.64% | 47.86%  |
| 2002                | 1.60%  | 1.00% | 6.90%  | 7.80%  | -2.30% | 5.40% | -8.60% | 1.00%  | -18.05% | 1.00%  | 19.00% | 1.00% | -20.64% |
| 2001                | 8.60%  | 3.10% | -1.30% | 9.00%  | 3.20%  | 0.70% | -2.70% | 1.10%  | -15.10% | 1.00%  | 11.00% | 4.70% | 8.41%   |
| 2000                | -5.50% | 4.10% | 7.50%  | 8.00%  | -2.20% | 2.00% | -0.20% | 1.70%  | -10.50% | 1.00%  | 9.60%  | 2.50% | -4.36%  |
| 1999                | 10.10% | 2.00% | 3.00%  | 2.20%  | -2.10% | 3.30% | 1.80%  | 3.50%  | -1.50%  | 1.00%  | 2.00%  | 7.40% | 31.66%  |
| 1998                | -0.40% | 3.00% | 1.80%  | 2.50%  | -1.10% | 2.70% | -2.70% | 5.30%  | 10.10%  | 0.50%  | 2.10%  | 1.50% | 12.84%  |
| 1997                | 4.80%  | 1.10% | -0.30% | 1.10%  | 8.00%  | 2.10% | 6.40%  | -1.40% | 4.40%   | -4.20% | 2.60%  | 4.10% | 16.50%  |
| 1996                | 3.20%  | 2.20% | 4.40%  | 6.70%  | 0.40%  | 2.60% | -4.30% | 5.30%  | 3.40%   | 3.00%  | 4.00%  | 1.60% | 20.41%  |
| 1995                | 2.50%  | 6.70% | 8.20%  | 6.00%  | 0.20%  | 6.40% | 3.80%  | 0.70%  | 1.40%   | -4.80% | 5.70%  | 2.00% | 32.93%  |
| 1994                | 2.50%  | 1.90% | -4.80% | 1.00%  | 2.10%  | 0.10% | 1.60%  | 1.10%  | -1.50%  | 0.90%  | -4.20% | 7.00% | -0.36%  |
| 1993                | 1.20%  | 0.40% | 1.60%  | 0.60%  | 1.80%  | 3.40% | 3.90%  | 6.20%  | -2.00%  | 2.70%  | 2.90%  | 1.40% | 12.08%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 12.62% |
| Rolling 12m Average             | 14.29% |
| Monthly Average Geometric       | 1.00%  |
| Standard Deviation              | 18.66% |
| Average Positive Return Monthly | 4.15%  |
| Average Negative Return Monthly | -3.86% |

| RISK METRICS                   |                           |        |
|--------------------------------|---------------------------|--------|
| Largest Drawdown               | -39.12% # Positive Months | 88     |
| Longest Recovery Period        | 11 # Negative Months      | 53     |
| Average of 5 Largest Drawdowns | -15.60% % Positive Months | 62.41% |



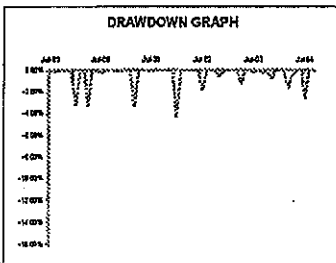
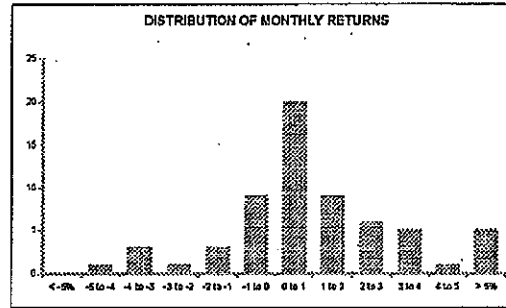
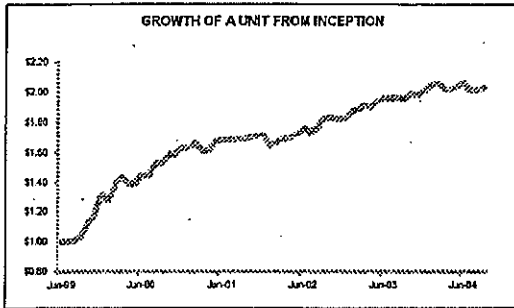
EVENT DRIVEN | 38

# L/S Value Manager A

CONFIDENTIAL

| FUND TERMS              |               |                          |          |
|-------------------------|---------------|--------------------------|----------|
| Assets Under Management | \$2.5 Billion | Lockup                   | 1 Year   |
| Fund Status             | Closed        | High Water Mark          | Yes      |
| Minimum Investment      | \$5,000,000   | Redemption Frequency     | Annually |
| Fees                    | 1% + 20%      | Redemption Notice Period | 60 Days  |

| MONTHLY PERFORMANCE |        |       |        |        |       |       |        |       |        |       |        |        |        |
|---------------------|--------|-------|--------|--------|-------|-------|--------|-------|--------|-------|--------|--------|--------|
| Year                | Jan    | Feb   | Mar    | Apr    | May   | Jun   | Jul    | Aug   | Sep    | Oct   | Nov    | Dec    | YTD    |
| 2004                | 2.00%  | 0.69% | -1.56% | -0.31% | 0.85% | 1.20% | -2.51% | 0.00% | 0.74%  |       |        |        | 1.20%  |
| 2003                | 2.26%  | 0.35% | 1.75%  | 1.27%  | 2.58% | 1.75% | -0.21% | 1.15% | -0.31% | 1.23% | -0.75% | 1.09%  | 9.86%  |
| 2002                | -4.20% | 1.73% | 1.07%  | 0.53%  | 1.48% | 2.90% | -1.77% | 2.00% | 3.35%  | 0.50% | -0.61% | 0.17%  | 6.54%  |
| 2001                | 0.38%  | 1.71% | -3.25% | 0.49%  | 3.32% | 0.77% | -0.07% | 0.31% | 0.02%  | 1.63% | 0.72%  | 0.20%  | 5.33%  |
| 2000                | -3.22% | 1.80% | 3.41%  | 0.30%  | 0.30% | 1.17% | -0.20% | 5.40% | 0.30%  | 3.61% | -0.10% | 1.72%  | 23.33% |
| 1999                |        |       |        |        |       |       | 0.42%  | 0.14% | 3.77%  | 0.77% | 6.29%  | 11.65% | 32.00% |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 14.45% |
| Rolling 12m Average             | 13.42% |
| Monthly Average Geometric       | 1.13%  |
| Standard Deviation              | 9.20%  |
| Average Positive Return Monthly | 2.11%  |
| Average Negative Return Monthly | -1.40% |

| RISK METRICS                   |        |                   |        |
|--------------------------------|--------|-------------------|--------|
| Largest Drawdown               | -4.20% | # Positive Months | 46     |
| Longest Recovery Period        |        | # Negative Months | 17     |
| Average of 5 Largest Drawdowns | -3.30% | % Positive Months | 73.02% |



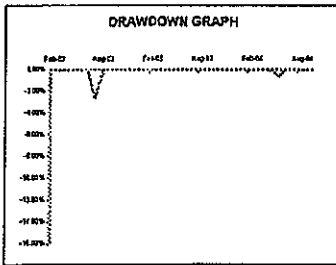
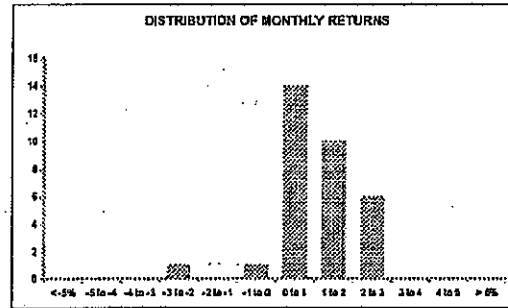
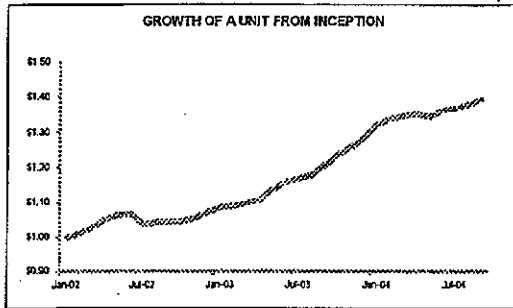
EQUITY HEDGED | 39

# L/S Multi Manager A

CONFIDENTIAL

| FUND TERMS              |               |                          |          |
|-------------------------|---------------|--------------------------|----------|
| Assets Under Management | \$200 Million | Lockup                   | 1 Year   |
| Fund Status             | Limited       | High Water Mark          | Yes      |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Annually |
| Fees                    | 1.5% + 10%    | Redemption Notice Period | 105 Days |

| Year | Jan   | Feb   | Mar   | Apr   | May    | Jun    | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | YTD    |
|------|-------|-------|-------|-------|--------|--------|-------|-------|-------|-------|-------|-------|--------|
| 2004 | 2.50% | 1.10% | 0.50% | 1.50% | -0.60% | 2.10%  | 0.30% | 2.10% | 4.20% |       |       |       | 8.26%  |
| 2003 | 1.20% | 0.20% | 0.80% | 0.50% | 2.90%  | 1.50%  | 0.80% | 1.60% | 2.52% | 1.20% | 1.80% | 2.50% | 20.25% |
| 2002 | 1.10% | 1.60% | 2.20% | 1.30% | 0.20%  | -2.60% | 1.40% | 0.20% | 0.10% | 0.70% | 1.80% | 1.80% | 7.14%  |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 13.25% |
| Rolling 12m Average             | 15.15% |
| Monthly Average Geometric       | 1.05%  |
| Standard Deviation              | 3.71%  |
| Average Positive Return Monthly | 1.23%  |
| Average Negative Return Monthly | -1.60% |

| RISK METRICS                   |        |                          |
|--------------------------------|--------|--------------------------|
| Largest Drawdown               | -2.60% | # Positive Months 30     |
| Longest Recovery Period        | 5      | # Negative Months 2      |
| Average of 5 Largest Drawdowns | -1.60% | % Positive Months 93.75% |



EQUITY HEDGED | 40

# L/S Multi Manager B

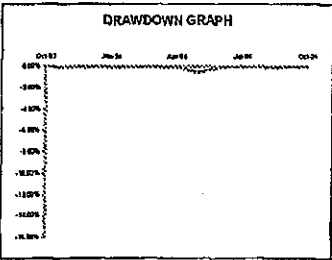
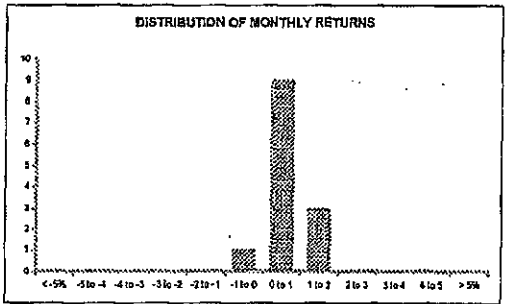
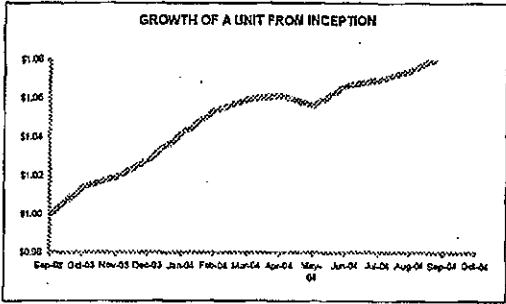
## INVESTMENT STRATEGY

## MANAGER BACKGROUND

CONFIDENTIAL

| FUND TERMS              |               |                          |                   |
|-------------------------|---------------|--------------------------|-------------------|
| Assets Under Management | \$146 Million | Lockup                   | No                |
| Fund Status             | Limited       | High Water Mark          | Yes               |
| Minimum Investment      | \$5,000,000   | Redemption Frequency     | Jun 30 and Dec 31 |
| Fees                    | 1% + 10%      | Redemption Notice Period | 90 Days           |

| MONTHLY PERFORMANCE |       |       |       |     |        |       |       |       |       |       |       |       |       |
|---------------------|-------|-------|-------|-----|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Year                | Jan   | Feb   | Mar   | Apr | May    | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dec   | YTD   |
| 2004                | 1.32% | 1.15% | 0.56% |     | -0.48% | 0.75% | 0.28% | 0.15% | 0.74% | 0.54% | 0.54% | 0.54% | 5.84% |
| 2003                |       |       |       |     |        |       |       |       |       | 1.45% | 0.54% | 0.54% | 2.83% |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 8.13%  |
| Rolling 12m Average             | 7.79%  |
| Monthly Average Geometric       | 0.65%  |
| Standard Deviation              | 1.77%  |
| Average Positive Return Monthly | 0.75%  |
| Average Negative Return Monthly | -0.48% |

| RISK METRICS                   |        |                          |
|--------------------------------|--------|--------------------------|
| Largest Drawdown               | -0.48% | # Positive Months 12     |
| Longest Recovery Period        | 1      | # Negative Months 1      |
| Average of 5 Largest Drawdowns | -0.48% | % Positive Months 92.31% |



