

# Dexia Alpha Dynamic Fund

Performance Update

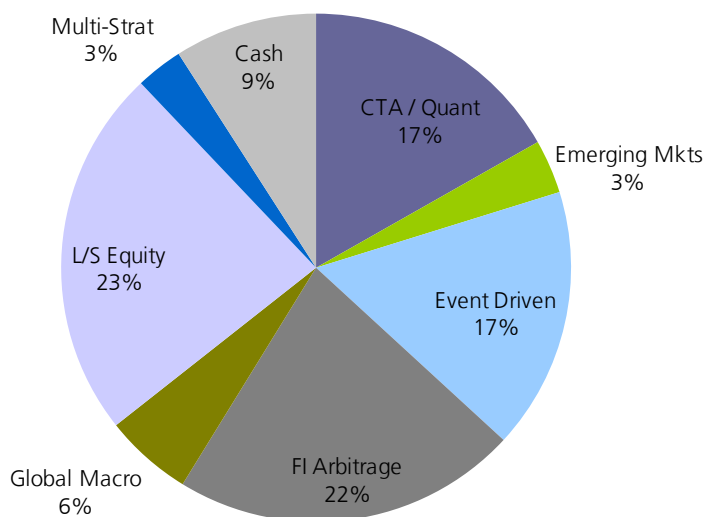
December 2011

## Market Review

The year that's ended has confirmed that the recovery will be slower and more irregular than desired due to the weakness in advanced economies. In emerging economies, on the other hand, activity has slowed but does not exhibit the same degree of deterioration as noted in developed economies. The overall weak trend will continue into 2012.

A promising development has been some stabilization in European bond markets, since the European Central Bank's (ECB) initiatives in December. These changes included the decision to provide term loans of up to three years to banks at low interest rates. The access to these funds has provided support to the banking system, with some positive spill-over support to sovereign bond markets. Also positive has been the surprising resilience of the US economy, with signs of late that the recovery might be broadening with the improvement in unemployment and housing indicators. The recent moderation in Chinese inflation has also been helpful, providing the authorities with some flexibility to support growth in 2012.

## Strategy Allocation



## Performance

	Net %	Gross %	Index* %
1 Month	-0.02	0.08	0.40
3 Months	0.96	1.24	1.22
6 Months	-0.90	-0.30	2.47
CYTD	2.62	4.20	5.00
Since inception (29 Oct 2010)	4.48	6.22	5.00

\*UBSA Bank Bill Index \*\*29th October 2010

## Strategy Contribution

Strategy	Month %	CYTD %
Quant/CTAs	0.09	1.83
FoHFs	Not held	0.17
Emerging Markets	0.01	-0.18
Event Driven / Special Situations	-0.13	-2.32
Fixed Income Arbitrage	-0.03	1.36
Global Macro	-0.03	0.13
Long/Short Equity	-0.16	-1.29
Multi-Strategy	0.01	-0.30

## Top 5 Contributors to Performance\*

Fund	Strategy	Contribution %
Barrington Offshore	Short Bias	0.17
Pershing Square International	Special Situations	0.11
DE Shaw Oculus	Managed Futures	0.06
JAT Capital	Long/Short	0.05
Prologue Feeder	FI Arbitrage	0.05

\* Data based on the underlying Fund

## Top 5 Detractors to Performance\*

Fund	Strategy	Contribution %
Artis Technology – Lvqd	Long/Short	-0.11
Capula Tail Risk	FI Arbitrage	-0.05
Visium Balanced Offshore	Long/Short	-0.04
Drawbridge Global Macro	Global Macro	-0.04
Brevan Howard	FI Arbitrage	-0.03

\* Data based on the underlying Fund

Asset Management

**DEXIA**

# Dexia Alpha Dynamic Fund

## Strategy Highlights and Outlook

December 2011

### 2011 in Review

What did we get right in 2011?

- The Cash bucket was increased from approximately 2% to around 10% following the Fukushima disaster on the back of its potential impact on global growth and concerns surrounding European sovereign risk.
- The Fundamental bucket was sold down (Long/Short + Event Driven + Emerging Markets + Multi-Strategy) from 58% to 41%. On the flip side we increased the allocation to our Tail Risk bucket from 2.7% to 6%.
- We went overweight US L/S Equity vs. European L/S Equity.
- The Quantitative, Fixed Income, Relative Value and Global Macro buckets remained almost unchanged throughout the year which resulted in a significant positive contribution to performance.
- The allocation to Emerging Markets was minimised given the high correlation to risky assets.
- The focus on de-correlation with risky assets paid off and was reflected in asset allocation, fund selection and resilience in down markets.
- 12 month volatility (as a measure of how we managed the risk of the portfolio), was realised at around 2.70%, below the volatility of the bond market (3% for JPMorgan Global bond Index €hedged) and significantly lower than that of equities (22% for S&P500 and 29% for DJ Stoxx).

What could we have done better in 2011?

- Reduce our Event Driven bucket more aggressively taking into account the discrepancy between the strategy time horizon and the increasingly volatile environment driven by the lack of fundamental behaviour. Event Driven funds were strongly penalised by both their long bias and their long Financials positions.
- Decrease our Long /Short and Event Driven European managers (although the Fund remained relatively unscathed thanks to their low net).

Despite not being a satisfactory return in absolute returns, a gross return of 4.20% does not perhaps adequately reflect the tremendous amount of work undertaken in order to avoid unwanted correlation, the selection of alpha generating managers and the redemptions undertaken from good Fundamental managers that were negatively impacted by a challenging environment dominated by macro thematic.

In this highly volatile and correlated market the Dexia Alpha Dynamic Fund has shown strong resilience whilst capturing substantial upside over the first half of the year.

### Strategy and Outlook

Our view regarding the outlook for the first half of 2012 is as follows:

- We remain very cautious in the face of persistent uncertainties at the macro level and defiance at the investor level.
- The ECB's actions, however, do offer some relief to the European financial system.
- The situation looks more favourable in the US despite a possible slowdown in Emerging economies.
- Over Q1 2012, and despite their respective recent drops, volatility and correlation could remain strong as political decisions at the EU level are likely to have binary impacts on global markets.

As a consequence, the strategies in our portfolio tend to have a more neutral bias. These strategies essentially belong to the following categories:

- Fixed Income Arbitrage: we see the current environment to continue to be positive for these managers. Our managers currently run lighter exposures in the face of the political agenda in Europe.
- Quant strategies: the inefficiencies created by the large mutual fund driven flows between markets are lucrative investment opportunities for our managers. In addition, the "flight to quality" driven moves are also exploited by our Trend Followers.
- Global Macro: our managers should be able to derive profits from the same investment themes developed over 2011, more specifically in the IR, currencies, gold and commodities spaces.

Similarly the managers in our portfolio at present feature a low level of gross and net exposures and a limited level of VaR usage.

By contrast, we maintain a reduced allocation to:

- Strategies that are active on less liquid securities (Distressed Credit, less liquid stocks, etc) and more specifically, within Event Driven space.
- Long biased strategies (again, more specifically within the Event Driven bucket), and
- Emerging Market strategies: EMs are typically characterised by violent market swings and liquidity squeezes in phases of market stress.

In conclusion, our mandate is to maintain a balanced portfolio and use a diversified set of uncorrelated performance drivers and not be tempted to add beta in anticipation of a possible market rally.