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MONTHLY UPDATE

Trident Investment Management, LLC
Opportunities Funds Commentary

May 31, 2007

Performance Summary

Equity markets continued their move up in May. The S&P Index was up 3.49%, the MSCI Europe Index was up 2.75% and the Nikkei was up 2.73%. Bonds started to sell off with the 10-year Treasury yield rising 0.27% to end the month at 4.89%. Oil fell 4.76%% to end the month at $64 US a barrel. The U.S. dollar strengthened against most of its trading partners, appreciating 1.05% on the month (all figures in U.S. dollars).

Market Outlook & Portfolio Strategy

The recovery in both equity and credit markets from their February lows, was largely predicated on the view that the problems in housing were behind us. Market participants believed that strong, global growth and ample financial liquidity were enough to forestall any spill over effects from housing on the U.S. and by extension the global economy. These views were further supported by private equity groups which collectively made more purchases in the first five months in this year than all of last year. In addition, corporate merger and takeover activity is at record high levels, even as many companies continue to buy back stock. These transactions by the "smart" money reinforces the public's belief that stocks are "cheap" and that any sell-off remains a buying opportunity. This is despite the fact that the U.S. consumer is savings and cash short and is desperately trying to deal with weak wage growth and collapsing housing prices. Wall Street of course has now shifted to valuing stocks purely on the basis of potential deals so much so that large sectors of the market are trading at prices unrelated to fundamentals in the expectation of a takeover.

The current obsession that the markets have with private equity and its czars, takes me back to the 1970s with its polyester pants, flowery shirts and…Gary Dahl. An advertising executive in California, Dahl conceived of the concept of a Pet Rock. The first pet rocks were ordinary gray stones marketed as though they were live creatures. Dahl sold these rocks nicely packed in a cardboard box shaped like a pet carrier along with a Pet Rock Training Manual which was a step-by-step guide to having a good relationship with the geological pet. Legend has it that Mr. Dahl wrote the manual first almost as a tongue-in-cheek exercise and then decided to sell it with a real stone to complete the package. The stone in question was a Rosarita Beach Stone from Baja California in Mexico – an expensive stone that cost one penny in 1975. The whole package was sold for $3.95. The rock was introduced in August 1975 and by October, Gary was shipping no less than ten thousand rocks a day. Not surprisingly, imitation pet rocks started appearing in the market too as other enterprising people started Pet Rock Obedience schools and the like to cater to these new pets. The pet rock fad lost momentum by early 1976, but it did succeed in making Gary Dahl an overnight millionaire.

There are some important things to keep in mind when considering the pet rock experience. The rocks did have value since Dahl used the most expensive stones available. One could have argued that had demand continued to increase for these stones, they would have appreciated even more in value due to scarcity. The

only problem however, was that the value of a stones (at one penny) had no relationship with the price at which it was sold ($3.95) so any scarcity argument while correct would hardly have mattered in the context of the price paid. Of course, Dahl did nothing wrong in this since he fully disclosed all the details of his rock, but let us not forget that he was among the only ones that enriched himself in this process. And had Dahl been more savvy as a marketer, he would no doubt have created a sequence of pet rocks each with limited availability so that in addition to the psychic pleasure of having a rock pet, the professionals would have come in to exploit the "resale" value. In fact, subsequent entrepreneurs with later fads such as the beanie baby have exploited precisely this concept.

Fast-forwarding to 2007, the concept of the pet rock has been replaced it seems by the idea of the Pet Stock. Investors have been convinced that they need to own stocks because they only go up (psychic value) or because either Chinese money or private equity would take them out (scarcity value). The Pet Stock training manuals are all too prevalent being produced by Wall Street's strategists who universally recommend a constant purchase of stocks for the long-term. The packaging of the Pet Stock is exceptionally attractive with financial statements made up in fairyland, cheerleading Wall Street analysts, company buybacks and merger activity all serving to make them irresistible. The important point here is not that stock ownership is a fad like the pet rock was, but that stock prices now are much more driven by investor psychology rather than by fundamentals. The poster child for the Pet Stock syndrome would be a company like Fannie Mae. Here is a firm that has no reliable financials for several years, leverage that would make even Long Term Capital Management queasy, and assets highly geared to an exploding housing market. That said, such is the comfort that investors draw from the supposed government guarantee (which legally does not exist and is repeatedly being stressed even by the politicians) that they have recently bid up this stock to multi-year highs secure in the belief that a sub-prime housing meltdown is somehow "good" for the company.

If the stocks feel like pet rocks, the credit markets facilitate putting these pets in hock. Why confine yourself to one pet rock when you can lever it up and own a whole menagerie or rock garden? The hucksters of structured finance continue to promote these dubious deals with ever riskier structures, even as the Hock Manuals for these transactions are ably prepared by the rating agencies. These agencies continue to rate numerous tranches of these mortgage and loan deals as being very safe on the basis of complex Monte Carlo simulation models that are well grounded in excellent mathematics, but definitely, not in reality.