EQUITY HEDGED | 41

# L/S Multi Manager C

INVESTMENT STRATEGY

MANAGER BACKGROUND

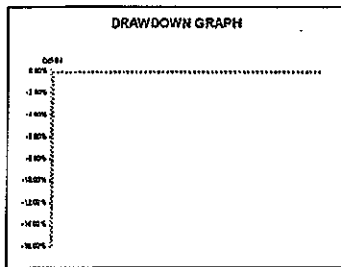
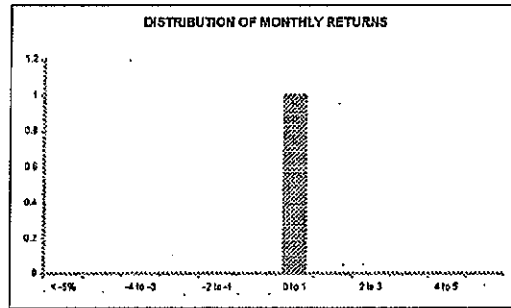
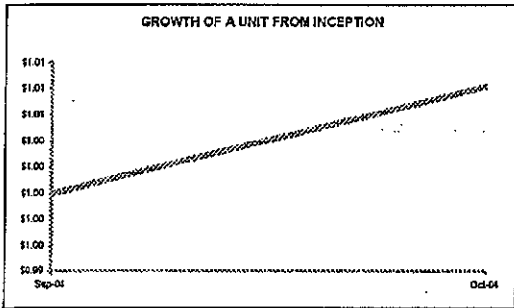
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**FUND TERMS**

|                         |              |                          |                 |
|-------------------------|--------------|--------------------------|-----------------|
| Assets Under Management | \$16 Million | Lockup                   | 3 Years         |
| Fund Status             | Limited      | High Water Mark          | Yes             |
| Minimum Investment      | \$1,000,000  | Redemption Frequency     | Rolling 3 Years |
| Fees                    | 1% + 15%     | Redemption Notice Period | 180 Days        |

**HISTORICAL PERFORMANCE**

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD   |
|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 2004 |     |     |     |     |     |     |     |     |     |     |     |     | 0.82% |



**PERFORMANCE**

|                                 |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 10.30% |
| Rolling 12m Average             | 0.00%  |
| Monthly Average Geometric       | 0.82%  |
| Standard Deviation              | N/A    |
| Average Positive Return Monthly | 0.82%  |
| Average Negative Return Monthly | 0.00%  |

**RISK METRICS**

|                                |       |                   |         |
|--------------------------------|-------|-------------------|---------|
| Largest Drawdown               | 0.00% | # Positive Months | 1       |
| Longest Recovery Period        |       | # Negative Months | 0       |
| Average of 5 Largest Drawdowns | 0.00% | % Positive Months | 100.00% |



EQUITY HEDGED | 42

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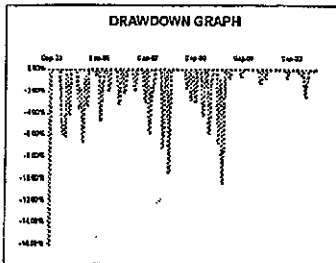
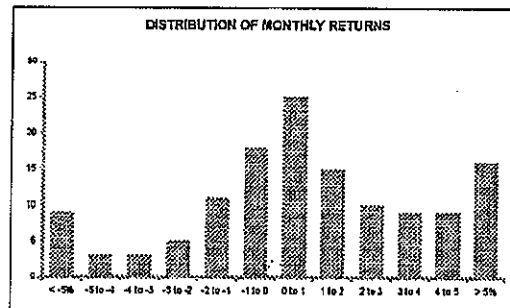
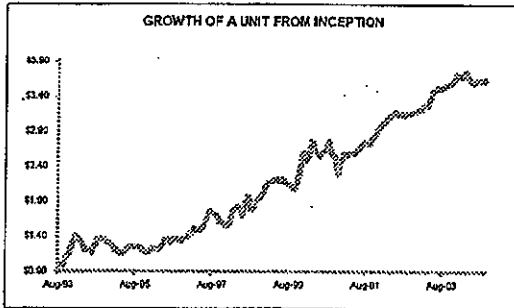


# Emerging Markets Manager A

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| FUND TERMS              |               |                          |           |
|-------------------------|---------------|--------------------------|-----------|
| Assets Under Management | \$900 Million | Lockup                   | None      |
| Fund Status             | Closed        | High Water Mark          | Yes       |
| Minimum Investment      | \$1,000,000   | Redemption Frequency     | Quarterly |
| Fees                    | 2% + 20%      | Redemption Notice Period | 30 Days   |

| MONTHLY PERFORMANCE |        |        |        |        |        |       |        |        |        |        |         |        |        |
|---------------------|--------|--------|--------|--------|--------|-------|--------|--------|--------|--------|---------|--------|--------|
| Year                | Jan    | Feb    | Mar    | Apr    | May    | Jun   | Jul    | Aug    | Sep    | Oct    | Nov     | Dec    | YTD    |
| 2004                | -0.36% | -0.50% | 1.42%  | -2.27% | -1.34% | 0.27% | 0.83%  | -0.19% | 0.20%  |        |         |        | -2.11% |
| 2003                | -0.16% | 1.50%  | 0.00%  | 1.26%  | 2.89%  | 1.27% | -0.76% | 0.27%  | 1.02%  | 1.33%  | 0.82%   | 2.40%  | 15.83% |
| 2002                | 2.10%  | 1.41%  | 1.55%  | 1.24%  | 0.33%  | 1.71% | 0.40%  | -0.73% | 0.50%  | 0.53%  | 0.10%   | 2.23%  | 9.11%  |
| 2001                | 3.61%  | -0.77% | 1.18%  | -0.11% | 1.41%  | 2.24% | 1.03%  | 0.44%  | 0.22%  | 2.73%  | 2.66%   | 2.17%  | 18.17% |
| 2000                | -4.19% | 3.78%  | 7.17%  | 4.41%  | -1.63% | 2.52% | 0.68%  | 4.12%  | -6.78% | 0.10%  | -10.30% | 1.60%  | -4.01% |
| 1999                | 5.69%  | 0.94%  | 0.72%  | 1.29%  | -1.81% | 1.36% | -2.74% | -0.65% | -2.90% | 1.87%  | 8.58%   | 12.75% | 26.25% |
| 1998                | 0.18%  | 1.60%  | 4.25%  | 0.42%  | -7.14% | 0.21% | 5.63%  | -0.75% | 3.12%  | 1.68%  | 3.40%   | 4.11%  | 31.99% |
| 1987                | 3.67%  | 4.19%  | -1.50% | 0.94%  | 4.17%  | 3.02% | 7.46%  | 2.99%  | 0.40%  | 0.79%  | -1.63%  | -1.88% | 11.59% |
| 1995                | 4.71%  | 1.96%  | 0.69%  | 0.84%  | 4.85%  | 0.78% | -3.15% | 1.27%  | -0.17% | 2.15%  | 2.59%   | 0.99%  | 18.74% |
| 1985                | -6.58% | -0.57% | -3.32% | 0.24%  | 2.90%  | 1.24% | 0.71%  | -0.87% | -0.07% | -1.57% | -1.22%  | 0.79%  | -9.10% |
| 1984                | 8.70%  | 1.96%  | -5.82% | -0.05% | -0.48% | 1.04% | 6.53%  | 0.62%  | 0.96%  | 0.38%  | -3.55%  | 1.70%  | 0.23%  |
| 1993                |        |        |        |        |        |       |        |        | -0.36% | 0.14%  | 4.23%   | 1.82%  | 29.24% |



| PERFORMANCE                     |        |
|---------------------------------|--------|
| Annualized Average Geometric    | 12.39% |
| Rolling 12m Average             | 12.14% |
| Monthly Average Geometric       | 0.98%  |
| Standard Deviation              | 13.94% |
| Average Positive Return Monthly | 3.18%  |
| Average Negative Return Monthly | -2.58% |

| RISK METRICS                   |         |                          |
|--------------------------------|---------|--------------------------|
| Largest Drawdown               | -17.27% | # Positive Months 84     |
| Longest Recovery Period        |         | 22 # Negative Months 49  |
| Average of 5 Largest Drawdowns | -12.52% | % Positive Months 63.16% |



GLOBAL | 43

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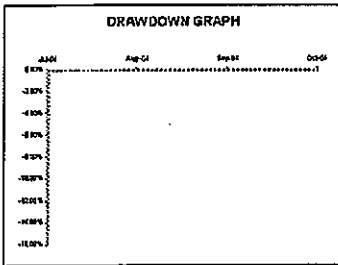
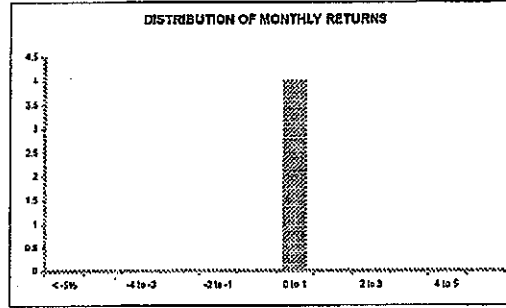
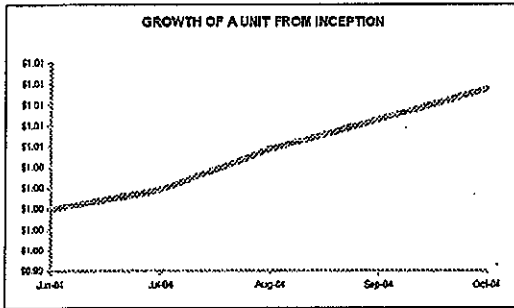
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# Cash Manager A

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| FUND TERMS              |              |                          |         |
|-------------------------|--------------|--------------------------|---------|
| Assets Under Management | \$38 Million | Lockup                   | None    |
| Fund Status             | Limited      | High Water Mark          | None    |
| Minimum Investment      | \$500,000    | Redemption Frequency     | Monthly |
| Fees                    | 1% + 0%      | Redemption Notice Period | 5 Days  |

| MONTHLY PERFORMANCE |     |     |     |     |     |     |       |       |       |       |     |     |       |
|---------------------|-----|-----|-----|-----|-----|-----|-------|-------|-------|-------|-----|-----|-------|
| Year                | Jan | Feb | Mar | Apr | May | Jun | Jul   | Aug   | Sep   | Oct   | Nov | Dec | YTD   |
| 2004                |     |     |     |     |     |     | 0.19% | 0.28% | 0.28% | 0.29% |     |     | 1.15% |



| PERFORMANCE                     |       |
|---------------------------------|-------|
| Annualized Average Geometric    | 3.50% |
| Rolling 12m Average             | 0.00% |
| Monthly Average Geometric       | 0.29% |
| Standard Deviation              | 0.28% |
| Average Positive Return Monthly | 0.29% |
| Average Negative Return Monthly | 0.00% |

| RISK METRICS                   |       |                           |
|--------------------------------|-------|---------------------------|
| Largest Drawdown               | 0.00% | # Positive Months 4       |
| Longest Recovery Period        | 0     | # Negative Months 0       |
| Average of 5 Largest Drawdowns | 0.00% | % Positive Months 100.00% |



## 4. BIOGRAPHIES

 SterlingStamos

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### **Sterling Stamos Senior Investment Team**

The investment team is lead by the firm's CEO, Peter Stamos, and is supported by an experienced team of professionals. The investment team includes three portfolio managers, five research analysts, and two portfolio advisors, all sharing the responsibility of sourcing, due diligence, selection, and monitoring of the Portfolio Managers. Shown below are the names and backgrounds of the primary portfolio decision makers for Sterling Stamos:

**Peter S. Stamos:** Mr. Stamos is the Chief Executive Officer of Sterling Stamos and is ultimately responsible for all investment decisions.

