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MONTHLY UPDATE

Trident Investment Management, LLC
Opportunities Funds Commentary

April 30, 2007

Performance Summary

Equity markets had another impressive month in April. The S&P 500 Index was up 4.43%, the MSCI Europe Index was up 3.68% and the Nikkei was up 0.65%. Bonds were relatively quiet on the month with the 10-year U.S. Treasury note declining in yield by 0.02% to end at 4.62%. The U.S. dollar weakened against most currencies on the month with the dollar down 1.79%. Credit spreads tightened with the riskiest credits coming in substantially. The BBB asset-backed credit index rallied as much as 5% in April. Oil declined on the month, with WTI crude down 2.61%. Gold rallied 2.17% to end at $683.5 an ounce (all figures in U.S. dollars).

Market Outlook & Portfolio Strategy

"It was the best of times, it was the worst of times…" This opening from Charles Dickens' A Tale of Two Cities is among the most famous lines in English literature. It could be used to characterize global economic conditions today. It truly is the best of times in many countries and especially for the wealthy in these countries. It is also the worst of times for a large swathe of the world's population, and especially for many that are economically disadvantaged to begin with. Investing today is inherently bipolar – one has to allow for two rather different, yet simultaneously active trends.

On the optimistic side, there is no doubt that global growth is very strong. The Chinese economy has been an especially powerful locomotive of late and has successfully resisted any attempts made by policymakers to rein it in. The strong exports from China and the rest of the developing world have depressed wages worldwide, resulting in very low inflation particularly in sectors of the economy that involve tradeable goods. Even though commodity prices have been rising, competitive dynamics have precluded any significant pass-through of price rises to finished products. Remarkably, however, even with the loss of jobs from the developed world due to outsourcing, unemployment rates, even in those countries are at unprecedented lows. The off-shoring of jobs has also meant a dramatic rise in corporate profits with profit margins now at record levels. With so much good news, global equity markets have been skyrocketing with takeover activity spurring them on as private equity firms scramble to purchase "undervalued" publicly listed assets. Low inflation has meant ebullient bond markets, which in turn has led to buoyant real estate markets.

The good news in the world is not mirrored everywhere. Japan, the world's second largest economy is still unable to mount a self-sustaining recovery and put deflation at bay once and for all. Consumption growth in Japan remains anemic as does business expenditure. Most risky sectors in the Japanese market such as the JASDAQ (small capitalization) stock index have been terrible performers for over a year and numerous domestic (non export) stock market sectors are in the doldrums as well. The Bank of Japan is unwilling to raise rates aggressively with this backdrop. Another source of global concern is the U.S. economy which appears to be reaching stall speed. The manufacturing sectors in the U.S. have been suffering for the last several years thanks to import competition. Capital investment, post the NASDAQ bubble still remains low despite record corporate profitability. The major area of growth for the last several years has been consumer spending, largely driven in turn by the housing market whose extraordinary gains over the last few years have allowed consumers a refinancing bonanza. Today, conditions suggest that housing has become a drag on the economy with the consumer over-extended on debt and unable to use the refinancing option because of falling home prices. Thus, despite the fact that U.S. economic conditions are still robust, we are seeing distress in most manufacturing areas as well as in the housing market overall. In sub-prime housing particularly, foreclosure rates and delinquencies are at recessionary levels already.

Even in countries where the domestic economy has been buoyant and most sectors have participated, the impact has varied dramatically across economic classes. The wealthiest sectors of the population have benefited disproportionately from the recent conditions with the middle class and the poor suffering a major relative, and in some cases absolute deterioration in their living standards. And this is not surprising. A world without borders with

large pools of under-employed and/or underpaid labour encourages companies to arbitrage wage differentials across countries boosting profit margins while creating unemployment in higher-wage operating regions. Moreover, with free trade and increased global integration, several sheltered industries in the developing world have come under significant pressure from competition resulting in the need for wrenching changes that typically tend to be labour unfriendly in the short term. In fact, global integration has allowed for the arbitrage of not just wage differentials but also political systems – totalitarian regimes that permit little in the way of labour rights and effectively have lower wage costs, tend to win out relative to democratic systems with labour protections. The near-term effect of all this has been a marginalization of a large pool of global labour. Many of the workers displaced in our new world may never get a comparable job again.