The excesses in the stock and credit markets have led to an increasingly prevalent view among participants that fundamentals do not matter because "other factors" such as a global savings glut, foreign central banks, petro-dollars, and the like are the real drivers of prices. However, the more disconnected from economic reality and hardnosed cash generation that markets get, the more certain it is that a major adjustment is ultimately likely. To understand why such an adjustment needs to be major and far more than most of the analysts on Wall Street predict, one needs to consider carefully what the situation of an investment manager is in the current environment.

Good investing in any environment is a combination of fundamental analysis and market psychology. A great fundamentally driven investment idea that is not appreciated by the market will be trumped by one that may not be as exciting but does get valued correctly. An investment manager is forced to not only analyze his investments carefully but manage his timing so that he is ideally only a step or two ahead of market psychology. Investing then would just mean establishing positions before the herd came in, and exiting before the herd did. Of course, mistakes would be made, but an overriding element of prudent investing would be to make sure that the losses one might sustain in any investment would be much smaller in relation to the gains one could reasonably expect to make. As such, even if half of the ideas end up being losers, a prudently structured portfolio could do well given that the other half could be expected to have bigger gains overall.

In the current environment, prudence in investing is a major liability given the extremes to which markets have gone. To put things in perspective, in most stock markets globally, the companies that are doing best are those that are adopting the worst business practices. Investors have been rewarding companies that are leveraged to the hilt, aggressively buy back stock weakening their balance sheets and even better have fake earnings based on customers who do not actually pay but borrow to make payments. The less liquid such a stock is the better since it leads to even more exaggerated price gains. The same is even more true in the credit market where the most dubious and illiquid of credits that have a virtual certainty of default are trading at yields that a few years ago would have seemed unimaginable. The root cause of this environment ultimately is the unbounded creation of liquidity by central banks and the financial engineers. Leverage and poor cash generation by assets will ultimately result in defaults but this can be postponed for a considerable period of time while the liquidity machine pumps out its magic. The end comes typically because of a repricing upwards of the credit that fuels this boom. This may be engendered either by an outright increase in rates past a tipping point that makes further borrowing too expensive, or alternatively by external events that lead to a sudden increase in risk aversion.

With liquidity driven markets, it is difficult to assess the downside risk on the basis of a change in market psychology. That is because the assets owned by investors in such markets are akin to pet rocks – they have some intrinsic value but this value is small in relation to current market prices. While this would have been all too obvious to an individual who owned a portfolio of pet rocks in 1975, it is not to an investment manager of 2007 who may own a dubious portfolio of CDOs or small capitalization stocks with opaque earnings and extended valuations. Wall Street strategists who, as a group, continue to tout ever-rising markets with small potential corrections are really fostering this Kool Aid view. This virtually forces virtually every benchmark-oriented manager to subscribe to the same view – the cost of deviation from the consensus is hard to bear especially when the herd has been right for as long as it has. Unfortunately, if a correction does occur, it could easily trigger a mass liquidation and risk aversion. After all, if an investment manager knows deep down that he owns a portfolio of pet rocks, and events occur that make the markets realize the same, the question becomes just who will be the buyer of these assets. Such conditions lead to epic corrections and we have ample history for that. Consider for example, the market darlings of 1999/2000: Cisco, Sun Microsystems, Nortel and JDS Uniphase – all today pale shadows of their 1999 incarnations.

MONTHLY UPDATE

We believe very strongly that now is the time to fight the consensus view of business as usual in the markets. Our beliefs stem from the fact that the credit problems have already started and if anything, have only got worse over the last several weeks. The U.S. housing market is falling dramatically with some communities in Florida seeing more than 30 months of inventory. The economy has slowed almost to stall speed, but inflation remains high. Any acceleration in the global economy will drive interest rates higher even as huge amounts of U.S. Adjustable Rate Mortgages start resetting. And mortgage foreclosures and defaults are already at recessionary levels. A massive bout of risk aversion is highly likely and should prove much more devastating than that in February of this year because of the much weaker state of both U.S. housing and U.S. consumers.

Our performance has continued to be poor in May following a difficult April. Much of our losses in the month have been from our shorts in credit and the U.S. dollar, both of which have hurt us considerably. The relentless surge up in bond yields over the last few days of May that has continued in June has halted our slide. The credit problems are starting to resurface and the resulting effects on global markets should be significant. We have retained our structural short positions in global real estate, credit and U.S. financials as well as in the U.S. dollar. We have paid our dues over the last two months, but believe finally that fortune is again ready to smile upon us.

Performance Summary

Trident Global Opportunities Fund

Performance as at May 31, 2007

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-4.0%	-5.3%	-1.5%	-11.6%	2.2%	0.6%	1.4%	-2.2%	2.2%

CI Global Opportunities Fund

Performance as at May 31, 2007

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-1.8%	-3.9%	1.1%	-10.5%	2.6%	-0.3%	-0.4%	2.5%	15.2%

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