- Mr. Stamos was the Chief Executive Officer of Stamos Associates, Inc. (SAI), a healthcare and technology company that was acquired by Perot Systems, Inc., where he headed the merger and acquisition practice.
- Prior to the founding of SAI, Mr. Stamos was the Chief of Staff and Chief Economist for a U.S. Senator.
- Prior to working in the public sector, Mr. Stamos was a Principal with Booz Allen & Hamilton, a Senior Management Consultant with McKinsey & Company, and the Managing Partner of the Doblin Group.
- Mr. Stamos taught economics at Harvard University—where he received the Allen Young Award for Teaching Excellence—and at Stanford University, where he been a guest lecturer at the Graduate School of Business.
- Mr. Stamos serves on several boards and advisory boards, including the Board of Stanford University Hospitals and Clinics, where he is a member of the Finance and Audit Committees and is Chairman of the Investment Committee.
- Mr. Stamos earned a BA in economics and political science from Stanford University, where he was a Truman Scholar, received the Sterling Award, and graduated *Phi Beta Kappa* with Honors and Distinction. Mr. Stamos received a JD from Harvard Law School with Honors and a doctorate from Oxford University, where he was a Rhodes Scholar.

**Ashok Chachra:** Mr. Chachra is the Senior Portfolio Manager for Sterling Stamos and is responsible for portfolio manager sourcing, due diligence, selection, portfolio construction, risk management, and on-going portfolio monitoring.

- Prior to joining Sterling Stamos, he was a Senior Business Analyst with McKinsey & Company, focusing on assignments in the Financial Services and Healthcare industry sectors.
- Mr. Chachra worked in the high yield loan origination group at Chase Securities as well as in an analyst role at Morgan Stanley.
- Mr. Chachra earned a BS in Business Administration with University Honors from Carnegie Mellon University.

**Ellen Horing:** Ms. Horing is a Portfolio Manager for Sterling Stamos. She is also a principal of ETH Corp/Highgate Partners, a small hedge fund of funds, which invests in Portfolio Managers that employ various investment strategies.

- Ms. Horing served as Vice President and as Director of Research for Gabelli & Co., a money management and brokerage firm. She also served as an Equity Research Analyst at Weiss, Peck & Greer and was an Equity Block Trader at Merrill Lynch.
- Ms. Horing earned a BA in Economics from the University of Colorado and earned an MBA in Finance and Accounting from Columbia Business School.

**Saul B. Katz:** Mr. Katz is a General Partner of Sterling Stamos and is actively involved in the investment decisions as well as the management of Sterling Stamos.

- Mr. Katz is a Co-Founder and President of Sterling Equities. Mr. Katz directs Sterling Equities' day-to-day real estate operations. Mr. Katz also presides over Sterling Equities' non-real estate affiliates and subsidiary companies, which range from financial institutions to manufacturing, consulting, marketing, entertainment and retailing enterprises.
- Mr. Katz is President of the New York Mets and the Brooklyn Cyclones.
- Mr. Katz serves on the Boards of many nonprofit organizations and institutions in addition to being Honorary Chairman of the Board of the North Shore Long Island Jewish Health System.
- Mr. Katz is a Certified Public Accountant with a BS in Accounting, which he earned from Brooklyn College.

David M. Katz: Mr. Katz is a General Partner of Sterling Stamos and is actively involved in the investment decisions as well as the management of Sterling Stamos.

- Mr. Katz joined Sterling Equities in 1987, where he now serves as Executive Vice President. Mr. Katz's real estate experience includes the development of commercial and residential properties, condominium conversions, and the evaluation of acquisition opportunities.
- Mr. Katz also presides over Sterling Equities' non-real estate affiliate company Changing World Technologies (CWT), where he is a Board member. CWT is a bio/energy company using the thermo-depolymerization process. Mr. Katz also sits on the Board of Renewable Environmental Solutions, a partnership of CWT and ConAgra foods that is focused on deploying the TDP in the agricultural market.
- Mr. Katz is a Board member of the New York Mets.
- Mr. Katz also sits on the Board of various philanthropic organizations. He graduated from Hofstra University where he earned his BA.

## 5. RISK MANAGEMENT OVERVIEW



**STERLING STAMOS**

**Risk Management Overview – Security Fund**

October 2004

*Confidential Presentation*



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## Contents

- Portfolio Optimization
- Time Series Analysis
- Correlation Analysis
- Stress Testing
- Value-at-Risk
- Style/Factor Analysis

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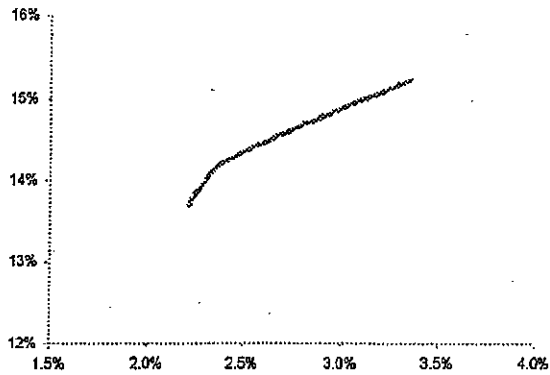
*This document contains a preliminary summary of the purpose and principal business terms of the partnership; this summary does not purport to be complete and is qualified in its entirety by reference to the more detailed discussion contained in the private offering memorandum and the actual text of the limited partnership agreement. The General Partner has the ability in its sole discretion to change the strategy described herein.*

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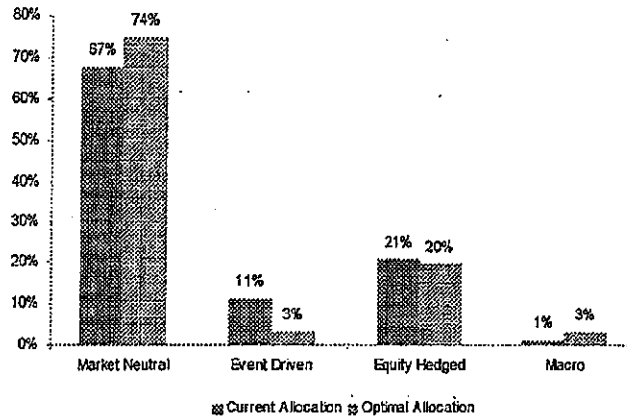


# Strategy Optimization

HEDGE FUND STRATEGY EFFICIENT FRONTIER <sup>1</sup>



OPTIMIZATION MODEL VS. STERLING STAMOS ALLOCATION <sup>1</sup>  
Oct-04



|              | Model Results <sup>1</sup> | SP Allocation <sup>1</sup> |
|--------------|----------------------------|----------------------------|
| Avg. Returns | 14.98%                     | 14.15%                     |
| Std. Dev.    | 3.00%                      | 2.69%                      |

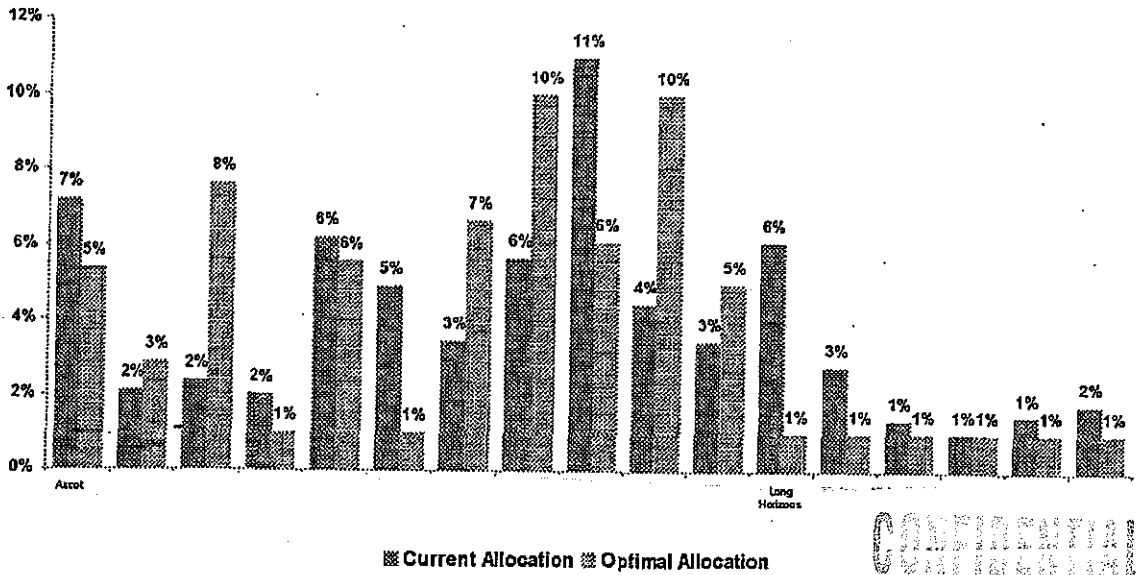
Source: Altiest HFRI, Hennessey Group, S&P, Sterling Stamos analysis.

<sup>1</sup> Results generated from the weighted average of performance data of underlying managers under each strategy during the period from Jan-98 to Sep-04. Underlying managers with inception date after Jan-98 are allocated to other existing managers. For Sterling Stamos funds pro forma data are used based on current allocation. Three funds are excluded due to insufficient data. Optimal model is subject to various constraints.



# Fund Manager Optimization

MARKET NEUTRAL OPTIMIZATION MODEL vs. STERLING STAMOS ALLOCATION 1  
Oct-04



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Source: Albert HFRJ, Hennessey Group S&P, Sterling Stamos assets.

1. Performance data from Jan-98 to Sep-04 are used. Underlying managers with inception date after Jan-98 are allocated to other existing managers. Two funds are excluded due to insufficient data. Optimal model is subject to various constraints.

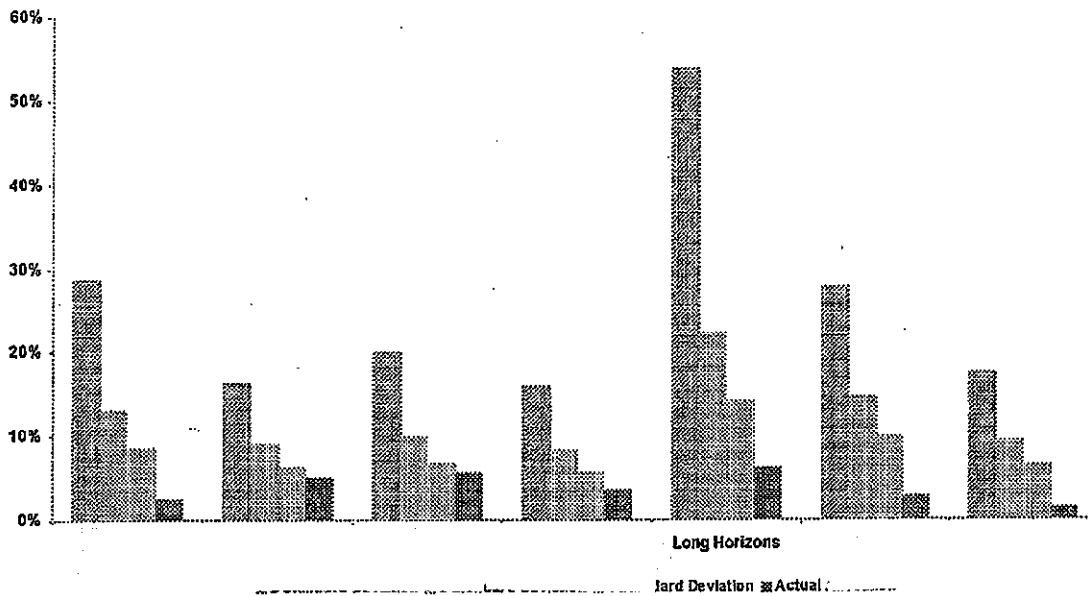


Portfolio Optimization | 3

## Fund Manager Allocation Limits – 25 Basis Point Risk Limit

### SINGLE FUND MANAGER EXAMPLE

Adverse Move Limits vs. Sterling Stamos Fund Manager Allocations



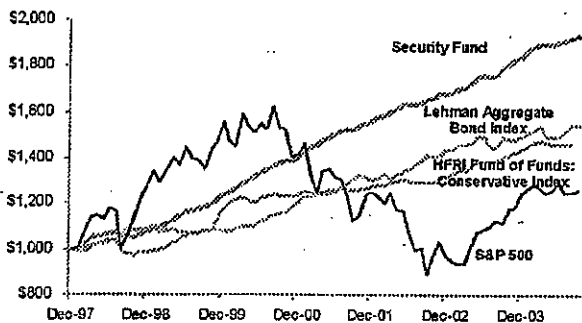
Source: Altech, HFRI, Hennessee Group, S&P, Sterling Stamos analysis.  
 1. Performance data from Jan-98 to Sep-04 are used.