The quandary that the current environment creates for the investor is that it inherently has all the ingredients necessary to support virtually any view one might have on markets. Very strong global growth is highly inflationary when placed into a backdrop of soaring commodity and especially oil prices. However, if such inflation is absorbed by profit margins or by the workers without a pass-through into final prices, there is every chance that inflation as measured could be very low. This in turn, creates ambiguities for policymakers and in turn for markets. There is equal ambiguity when it comes to the sustainability of such growth. The displacement of workers by global outsourcing both creates and destroys jobs. While lower prices created by such outsourcing should ultimately improve the standards of living for the world, these are the longer-term effects. The short-term effect is to depress growth and consumption in the affected areas, possibly creating deflation. The economic conditions also increase the political uncertainty. A reduction in living standards in the short-run for enough people could lead to political changes in democratic societies possibly changing the economics of globalization dramatically. The competition for scarce resources such as energy has meant a more challenging international landscape also, as countries' economic priorities dictate what can often be a provocative international agenda.

The economic realities of today's world, especially where it comes to job losses and outsourcing, have been dealt with very differently by the affected countries in the developed world. In Europe, the move to the 35 hour work week in France and the still stringent laws regarding labour shedding in much of core Europe reflect a political desire to socialize the inevitable job loss that globalization entails. While these policies have depressed profit margins and may affect the longer-term attractiveness of investments in the region, they nevertheless serve to deal with the reality of ultimate job loss. In the U.S., U.K. and Australia, policymakers have reacted with hyper-easy monetary policies that have caused a dramatic increase in domestic leverage. This leverage has fuelled a domestic real-estate boom which in turn has served as the main locomotive for employment. These policies however, further erode the manufacturing sector's competitiveness because it is now faced both with lower international wages and higher domestic wages for workers in the non-traded goods sectors. They create an illusion of prosperity near-term, but inevitably serve to mask the underlying issue which is that of longer-term loss of competitiveness and jobs.

There are three possible scenarios for the world economy going forward. The first, which is the one most favoured by markets, is that where the status quo is maintained. That is, low inflation persists along with strong growth. Any hiccups to growth are met by a wave of monetary easing permitting an indefinite continuation of the current benign market environment. The second would be the inflationary outcome. In this situation, inflation picks up due to high commodity prices and then due to higher wages with a lag. Central banks here would be forced to raise rates but depending on the aggressiveness of policy, we could either have inflationary growth or a stagflation where growth slows but inflation remains high. With strong growth inflation would be an acceptable tradeoff, but weak growth would be a throwback to the late 1970s. The final and least palatable outcome for markets would be that of a deflationary bust. Here, growth slows dramatically with declining inflation. The high levels of global debt then would become progressively un-payable and will require an extended period of pain. The analogy of Japan in the 1990s comes to mind here, as does the even more painful period of the Great Depression.

We believe strongly that the status quo (the first scenario above) cannot be maintained much longer. In particular, much of the debt assumed by consumers especially in the U.S. was related to housing. There is no doubt that the housing market is in a free fall over much of the U.S. The supposed stabilization of the sub-prime arena is not borne out by fundamentals at all. If anything, we are seeing a continued deterioration of the housing environment

suggesting that the housing bust is intensifying. A more likely outcome therefore would be one of inflation, where the U.S. slows with a weaker dollar, but the rest of the world continues to power ahead.

The outcome of the deflationary bust is almost too awful to contemplate. Slow growth and high debt with global deflation will wreak havoc on the world's financial system. This in turn will create a major credit crunch which will in turn lead to even weaker growth thus putting the world into a vicious downward spiral. Unchecked, this would probably lead to new Great Depression. This scenario is of low probability since it will be the one that is most strongly resisted by policymakers.