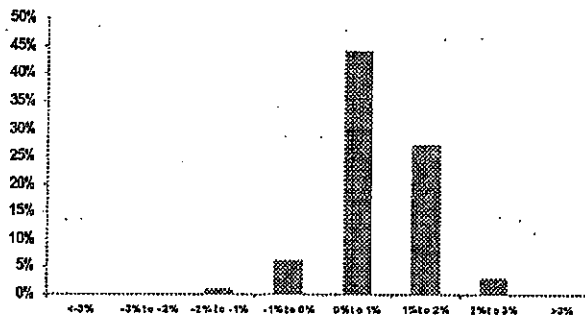
Portfolio Optimization | 4

# Portfolio Backtest – Security Fund

GROWTH OF \$1,000 INVESTED IN THE SECURITY FUND \*



PERFORMANCE DISTRIBUTION \*  
Monthly Return Frequency



Source: Alhert, HFRI, Hennessey Group, S&P, Sterling Stamos analysis.

\* Results generated from pro forma data based on Oct-04 allocation.



# Security Fund Correlation Matrix – Market Neutral

MARKET NEUTRAL CORRELATION MATRIX 1.  
Oct-04

|                | Ascot | Bayou | Clipper | Coast | D.E. Shaw | Farallon | Footbridge | FLT   | Forrest | Harbert | JMG  | Long<br>Horizon | Mariner | MichaelAn<br>gelo | MGP  | Ellington | Stark | JMT-BM | S&P 500 | Dow<br>Jones | Nasdaq |      |      |      |   |
|----------------|-------|-------|---------|-------|-----------|----------|------------|-------|---------|---------|------|-----------------|---------|-------------------|------|-----------|-------|--------|---------|--------------|--------|------|------|------|---|
| Ascot          | 1     |       |         |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Bayou          | 0.33  | 1     |         |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Clipper        | -0.12 | 0.07  | 1       |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Coast          | -0.26 | -0.01 | 0.64    | 1     |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| D.E. Shaw      | -0.17 | -0.13 | 0.10    | 0.15  | 1         |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Farallon       | 0.15  | -0.37 | 0.08    | -0.05 | 0.19      | 1        |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Footbridge     | -0.04 | -0.12 | 0.34    | 0.06  | 0.18      | 0.20     | 1          |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| FLT            | 0.06  | 0.06  | -0.18   | 0.30  | -0.03     | -0.10    | -0.68      | 1     |         |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Forrest        | -0.19 | -0.11 | 0.06    | 0.18  | 0.16      | 0.23     | -0.12      | 0.11  | 1       |         |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Harbert        | -0.17 | -0.11 | 0.27    | -0.03 | 0.40      | -0.09    | -0.38      | -0.26 | -0.08   | 1       |      |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| JMG            | 0.41  | -0.27 | 0.47    | 0.15  | 0.42      | -0.04    | -0.38      | -0.27 | 0.37    | 0.61    | 1    |                 |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Long Horizon   | 0.10  | -0.10 | -0.32   | -0.15 | 0.22      | 0.07     | -0.53      | -0.19 | 0.21    | -0.07   | 0.34 | 1               |         |                   |      |           |       |        |         |              |        |      |      |      |   |
| Mariner        | 0.35  | -0.21 | 0.37    | 0.42  | 0.33      | 0.34     | -0.13      | -0.21 | 0.21    | 0.26    | 0.57 | -0.04           | 1       |                   |      |           |       |        |         |              |        |      |      |      |   |
| Michael Angelo | -0.12 | 0.24  | 0.43    | 0.14  | 0.27      | -0.08    | 0.21       | -0.26 | 0.31    | 0.67    | 0.53 | -0.01           | 0.45    | 1                 |      |           |       |        |         |              |        |      |      |      |   |
| MGP            | -0.29 | -0.09 | 0.14    | 0.08  | 0.40      | -0.29    | -0.08      | 0.09  | 0.44    | 0.27    | 0.45 | 0.10            | 0.11    | 0.23              | 1    |           |       |        |         |              |        |      |      |      |   |
| Ellington      | -0.37 | -0.66 | 0.11    | 0.03  | 0.03      | 0.15     | -0.18      | -0.22 | -0.07   | -0.04   | 0.34 | -0.21           | 0.22    | -0.05             | 0.19 | 1         |       |        |         |              |        |      |      |      |   |
| Stark          | -0.24 | 0.24  | 0.52    | 0.48  | 0.42      | -0.06    | -0.23      | 0.04  | 0.48    | 0.45    | 0.72 | -0.01           | 0.64    | 0.71              | 0.39 | -0.20     | 1     |        |         |              |        |      |      |      |   |
| JMT-BM         |       |       |         |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        | 1       |              |        |      |      |      |   |
| S&P 500        |       |       |         |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         | 0.22         | 1      |      |      |      |   |
| Dow Jones      |       |       |         |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              | 0.17   | 0.17 | 1    |      |   |
| Nasdaq         |       |       |         |       |           |          |            |       |         |         |      |                 |         |                   |      |           |       |        |         |              |        | 0.27 | 0.19 | 0.19 | 1 |

Avg. Correlation between  
Market Neutral Fund Managers = 8%

Source: Axiom, HFR, Hennessey Group, S&P, Sterling Stamos analysis  
1. Correlation Matrix is calculated on the period from Aug-02 to Sep-04. Axiom, Warburgs are not included due to insufficient data.



# Security Fund Correlation Matrix – Event Driven and Equity Hedged

**EVENT DRIVEN CORRELATION MATRIX <sup>1</sup>**  
Oct-04

|            | Allen | ARX   | Daton | Gabriel | Highbridge | Litrespeed | Perry | Satellite | 3MT-BII | S&P 500 | Dow Jones | Nasdaq |
|------------|-------|-------|-------|---------|------------|------------|-------|-----------|---------|---------|-----------|--------|
| Allen      | 1     |       |       |         |            |            |       |           | 0.03    | 0.45    | 0.34      | 0.45   |
| ARX        | 0.56  | 1     |       |         |            |            |       |           | 0.07    | 0.22    | 0.22      | 0.19   |
| Daton      | 0.26  | -0.06 | 1     |         |            |            |       |           | -0.13   | 0.41    | 0.36      | 0.44   |
| Gabriel    | 0.22  | -0.04 | 0.31  | 1       |            |            |       |           | -0.26   | 0.51    | 0.45      | 0.39   |
| Highbridge | 0.29  | -0.10 | 0.12  | 0.21    | 1          |            |       |           | -0.22   | 0.12    | 0.07      | 0.03   |
| Litrespeed | 0.46  | -0.06 | 0.74  | 0.59    | 0.35       | 1          |       |           | 0.36    | 0.64    | 0.53      | 0.64   |
| Perry      | 0.49  | 0.32  | 0.46  | 0.37    | 0.38       | 0.73       | 1     |           | 0.38    | 0.55    | 0.45      | 0.53   |
| Satellite  | 0.33  | 0.53  | 0.60  | 0.35    | 0.27       | 0.67       | 0.73  | 1         | -0.26   | 0.53    | 0.45      | 0.50   |

**Avg. Correlation between Event Driven Fund Managers = 34%**

**EQUITY HEDGED CORRELATION MATRIX <sup>1</sup>**  
Oct-04

|                 | DC Capital | Greenlight | Skilos | SS Acceleration | SS Growth | 3MT-BII | S&P 500 | Dow Jones | Nasdaq |       |
|-----------------|------------|------------|--------|-----------------|-----------|---------|---------|-----------|--------|-------|
| DC Capital      | 1          |            |        |                 |           |         | -0.34   | 0.69      | 0.83   | 0.91  |
| Greenlight      | 0.39       | 1          |        |                 |           |         | -0.32   | 0.33      | 0.28   | 0.23  |
| Skilos          | 0.29       | 0.35       | 1      |                 |           |         | 0.14    | -0.05     | -0.08  | -0.03 |
| SS Acceleration | 0.63       | 0.77       | 0.16   | 1               |           |         | -0.42   | 0.63      | 0.54   | 0.64  |
| SS Growth       | 0.44       | 0.75       | 0.27   | 0.79            | 1         |         | -0.24   | 0.31      | 0.28   | 0.35  |

**Avg. Correlation between Equity Hedged Fund Managers = 43%**

Source: About HFRI Horowitz Group, Sep-03 Sterling Summer analysis

1. Correlation Matrix is calculated on the period from Feb-02 to Sep-04. Avenue Europe is not included in the event driven strategy due to insufficient data.
2. SS Acceleration and Growth Funds use the pro forma data based on Oct04 allocation.



## Correlation Straining Analysis

### ■ Objective

- Simulate occurrence of systemic failure that effect one or more of the four strategies
- Calculate Value-at-Risk given extremely adverse scenarios

### ■ Methodology

- Assume correlations in a single or multiple strategies increase dramatically
- Assume the variance of effected strategies increase by a stated "stress factor"

### ■ Result

- Value-at-Risk for a single year given stated assumptions



Stress Testing | 9



## Value-at-Risk – Straining the Covariance Matrix

### CURRENT ALLOCATION 1

| Strategy       | Avg. Correlation                   | Avg. Standard Deviation          |
|----------------|------------------------------------|----------------------------------|
| Market Neutral | 8%                                 | 3.42%                            |
| Event/Credit   | 34%                                | 5.31%                            |
| Equity Hedged  | 43%                                | 8.24%                            |
| Global         | N/A                                | 4.56%                            |
| <b>Result</b>  | <b>Standard Deviation</b><br>1.64% | <b>Expected Return</b><br>11.95% |

### SCENARIO 2

|                | Correlation                        | Stress Factor       |
|----------------|------------------------------------|---------------------|
| Market Neutral | 10%                                | 1                   |
| Event/Credit   | 34%                                | 1                   |
| Equity Hedged  | 43%                                | 1                   |
| Global         | N/A                                | 1                   |
| <b>Result</b>  | <b>Standard Deviation</b><br>2.20% | <b>VaR</b><br>5.38% |

### SCENARIO 1

|                | Correlation                        | Stress Factor       |
|----------------|------------------------------------|---------------------|
| Market Neutral | 25%                                | 2                   |
| Event/Credit   | 34%                                | 1                   |
| Equity Hedged  | 43%                                | 1                   |
| Global         | N/A                                | 1                   |
| <b>Result</b>  | <b>Standard Deviation</b><br>1.82% | <b>VaR</b><br>8.12% |

### SCENARIO 3

|                | Correlation                        | Stress Factor       |
|----------------|------------------------------------|---------------------|
| Market Neutral | 100%                               | 1                   |
| Event/Credit   | 34%                                | 1                   |
| Equity Hedged  | 43%                                | 1                   |
| Global         | N/A                                | 1                   |
| <b>Result</b>  | <b>Standard Deviation</b><br>2.61% | <b>VaR</b><br>1.26% |

Source for all tables: Sterling Stamos analysis.

1. Correlation and standard deviation are calculated using the simple average. Market neutral correlation is calculated during the period from Aug-02 to Sep-04 and all the other correlations and volatility are calculated during the period from Feb-02 to Sep-04. 3 funds are excluded due to insufficient data.



Stress Testing 13

## VaR Analysis

### ■ Objective

- Calculate VaR under normal conditions

### ■ Methodology

- Monte Carlo Simulation
- Randomly generate simulations for the portfolio performance assuming a multivariate normal distribution of returns

### ■ Result

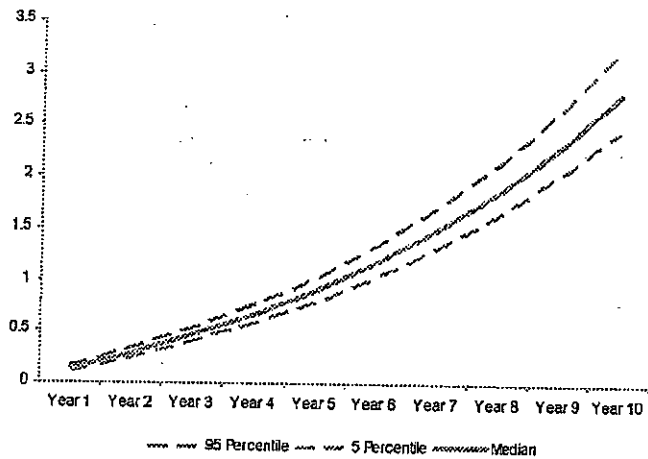
- The minimum return of the portfolio over the next year remains positive at all confidence intervals

## Value-at-Risk – Monte Carlo Simulation

|                    | Annualized Return | Annualized Standard Deviation |
|--------------------|-------------------|-------------------------------|
| Number Simulations | 5,000             | 5,000                         |
| Mean               | 6.16%             | 1.82%                         |
| Median             | 6.16%             | 1.83%                         |
| Standard Deviation | 1.88%             | 0.29%                         |
| Maximum            | 12.27%            | 2.81%                         |
| Minimum            | -0.55%            | 0.82%                         |
| 99th Percentile    | 10.48%            | 2.47%                         |
| 95th Percentile    | 9.28%             | 2.28%                         |
| 90th Percentile    | 8.64%             | 2.18%                         |
| 80th Percentile    | 7.71%             | 2.06%                         |
| 75th Percentile    | 7.40%             | 2.02%                         |
| 70th Percentile    | 7.15%             | 1.97%                         |
| 60th Percentile    | 6.64%             | 1.90%                         |
| 50th Percentile    | 6.16%             | 1.83%                         |
| 40th Percentile    | 5.69%             | 1.75%                         |
| 30th Percentile    | 5.15%             | 1.67%                         |
| 25th Percentile    | 4.84%             | 1.63%                         |
| 20th Percentile    | 4.52%             | 1.57%                         |
| 10th Percentile    | 3.78%             | 1.43%                         |
| 5th Percentile     | 3.16%             | 1.31%                         |
| 1st Percentile     | 1.84%             | 1.13%                         |

|                            |           |
|----------------------------|-----------|
| Simulation Method:         | Bootstrap |
| Simulation Data Start:     | Aug-02    |
| Simulation Data End:       | Sep-04    |
| Number of Periods:         | 28        |
| Simulation Period:         | Monthly   |
| Number of Years:           | 1         |
| Number of Simulations:     | 5000      |
| Re-balancing:              | (None)    |
| Risk Free Return:          | 5.00%     |
| Minimal Acceptable Return: | 10.00%    |
| Fixed Random Sequence:     | Yes       |

SECURITY FUND VaR BOOTSTRAP



Source: Sterling Stamos analysis, Petros

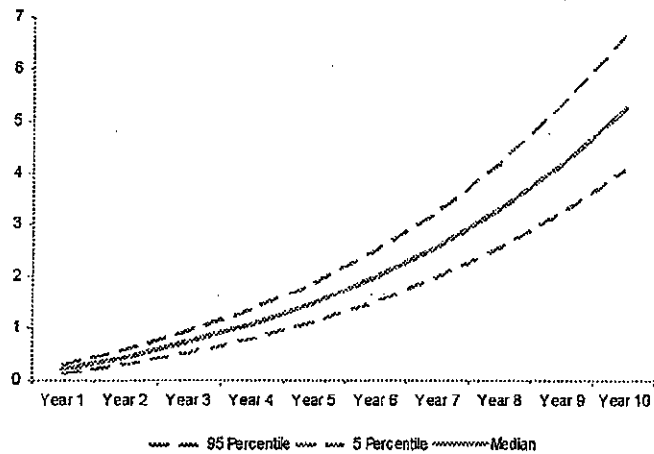


## JMG VaR Analysis – Monte Carlo Simulation

|                    | Annualized Return | Annualized Standard Deviation |
|--------------------|-------------------|-------------------------------|
| Number Simulations | 5,000             | 5,000                         |
| Mean               | 8.07%             | 3.14%                         |
| Median             | 8.15%             | 2.95%                         |
| Standard Deviation | 3.50%             | 1.05%                         |
| Maximum            | 21.78%            | 7.89%                         |
| Minimum            | -6.70%            | 0.76%                         |
| 99th Percentile    | 16.09%            | 6.21%                         |
| 95th Percentile    | 13.67%            | 5.25%                         |
| 90th Percentile    | 12.41%            | 4.70%                         |
| 80th Percentile    | 10.93%            | 3.91%                         |
| 75th Percentile    | 10.41%            | 3.68%                         |
| 70th Percentile    | 9.87%             | 3.48%                         |
| 60th Percentile    | 9.00%             | 3.19%                         |
| 50th Percentile    | 8.15%             | 2.95%                         |
| 40th Percentile    | 7.32%             | 2.75%                         |
| 30th Percentile    | 6.34%             | 2.51%                         |
| 25th Percentile    | 5.79%             | 2.40%                         |
| 20th Percentile    | 5.22%             | 2.27%                         |
| 10th Percentile    | 3.59%             | 1.99%                         |
| 5th Percentile     | 2.18%             | 1.78%                         |
| 1st Percentile     | -0.52%            | 1.38%                         |

|                            |           |
|----------------------------|-----------|
| Simulation Method:         | Bootstrap |
| Simulation Data Start:     | May-92    |
| Simulation Data End:       | Sep-04    |
| Number of Periods:         | 149       |
| Simulation Period:         | Monthly   |
| Number of Years:           | 1         |
| Number of Simulations:     | 5000      |
| Re-balancing:              | (None)    |
| Risk Free Return:          | 5.00%     |
| Minimal Acceptable Return: | 10.00%    |
| Fixed Random Sequence:     | Yes       |

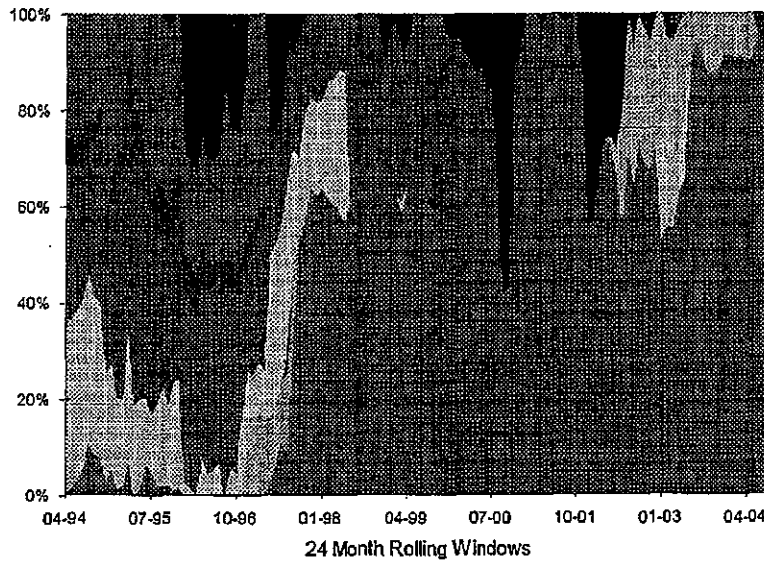
JMG VaR BOOTSTRAP



Source: Sterling Stamos analysis, Perotco



## JMG Style Analysis – History

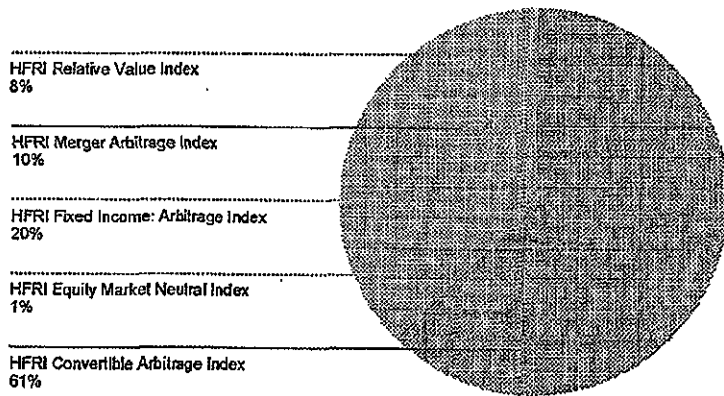


- |                                    |                                      |
|------------------------------------|--------------------------------------|
| ■ HFR1 Convertible Arbitrage Index | ■ HFR1 Event-Driven Index            |
| ■ HFR1 Distressed Securities Index | ■ HFR1 Fixed Income: Arbitrage Inde  |
| ■ HFR1 Equity Hedge Index          | ■ HFR1 Macro Index                   |
| ■ HFR1 Equity Market Neutral Index | ■ HFR1 Merger Arbitrage Index        |
| ■ HFR1 Equity Non-Hedge Index      | ■ HFR1 Relative Value Arbitrage Indc |

Source: Sterling Stamos analysis, Petrac



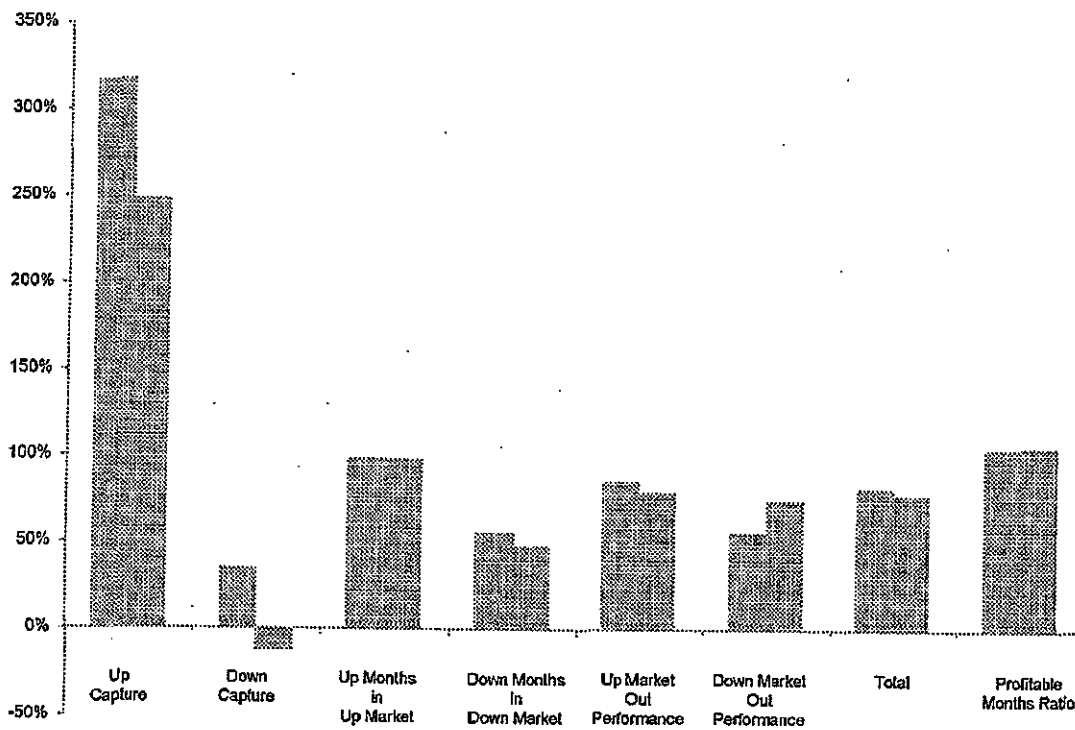
## JMG Style Analysis – Allocation



Source: Sterling Stamos analysis, Portfolios



## JMG Style Analysis – Capture Ratios



Source: Sterling Stamos analysis, Perera

※ Style Benchmark ※ HFRI Convert Arb Index Benchmark

**SterlingStamos**

Style/Factor Analysis | 15

## 6. SAMPLE DOCUMENTATION





T 212 485 4370  
F 212 485 4371

575 Fifth Avenue  
New York, NY 10017  
www.sterlingstamos.com

August 20, 2004

Sterling Stamos  
575 Fifth Avenue, 40<sup>th</sup> Floor  
New York, NY 10017

RE: Second Quarter 2004

Dear Partner:

**Fund Performance**

For the quarter ending June 30, 2004, an investment in Sterling Stamos appreciated, net of all fees and expenses, by approximately:

Capital Preservation Funds

Q2

YTD

Friends & Family Fund  
Security Fund

Capital Appreciation Funds

Levered Fund (Offshore)  
Capital Growth Fund (Onshore)  
Capital Growth Fund (Offshore)

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Enclosed are copies of your ending capital account balances for the funds in which you have invested.

**Summary and Outlook**

*When one admits that nothing is certain, one must, I think, also admit that some things are much more nearly certain than others. — Bertrand Russell*

Halfway through the year, the only thing that appears to be certain is "uncertainty"—both at home and abroad. Domestically, investors anxiously await the results of a presidential election that is less defined by substantive economic policy differences than by the mistakes, misperceptions, and miscalculations made in the "War on Terror." As we head into this uncertain election, with a war whose success is even more uncertain, Americans remain understandably concerned about



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their safety—uncertain about the economy and the markets into which they are to invest.