An inflationary outcome, we feel is the most likely, but the question that comes up is whether this will occur with growth staying strong or weakening dramatically. Inflation with strong growth is palatable to policymakers but we believe that it will be difficult to achieve. For this to happen, in the face of a weakening U.S. consumer, we would need the rest of the world to pick up from current levels. This is highly unlikely because most countries outside the U.S. are already growing well above trend. China's growth has reached levels where the authorities are concerned and need to be. Europe's growth and inflation have consistently been surprising on the upside. Most emerging markets are growing at rates that in the past typically meant high inflation. The only major global economy whose domestic growth is substantially below trend and where inflation is not a problem is Japan. Thus, a view that we could have strong growth with higher inflation would rest to a significant degree on the ability of Japan to shrug of U.S. weakness and move to an extended period of strong growth. Were inflation to continue and Japan along with the rest of the world to slow, we will enter a period of stagflation. This might well be the most likely outcome. Given that deflationary issues that have plagued Japan over the last fifteen years, however, it is very clear that the country should benefit under any inflationary outcome for the world. In fact, rising Japanese inflation would allow for a normalization of the country's credit cycle and permit bank lending to grow – all essential ingredients for a self-sustaining recovery.

We believe in the resurgence of Japan and have continued with our long bets in Japanese stocks and, to a lesser degree, in the yen to reflect that view, despite the fact that our positions have hurt us considerably of late. The Japanese stock market is among the worst performers over the last year and the country's currency is at 21-year lows in trade-weighted terms. Our long equity positions in Japan are largely in domestically oriented Japanese sectors, especially since the stocks in these sectors have suffered along with poor sentiment in the consumer space. Japanese banks and consumer companies trade at valuations that are not reflective of the underlying strength of their domestic franchises. Japanese domestic companies have the benefit of virtually non-leveraged consumers, an aging demographic profile where their consumers are entering their spending period and finally what appears so far to be a gradual end to deflation that should boost their top lines. Remarkably, most of these companies are also in excellent financial shape with little to no debt and operations that have been forced to become efficient after fifteen years of deflation. Again, the Japanese yen is something of a mystery since at current levels it allows the country's exporters to profit handsomely at the expense of their global competition, and this too when they are in much better financial shape. In any benign resolution of the world's economic problems of today, Japan is going to play a critical role and a sustainable revaluation of Japanese equities is in the cards. A longer-term bull market in the yen is also likely though it is currently being resisted strongly by Japanese policymakers.

We continue to maintain our large shorts in U.S. credit and financials. In all scenarios except a continuation of the status quo, they should profit handsomely. There is no doubt now that a bust is already in progress in U.S. housing. The spring "selling season" is proving to be more the spring "listing season" – home sales continue to be well below expectations even as builders deliver more homes into inventory than are being sold. Amazingly, markets believe that the U.S. housing bubble's problems will be confined to the sub-prime sector. By this logic, a fire in a high-rise is not worrisome if it is in the basement! This view is parroted by Wall Street, which has invested heavily in the toxic waste of housing and is desperately attempting to lay off its risk onto the public before reality sinks in. To this end, analysts are failing to raise issues about what can only be described as highly manipulated first quarter earnings from the financial institutions. Many of the housing lenders announced credit losses that were substantially above expectations but "beat earnings estimates" by dramatically reducing their credit provisioning because they confidently predicted that their reserves would prove "adequate". The mortgage insurers also had shockingly lower

earnings. Instead of questioning their dismal results, analysts seem willing to accept the companies' rosy predictions about the future. In fact, in the post-earnings conference call for MGIC, which missed earnings estimates by over 40%, an "analyst" worshipfully asked the management of the company to advise him on their prospects since they knew their business best! This would be tantamount to asking Governor Jon Corzine of New Jersey about the risk of not wearing a seat-belt prior to his crash – there is no doubt he knew his personal car-riding experience best.

The last few weeks have been very painful for our funds since we have given back much of our performance from February. This has been in large part because markets have decided that the problems in the sub-prime arena will not matter. In turn, this has led to a major rally in credit, in financials and even in most sub-prime lenders and a sell-off in the yen as the "carry trades" of borrowing in yen to invest in higher yield instruments have resumed. We have retained our short positioning despite our recent reversals since reality on the ground in housing is proving be as difficult as we had anticipated. We expect a dramatic adjustment in markets when the longevity of the U.S. real-estate problem becomes apparent. In sum, we believe a huge gulf has opened up between perception and reality and in that we smell opportunity.

Performance Summary

Trident Global Opportunities Fund

Performance as at April 30, 2007

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-4.6%	1.9%	4.5%	-9.1%	2.4%	0.9%	2.3%	1.9%	3.0%

CI Global Opportunities Fund

Performance as at April 30, 2007

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-4.3%	5.5%	4.7%	-10.5%	1.2%	1.1%	-0.7%	4.3%	15.5%

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