Despite generally strong economic data, Americans intuitively understand that something fundamental is missing behind the data. Record current account and budget deficits, and with them the inevitability of higher interest rates, weigh heavily on the economy in general and on business outlook in particular. The economic recovery is threatened by unprecedented consumer debt, the end of the tax-cut fiscal stimulus, and record level oil prices that are leading to supply-push inflation. The recent liquidity- and consumer-driven recovery cannot be sustained without a substantial increase in investment (i.e., capital expenditures) and hiring (i.e., high-paying jobs)—again, a jobless recovery, a “CapEx-less” recovery, is not a recovery.<sup>1</sup>

Our last two quarterly letters outlined three trends, namely that: (1) equity markets would be range bound with hard tops and soft bottoms; (2) interest rates would inevitably rise bringing material mark-to-market losses in fixed income markets; and (3) overall uncertainty and restless anticipation in both markets would prevent consistent movement in any one direction. The second quarter has substantiated these trends. Equity markets have been reluctant to rally off strong corporate earnings and GDP growth. Fixed income markets have sold off dramatically. Moreover, the simultaneous, highly correlated selloff of multiple asset classes (i.e., equities, bonds, credits) combined with low equity volatility created a difficult environment for traditional arbitrage managers.

At Sterling Stamos, we use the analogy of *seas, ships, and captains* to describe our approach to *markets, investment strategies, and underlying fund managers*, respectively. When the sea is rising, all ships rise, and with whom you sail becomes less important. But when the perfect storm hits, or even when waters are choppy, sailing in the right ship with the right captain becomes paramount. The Greek philosopher Epicures perhaps put it best:

*The greater the difficulty, the more the glory in surmounting it. Skillful captains gain their reputation from storms and tempests.*

Our forward-looking reallocation to the appropriate strategies and selection of best-in-class managers have allowed us to weather this storm—allowing each of our funds to finish the quarter with positive returns. Although we are disappointed with the funds’ performance on an absolute basis over the course of the last few months,

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<sup>1</sup> At the most fundamental level, GDP is determined by a combination of consumer spending, investments, government spending, and the balance of exports over imports ( $Y = C + I + G + (X-M)$ ). With consumers and government in debt and with record trade deficits, we are left only with investments (“I”) as the driver of future economic growth.

we are pleased that the portfolios absorbed shocks in the market and remained positive. We remain confident that active management of the portfolios will continue to produce strong absolute returns with low downside potential as we approach the remaining quarters of 2004.

#### Economic and Market Review—Q2 2004

##### The Economy—Speculative or Fundamental?

Signs that recent economic growth has begun to subside became evident during Q2. GDP growth, though high, shifted downward from 4.5 percent in Q1 to 3.0 percent. *Consumer spending* showed signs of weakness with retail sales down 1.1 percent from last quarter. *Job growth* has continued, but unfortunately not at a pace that one would expect at this point in an economic recovery. Inflation—driven by higher energy costs, import prices, and unit labor costs—has become a concern. Finally, both federal and trade *deficits* continue to threaten both the short- and long-term fiscal health of our economy.

**Spending:** The indefatigable US consumer, the main catalyst for our current economic expansion, may have finally begun to tire. As consumers' ability to spend diminishes, businesses will have to bear more of the burden of maintaining the demand for US goods and services. With household debt surging to \$2.5 trillion in the last 13 quarters, the conclusion of the Bush tax cuts, and an end to last year's refinancing boom, it will be difficult for consumers to continue spending at the same pace without a significant increase in higher paying jobs. Meanwhile, capital expenditures by businesses have yet to compensate for a potential decrease in consumer spending.<sup>2</sup>

**Jobs:** Despite positive job growth through the first half of 2004, the overall picture for the market leaves much to be desired. While recent employment numbers have been below expectations, on a much larger scale, overall job growth has barely kept pace with the growth of the work force and is far short of historical averages. For the first time since 1932, employment is lower in the summer of a presidential election year than it was on the previous inauguration day. The quality of new jobs is also contributing to the poor circumstances surrounding employment. The proportion of temporary versus permanent jobs continues to grow, and the growth in average weekly earnings for non-supervisory employees is disappointing—rising 1.7 percent over the past year, a level that fails to keep up with inflation. The reluctance by

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<sup>2</sup> Non-residential investment as a percent of GDP stands at 11.1 percent, substantially below the levels experienced during the latter half of 2000.

businesses to create more permanent, high quality jobs reflects the business community's concern that the recent recovery may be short-lived.<sup>3</sup>

**Inflation:** Short-term fixes often result in long-term problems. Americans have benefited from the most accommodative monetary policy in almost five decades. The cost of money has been close to, and often below, zero, allowing consumers and businesses alike to borrow at unprecedented levels. The resulting increase in the money supply naturally increases aggregate demand for goods and services, putting upward pressure on prices. A weak dollar also contributes to inflation because of the relative price appreciation of imports. As the US is the world's largest importer of goods and services, a weak dollar naturally contributes to overall price instability. High commodity prices, most notably for oil, and increasing unit labor costs from mounting health and pension costs have also contributed to higher prices.<sup>4</sup>

On the other hand, there are several factors that may dampen inflation in the coming months. First, the indefatigable US consumer has only been surpassed by the indefatigable US worker—i.e., worker productivity continues to increase at unprecedented levels. Productivity coupled with a still soft job market alleviates upward pressure on wages and thereby limits the cost of production and, in turn, costs normally passed on to consumers. Second, aggregate demand remains at a level that is below the US economy's supply potential, leaving room for producers to ramp up production before raising prices at a faster pace. Finally, post-tax profitability of US corporations (again helped by productivity gains) stands at a fifty-year high. High profitability also allows companies to absorb increases in the cost of production before passing it along to the consumer in the form of higher prices.

While some degree of rising inflation is likely (and, indeed, perhaps healthy), how quickly it occurs will depend on many factors, including the actions by the Federal Reserve Board.<sup>5</sup> Chairman Greenspan has consistently articulated the message that the Fed will increase short-term interest rates at a "measured" pace, but has reserved the right "to respond promptly and flexibly as situations warrant." In other words, if

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<sup>3</sup> Federal Reserve Board Chairman Greenspan expressed this concern as part of his Monetary Policy Report before the US Senate: "The proportion of temporary hires relative to total employment continues to rise, underscoring that business caution remains a feature of the economic landscape." See Alan Greenspan's testimony before the Committee on Financial Services, U.S. House of Representatives, February 11, 2004, and the public statement released by the FOMC following its May 2004 meeting.

<sup>4</sup> High oil prices have a particularly far-reaching effect on price levels, affecting everyone from consumers to corporations. Higher energy costs are particularly worrisome because they generally decrease profitability for domestic US businesses, increase profitability for foreign exporters of energy resources, and restrict reinvestment into the US economy.

<sup>5</sup> Core CPI year over year has risen significantly in recent months (from 1.1 percent at the beginning of the year to 1.9 percent in June), reaching a level that is approaching the Federal Reserve Board's upper comfort level of 2 percent.

inflation appears to be rising too rapidly, the Fed may be forced to move quickly, with far reaching consequences for the growth of the economy and investors alike.

**Twin Deficits:** The growing headwind of structural fiscal and current account deficits is possibly the most troubling long-term threat to the US economy. In his recent book, *Running on Empty*, Pete Peterson warns that we have experienced a \$10 trillion swing in the ten-year federal deficit projection over the past four years. Just as disturbing, a \$500 billion trade deficit coupled with a dwindling savings rate has left America with a reliance on foreign capital of almost 2 billion dollars per working day.<sup>6</sup> The Federal Government continues to place its faith in foreigners who extend to us enormous loans by purchasing our debt. As former President Clinton warned, our trading partners have become our bankers. At some point, foreign investors may become concerned with the American government's unsustainable spending and lack of fiscal discipline and discontinue, or at least slow down, their massive investment in US securities. Recent data indicates that foreigners may already be heading down that path. In May, foreign purchases of US securities were down 26 percent from April at \$56.4 billion, representing the lowest monthly total in seven months. While in June, foreign purchases of US securities did increase, the combined fiscal and current account deficits continue to represent the largest obstacles to America's long-term economic prosperity. This threat is not new, and the concern is one shared by policy makers, bankers, and investors alike.<sup>7</sup>

In total, these economic conditions lead us to the conclusion that we must examine markets not so much based on historical returns, but rather on future outlook. From 1982 until March of 2000, the US equity markets generally provided a rising tide of positive returns. Similarly, over the past two decades, fixed income investments generally provided a safe, stable source of returns. Looking forward, however, US equities appear to be range bound, and bonds are as volatile today as equities were in 2000. If, for the moment, one ignores the rear view mirror and instead focuses attention on the road ahead, US securities, and with them US markets, look less than secure. Our view is that the "recovery" to date has been speculative—driven by massive liquidity and fiscal stimuli. For that *speculative* recovery to become *fundamental*, we must await a return to security, confidence, and certainty. Until that time, we remain cautious.

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<sup>6</sup> Pete Peterson, *Running on Empty*, Farrar, Straus and Giroux, p.8.

<sup>7</sup> For example, Former Treasury Secretary Robert Rubin has likened this danger to the well-publicized problems of the Third World: "The traditional immunity of advanced countries like America to the third-world-style crisis isn't a birthright." Paul Volcker, former Chairman of the Federal Reserve, predicts that the US faces a 75 percent chance of crisis within five years. Warren Buffet recently purchased foreign debt over US treasuries for the first time.

The Markets—Range Bound and Erratic

Market conditions and returns, unfortunately, mirrored our own caution. The second quarter can be best characterized by a large selloff in fixed income in anticipation of higher interest rates, while the equity markets remained range bound on their way to modest quarterly gains. Fixed income traders were hard pressed to turn a profit in an environment where most fixed income instruments had their worst quarter in over a decade. Equity traders were forced to contend with equity markets where the Russell 2000 and S&P 500 indices had peak-to-trough movements of 12.5 percent and 6.5 percent, respectively. Arbitrage traders confronted correlated price movements across multiple asset classes—culminating in a simultaneous selloff in virtually every asset class in May.

**Fixed Income and Commodities Markets:** A combination of the Fed increasing rates by 25 basis points, strong job data in the early part of the quarter, and higher than expected inflation sent yields on government bonds through the roof. The yield on the 10-Year US Treasury moved 99 basis points from 3.88 percent at the beginning of April to 4.87 percent during the middle of June before backing off to 4.57 percent at quarter's end. The Lehman Aggregate Bond Index finished the quarter down 2.4 percent, its largest decline since the first quarter of 1994, while the total return on the zero coupon 10-Year Treasury finished the quarter down 4.9 percent. The Lehman US Corporate High Yield Index was down 0.9 percent for the quarter. The Goldman Sachs/Bloomberg US Bond & Preferred Convertible Bond Index was down 0.93 percent. Concerns over geopolitical risk, increased demand, limited refining capacity, and potential supply shocks sent the price of oil to record highs, reaching the \$42 level. Commodities, as a whole, rose 2.5 percent.

**Equity Markets:** All of the major equity indices concluded Q2 slightly higher with the Dow, S&P 500, and NASDAQ up 0.75 percent, 1.30 percent, and 2.67 percent, respectively. The winners for the quarter were industrials and energy, while financials and homebuilders struggled, finishing the quarter in negative territory. Even though the market managed to post positive returns on the quarter, single positions showed significant volatility. Large technology companies like Veritas and Intel indicated that future earnings might subside due to recent expectations that capital expenditures on technology will soften in the later half of 2004—a sign that does not bode well for the technology sectors, much less the market as a whole.

Investment Implications

In this liquidity-driven, speculative recovery there is more room down than up. Virtually all fiscal and monetary stimulus options have already been exhausted. Earnings are at record levels and not expected to grow significantly; post-tax profitability of corporations is at a fifty-year high; monetary policy remains

accommodative; and almost every positive economic factor has already been priced into the market with little room left on the upside. The potential, however, for downside movements in the market remains plentiful—among them, geopolitical risk, high energy costs, and anticipated fiscal tightening by the Federal Reserve.

The downside economic risks and the already inflated valuation of companies limit the long-term potential for high returns in the equity markets.<sup>8</sup> If the current state of uncertainty persists, the US could very well find itself in a situation much like the period between 1966 and 1982 when the markets traded flat. During that period, an investor who bought and held today's equivalent of an indexed fund would have experienced *no* price appreciation for 16 years.<sup>9</sup> Without a positive exogenous shock—either in the form of an innovative technology, the opening of closed markets, a fall in the price of oil, or some resolution to geopolitical risk—it seems unlikely that the extraordinary long-term returns generated by riding the markets from 1982 to 2000 will be revisited in the near future.

There remain, however, both short- and long-term gains to be made in the markets. For example, we do expect (or, at least, hope for) a "snap back" rally in the equity markets upon the resolution of two uncertainties in the coming months: (1) when the Fed completes its rate raising cycle; and (2) when the next President (from either Party) is selected. Absent Fed ambivalence and absent "hanging chads," the equity markets will likely rally on any move toward certainty. Moreover, regardless of whether we experience a "second-half of an election year rally," our best managers will have opportunities to buy undervalued assets and to sell short overvalued assets. We will continue to hope for the best and, at the same time, prepare for the worst—positioning our portfolios to capture 75 percent of the upside and 25 percent of the downside.

#### Portfolio Developments

During the second quarter, the Funds performed below our targeted annualized returns, but accomplished our number one priority of preserving capital during adverse market conditions. Traditional hedge fund strategies were difficult to

<sup>8</sup> The ratio of the total market capitalization of the equity markets divided by Gross National Product (GNP), which would be analogous to analyzing the price to sales ratio of a single corporation, provides an interesting point of reference. The ratio currently stands at approximately 1.35. The historical average is 0.61, meaning that in order for the current ratio to revert to historical norms, either GNP would have to more than double or prices would need to decline by more than half. This is not to say that based on this statistic alone we are destined for a 50 percent decline in the markets; however, the ratio does cause one to question how long the market will be able to maintain current prices given that earnings and profitability may have already peaked.

<sup>9</sup> For example, the Dow Jones Industrial Average reached a high of 995 in 1966 and did not break 1000 until 1982. This period contrasts dramatically with the period from 1982 to 2000 when the Dow appreciated more than eleven fold, rising from 1000 to over 11,700.

execute throughout the quarter because of the unwinding of the "carry trade" and the lack of direction and volatility in the equity markets.<sup>10</sup> When the Fed moved to raise short-term rates, the spread between the short-end and the long-end of the yield curve narrowed, squeezing the returns out of fixed income arbitrage managers. The lack of volatility in the options market created a particularly difficult landscape for convertible arbitrage portfolios— the net effect of which was a flat to down quarter for most hedge funds and fund of funds ("FOF"). For example, the HFRI FOF Conservative Index and the S&P Hedge Fund Index were up 15 and down 48 basis points, respectively, for the quarter.

Foreseeing the potential risks to traditional strategies, our portfolio team allocated away from longer-term arbitrage strategies and added to less liquid asset-backed managers in addition to short-term traders that are able to capitalize on choppy, range bound movements in the markets. Ultimately, the larger allocation to these strategies, coupled with a large cash position across the Funds, provided ballast for the portfolios during the rough waters of the past three months.

Implications on Sterling Stamos Investment Strategies

**Security Funds:** Given this difficult environment, the Security Fund performed as expected by capturing a portion of the limited upside, and most important, protecting capital against the downside. The largest contributors to the portfolio came from the asset-backed managers who rely on a basket of over-collateralized loans to consistently generate income regardless of market conditions. Highly liquid managers, operating in relative value strategies such as options arbitrage, fixed income arbitrage, and equity market neutral, performed well by capitalizing on short-term intra-quarter trends. Our equity hedged and global macro managers avoided much of the downside, but were unable to capture the upside in the equity markets during the final weeks of the quarter. Managers limited their long exposure to the equity markets after the dramatic selloff in mid-May—providing insurance against additional losses, but also limiting some of the upside when the market rallied back through the end of July.

**Capital Appreciation Funds:** Our Levered Fund accomplished its goal of providing consistent annual returns with a positive performance for the quarter. May was a difficult month for the Fund. One of our capital structure arbitrage managers had a particularly tough month due to his large position in Calpine, which suffered from a

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<sup>10</sup> The "carry trade" involves borrowing inexpensive short-term money to lend at higher rates further down the yield curve (or to borrow inexpensive short-term money to purchase longer-term assets that will presumably yield higher returns). Other managers take advantage of volatility in the markets by either profiting from temporary price discrepancies or selling expensive volatility through various hedging strategies.



material selloff when investors feared that the company might be unable to meet its future debt obligations. As expected, both the manager and the position rallied back in June, contributing to a positive June performance for the Fund.

The Capital Growth Funds posted positive results but were unable to capture a significant portion of the upside in the equity markets. Managers struggled to find consistency in price movements both on the long and short side of their portfolios. Despite a somewhat disappointing performance this last quarter, we remain confident that our long/short equity managers will benefit from the discontinuities in value created over this past period and are well positioned for the remainder of the year.

#### **Organizational Developments**

Our much anticipated name change from SP Capital to Sterling Stamos is now official. We are enthusiastic about our new corporate identity and logo, which we hope better reflects our long-term partnership and shared values with our Sterling partners and the Sterling family of companies.

#### **Existing and New Funds**

**Liquidity Fund:** We are happy to announce the successful launch of our Liquidity Fund. The Fund will provide investors a higher yielding alternative to cash with monthly liquidity. We expect the Fund to achieve annual returns of approximately 2 to 4 percent above the risk free rate.

**Levered Fund:** As expected, excess demand and limited capacity has forced us to close the Levered Fund to new investors. As indicated in our previous letter, we will make every effort to create more capacity for our limited partners. A waiting list for new capacity in this fund is in place, and, as always, first priority will be given to our existing limited partners. In addition, we plan to launch a domestic levered fund in the coming months.

**Acceleration Fund:** On October 1, 2004, we will launch the Sterling Stamos Acceleration Fund. The Acceleration Fund will serve as an alternative to long-only equity and private equity investments. The Fund will invest in activist managers with remarkable historical success in employing aggressive strategies with higher returns and higher volatility. The launching of the Acceleration Fund will mark the completion of our objective to offer best-in-class alternatives across the publicly traded markets. Due to the scarcity of high quality managers in this space, capacity in the Fund will be limited and investments will be subject to a three-year lockup.

Again, our existing limited partners will be given first priority for scarce capacity in this fund.

Additional Staff

We are pleased to announce the addition of Rohit Kumar and Angella Rainford to the Sterling Stamos family. Rohit will lead our risk management team and be responsible for developing our proprietary risk models and monitoring the downside potential of the Funds. He brings with him over five years of experience working with and studying complex financial systems. Rohit is a graduate of the Indian Institute of Technology, Xavier Institute of Management, and the New York University, Leonard N. Stern School of Business, where he received the Financial Executives International Award as the school's top finance and accounting student.

Angella will serve as a member of the portfolio management team, assisting with fund manager due diligence and investment opportunity sourcing and monitoring. She received her BA in Government from Harvard College and an MPhil in Development Economics from the University of Cambridge, England. Her prior work experience includes management consulting with McKinsey & Company in both their New York and Atlanta offices.

\* \* \* \* \*

The summer months—as seems perennially the case—look to provide more doldrums than direction, more caution than conviction. Among our core objectives, we have sought again to emphasize *increased liquidity* and *low volatility* over *maximum return*. If you'll pardon the seafaring metaphor once again, when direction and conviction return, when confidence once again replaces uncertainty, we, too, will be prepared to sail onward and upward to higher returns.

As always, I encourage you to call with any questions or comments regarding the economy, markets, performance of our funds, investment opportunities, or any other matter related to Sterling Stamos. We appreciate your continued confidence and support. All of us at Sterling Stamos feel privileged to be your investment partner.

Best regards,

Peter S. Stamos  
Chief Executive Officer

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**FINANCIAL STATEMENTS**

**SP Capital Security Fund, L.P.**

**Year ended December 31, 2003  
with Report of Independent Auditors**

*SP Capital Security Fund, L.P. has filed a claim of exemption with the Commodity  
Futures Trading Commission pursuant to Section 4.7 of the Regulations.*

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SP Capital Security Fund, L.P.

Financial Statements

Year ended December 31, 2003

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## Report of Independent Auditors

To the Partners of  
SP Capital Security Fund, L.P.

We have audited the accompanying statement of financial condition of SP Capital Security Fund, L.P. (the "Partnership"), including the condensed schedule of investments, as of December 31, 2003, and the related statements of income and special allocation, changes in partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SP Capital Security Fund, L.P. at December 31, 2003, and the results of its operations, the changes in its partners' capital and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

June 18, 2004

SP Capital Security Fund, L.P.

Statement of Financial Condition

December 31, 2003

|  |                     |
|--|---------------------|
| <b>Assets</b>                                      |                     |
| Cash and cash equivalents                          | \$ 7,773,989        |
| Investments in limited partnerships, at fair value | 84,375,206          |
| Receivable from limited partnerships               | 4,044,222           |
| Receivable from investment manager                 | 22,695              |
| Other assets                                       | 44,608              |
| Total assets                                       | <u>\$96,260,720</u> |
| <b>Liabilities and partners' capital</b>           |                     |
| Capital contributions received in advance          | \$13,475,000        |
| Payable to withdrawing partners                    | 4,501,202           |
| Accrued expenses                                   | 84,499              |
| Total liabilities                                  | <u>18,060,701</u>   |
| Partners' capital                                  | <u>78,200,019</u>   |
| Total liabilities and partners' capital            | <u>\$96,260,720</u> |

*See notes to financial statements.*

SP Capital Security Fund, L.P.

Condensed Schedule of Investments

December 31, 2003

| Investments in Limited Partnerships, by strategy              | Fair Value           | Percentage of Partners' Capital | Net Income          | Management Fee   | Incentive Allocation | Liquidity     |
|---|----------------------|---------------------------------|---------------------|------------------|----------------------|---------------|
| Market Neutral:   |                      |                                 |                     |                  |                      |               |
| Ascot Partners, L.P.  | \$ 8,931,739         | 11.42%                          | \$ 931,739          | \$211,515        | \$ 399,988           | 1/3 Annually  |
| The Long Horizons Fund, L.P.                                  | 7,978,710            | 10.20                           | 678,710             | 84,800           | 226,238              | Quarterly     |
|   | 5,903,134            | 7.55                            | 560,565             | 44,625           | 152,745              | Quarterly     |
|   | 5,199,770            | 6.65                            | 351,540             | 63,245           | -                    | Annually      |
|   | 4,020,825            | 5.14                            | 233,203             | 26,146           | 58,301               | 3 Years       |
|   | 23,179,752           | 29.64                           | 2,093,088           | 169,914          | 470,064              | Various       |
|   | 55,213,930           | 70.60                           | 4,848,845           | 600,245          | 1,307,336            |               |
|   | 8,469,633            | 10.83                           | 219,633             | -                | 24,404               | Semi-annually |
|   | 5,895,089            | 7.54                            | 342,400             | 39,606           | 69,819               | Various       |
|   | 14,364,722           | 18.37                           | 562,033             | 39,606           | 94,223               |               |
|   | 9,514,005            | 12.17                           | 885,642             | 62,842           | 209,562              | Various       |
|   | 5,282,549            | 6.76                            | 282,548             | 43,211           | 78,941               | Various       |
| <b>Total Investments in Limited Partnerships, by strategy</b> | <b>\$ 84,375,206</b> | <b>107.90%</b>                  | <b>\$ 6,579,068</b> | <b>\$745,904</b> | <b>\$ 1,690,062</b>  |               |

See notes to financial statements.



SP Capital Security Fund, L.P.

Statement of Income and Special Allocation

Year ended December 31, 2003

|  |                  |                     |
|--|------------------|---------------------|
| <b>Realized and unrealized gain/(loss) from investments</b>                  |                  |                     |
| Net realized gain from investments in limited partnerships                   | \$ 57,657        |                     |
| Net realized loss from investments in securities                             | (95,106)         |                     |
| Net change in unrealized appreciation on investments in limited partnerships | 6,579,068        |                     |
| Net change in unrealized depreciation on securities positions                | <u>13,600</u>    |                     |
| Net gain from investments  |                  | \$ 6,555,219        |
| <b>Other income</b>  |                  |                     |
| Expenses reimbursed by investment manager                                    |                  | 33,339              |
| <b>Investment income</b>   |                  |                     |
| Interest   | 6,339            |                     |
| <b>Expenses</b>  |                  |                     |
| Management fee   | 557,850          |                     |
| Professional fees and other  | 199,175          |                     |
| Interest expense   | <u>18,200</u>    |                     |
| Total expenses   | <u>775,225</u>   |                     |
| Net investment loss  |                  | <u>(768,886)</u>    |
| Net income   |                  | <u>\$ 5,819,672</u> |
| <b>Allocation of net income</b>  |                  |                     |
| Special allocation to general partner  | \$ 278,711       |                     |
| Net income available for pro-rata allocation to all partners                 | <u>5,540,961</u> |                     |
| Net income   |                  | <u>\$ 5,819,672</u> |

*See notes to financial statements.*

SP Capital Security Fund, L.P.

Statement of Changes in Partners' Capital

Year ended December 31, 2003

|  | <b>General<br/>Partner</b> | <b>Limited<br/>Partners</b> | <b>Total</b>         |
|--|----------------------------|-----------------------------|----------------------|
| Partners' capital at beginning of year | \$ 1,913                   | \$ 14,767,601               | \$ 14,769,514        |
| Capital contributions                  | 200,000                    | 72,487,035                  | 72,687,035           |
| Capital withdrawals                    | -                          | (15,076,202)                | (15,076,202)         |
| Allocation of net income:              |                            |                             |                      |
| Pro rata allocation                    | 15,466                     | 5,525,495                   | 5,540,961            |
| Incentive (special) allocation         | 278,711                    | -                           | 278,711              |
| Net income                             | 294,177                    | 5,525,495                   | 5,819,672            |
| Partners' capital at end of year       | <u>\$ 496,090</u>          | <u>\$ 77,703,929</u>        | <u>\$ 78,200,019</u> |

*See notes to financial statements.*

SP Capital Security Fund, L.P.

Statement of Cash Flows

Year ended December 31, 2003

|   |                     |
|---|---------------------|
| <b>Cash flows from operating activities</b>   |                     |
| Net income  | \$ 5,819,672        |
| Adjustments to reconcile net income to net cash<br>used in operating activities:            |                     |
| Increase in investments in limited partnerships   | (71,263,754)        |
| Increase in receivable from limited partnerships  | (3,996,380)         |
| Decrease in prepaid investment in limited partnership                                       | 2,000,000           |
| Decrease in investments in securities   | 228,240             |
| Decrease in receivable from investment manager  | 18,516              |
| Decrease in other assets  | 16,102              |
| Increase in accrued expenses  | 1,360               |
| Net cash used in operating activities   | <u>(67,176,244)</u> |
| <b>Cash flows from financing activities</b>   |                     |
| Proceeds from capital contributions, including capital contributions<br>received in advance | 81,387,035          |
| Distributions for capital withdrawals   | <u>(10,575,000)</u> |
| Net cash provided by financing activities   | <u>70,812,035</u>   |
| Net increase in cash and cash equivalents   | 3,635,791           |
| Cash and cash equivalents at beginning of year  | <u>4,138,198</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 7,773,989</u> |

*See notes to financial statements.*

# SP Capital Security Fund, L.P.

## Notes to Financial Statements

December 31, 2003

### 1. Organization

SP Capital Security Fund, L.P. (the "Partnership"), a Delaware limited partnership, was formed on June 1, 2002 and commenced operations on July 1, 2002. SSP Associates GP, LLC (the "General Partner"), a Delaware limited liability company, is responsible for the investment decisions of the Partnership. Stamos Partners Capital Management, LP (the "Management Company") provides certain management and administrative services to the Partnership.

Pursuant to an agreement effective October 31, 2003, the general partner of the Partnership changed from Stamos Partners Associates, LLC to SSP Associates GP, LLC.

Effective December 31, 2003, Stamos Partners Associates, LLC withdrew its registration with the Commodity Futures Trading Commission under Rule 4.13 of the Regulations.

The investment objective of the Partnership is to preserve capital and increase wealth by achieving long-term absolute returns. The Partnership seeks to accomplish its objective by allocating substantially all of its assets among a select group of portfolio managers ("Portfolio Managers") that invest through investment funds or managed accounts.

### 2. Significant Accounting Policies

In accordance with the partnership agreement (the "Agreement"), the General Partner values the Partnership's investments in limited partnerships at fair value, which is an amount equal to the sum of the capital accounts in the limited partnerships generally determined from financial information provided by the investment managers of the limited partnerships. The resulting net gains or losses are reflected in the statement of income and special allocation.

Securities transactions are recorded on a trade date basis. Securities owned are carried at market value based on the last sales price on the last day of trading of the year. The resulting unrealized gains and losses on securities are reflected in the statement of income and special allocation.

Interest income is recorded on the accrual basis.

No Federal, state or local income taxes have been provided on the profits or losses of the Partnership since the partners are individually liable for the taxes on their share of the Partnership's taxable income or loss.

SP Capital Security Fund, L.P.

Notes to Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from those estimates.

The fair value of the Partnership's assets and liabilities that qualify as financial instruments under Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," approximates the carrying amounts presented in the statement of financial condition.

Cash and cash equivalents include short-term liquid investments that mature within 90 days. At December 31, 2003, cash equivalents of \$188,704 consist of monies deposited in money market funds.

Receivable from limited partnerships on the statement of financial condition represents amounts due for capital withdrawals in limited partnerships.

The Partnership enters into contracts that contain a variety of indemnifications. The Partnership's maximum exposure under these arrangements is unknown. However, the Partnership has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**3. Investments in Limited Partnerships**

As of December 31, 2003, the Partnership had investments in 30 limited partnerships, one of which was a related party. At December 31, 2003, the investments in limited partnerships were valued at their net asset value in the amount of \$84,375,206, which resulted in a net gain from investments in limited partnerships for the year ended December 31, 2003 of \$6,555,219.

SP Capital Security Fund, L.P.

Notes to Financial Statements (continued)

**3. Investments in Limited Partnerships (continued)**

The valuation of the investments in the limited partnerships represents the amount the Partnership would receive at December 31, 2003 if it were to liquidate its investments in the limited partnerships. The Partnership has the ability to liquidate its investments according to the provisions of the respective limited partnerships agreements. The limited partnerships may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures contracts, forward contracts, swap contracts, other derivatives and other financial instruments and commodities.

Management of the investee limited partnerships receive an annual management fee ranging from 0.0% to 3.0% of the Partnership's investment in the respective limited partnership. Management of the investee limited partnerships also receive performance incentive fees/allocations ranging from 0% to 30% of the Partnership's net profit, subject to hurdle rates and carry-forward provisions, as defined by the respective limited partnership agreements.

The Partnership's investments utilize a variety of financial instruments in their trading strategies that contain varying degrees of off-balance sheet risk. However, due to the nature of the Partnership's capital interests in the limited partnerships, such risks are limited to the Partnership's capital balance in each limited partnership.

**4. Allocation of Net Income or Loss**

In accordance with the provisions of the Agreement, net income or loss of the Partnership is allocated to the partners in proportion to their respective capital accounts as of the beginning of each fiscal period.

Gains and losses from "hot issues," as defined by the Amended Rules of the National Association of Securities Dealers, Inc. ("NASD") are allocated only to those partners who are eligible to participate in such gains and losses.

## SP Capital Security Fund, L.P.

### Notes to Financial Statements (continued)

#### 4. Allocation of Net Income or Loss (continued)

The General Partner is also entitled to an annual incentive allocation equal to 5% of the net profits allocated to a limited partner's capital account provided that the incentive allocation shall only be made to the extent that it does not cause the value of such limited partner's capital as of the end of the fiscal year to fall below the threshold amount and there is no unrecovered balance remaining in such limited partner's loss recovery account. The threshold amount is the value that a limited partner's capital account would reach at fiscal year end if such capital account achieved an annualized rate of return during such fiscal year equal to 5% as adjusted for capital contributions and withdrawals. For the year ended December 31, 2003, the General Partner's incentive allocation was \$278,711.

#### 5. Related Party Transactions

Pursuant to the Agreement, in consideration of the Management Company's undertaking to bear certain operating expenses of the Partnership, the Management Company receives a management fee equal to 1% per annum (0.25% per quarter) of limited partner capital, as defined, as of the beginning of each quarter, adjusted for contributions or withdrawals made during the quarter. The General Partner may, in its sole discretion, waive or reduce the management fee for certain limited partners. For the year ended December 31, 2003, the management fee was \$557,850.

The Management Company reimburses the Partnership for certain non-investment related operational and administrative expenses of the Partnership which exceed 0.10% monthly (1.2% annualized) of (i) each limited partner's beginning capital account for such month and (ii) a pro rata portion of any additional capital contributions made by a limited partner during the month, based on the actual number of days remaining in such partial month. For the year ended December 31, 2003, the Management Company reimbursed the Partnership \$33,339 for such expenses, of which \$22,695 was receivable at December 31, 2003, and is reflected in the statement of income and special allocation and the statement of financial condition, respectively.

The Partnership has an investment in SP Capital Growth Fund, L.P., a related investment fund, managed by the General Partner. At December 31, 2003, the Partnership had a balance of \$8,469,633 in SP Capital Growth Fund, L.P. For the year ended December 31, 2003, related to its investment in SP Capital Growth Fund, L.P., the Partnership was charged an incentive of \$24,404 and was not charged a management fee.

SP Capital Security Fund, L.P.

Notes to Financial Statements (continued)

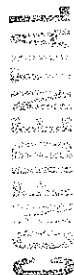
**5. Related Party Transactions (continued)**

At December 31, 2003, individuals related to the General Partner have approximately \$23,000,000 invested in the Partnership on the same terms and conditions as outlined in the Agreement.

**6. Financial Highlights**

The following represents the ratios to average limited partners' capital and total return information for the year ended December 31, 2003:

|  |  |
|--|--|
| Ratios to average limited partners' capital:             |  |
| Total expenses, excluding incentive (special) allocation |  |
| Incentive (special) allocation                           |  |
| Total expenses and incentive (special) allocation        |  |
| Net investment loss                                      |  |
| Total return before incentive (special) allocation       |  |
| Incentive (special) allocation                           |  |
| Total return   |  |



The financial highlights are calculated for all limited partners taken as a whole. An individual limited partner's ratios and return may vary from the above based on different management fee arrangements (as applicable), allocation of "hot issue" profits and losses and the timing of capital transactions.

**7. Subsequent Events**

Effective January 1 through May 1, 2004, limited partners contributed capital of \$101,665,260, of which \$13,475,000 was received prior to January 1, 2004. In addition, limited partners withdrew \$26,973,902, of which \$4,501,202 was payable at December 31, 2003. Of the amount withdrawn by limited partners, \$9,661,889 was contributed to SP Capital Security (Levered) Fund, Ltd., an investment fund also managed by the Management Company with a similar investment strategy, of which \$3,161,889 was included in the payable to withdrawing partners at December 31, 2003.



SP

CAPITAL MANAGEMENT, LP

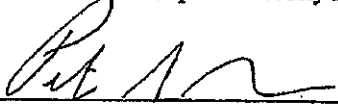
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**AFFIRMATION OF THE COMMODITY POOL OPERATOR**

To the best of the knowledge and belief of the undersigned, the information contained in this unaudited Annual Report of SP Capital Security Fund, L.P. for the year ended December 31, 2003 is accurate and complete.

SSP Associates GP, LLC  
General Partner of SP Capital Security Fund, L.P.

By: \_\_\_\_\_

  
Peter S. Stamos  
Managing Member of the General Partner

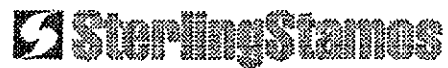
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575 FIFTH AVENUE, 40TH FLOOR  
NEW YORK, NY 10017  
TELEPHONE 212.485.4370  
FACSIMILE 212.485.4371  
info@sp-capm.com

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This document is for discussion purposes only and does not constitute an offer to sell, or a solicitation of an offer to purchase an interest in the Sterling Stamos Security Fund, L.P. (the "Partnership"). No such offer or solicitation will be made prior to the delivery of a definitive offering memorandum and other materials relating to the matters herein. Before making an investment decision with respect to the Partnership, potential investors are advised to read carefully the offering memorandum, the limited partnership agreement, and the related subscription documents, and to consult with their tax, legal and financial advisors.

This document does not purport to be complete and is qualified in its entirety by reference to the more detailed discussion contained in the confidential offering memorandum and the limited partnership agreement.

All performance information in this document is based on information provided by underlying Portfolio Managers, and all 2004 information is based on estimates provided by the underlying Portfolio Managers. No representation or warranty is given as to the accuracy or completeness of the performance information contained in this document.

As described in the confidential memorandum, the General Partner's management fee is 1% of assets, charged quarterly, and the incentive fee is 5% of net profits, charged annually, subject to a loss carry-forward provision, and provided that the annual net return is in excess of the 5% threshold rate of return respectively. The Partnership also bears the pro rata cost of the management and incentive fees charged by the underlying Portfolio Managers in the Partnership.

As further described in the confidential memorandum, an investment in the Partnership is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include: loss of a substantial portion of the capital invested due to leveraging, short-selling or other speculative investment practices; lack of liquidity in that there may be no secondary market for the Partnership and none expected to develop; volatility of returns; restrictions on transferring interests in the Partnership; absence of information regarding valuations and pricing; delays in tax reporting; less regulation than mutual funds; and advisor risk. No guarantee or representation is given that the Partnership will achieve its stated investment objectives.

This document is being provided to you on a confidential basis solely to assist you in deciding whether or not to proceed with a further investigation of an investment in Sterling Stamos. Accordingly, this document may not be reproduced in whole or in part, and may not be delivered to any person without prior written consent of Sterling Stamos.

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