CI Investments
2 Queen Street East, Twentieth Floor
Toronto, Ontario M5C 3G7
www.ci.com
Telephone: 416-364-1145
Toll Free: 1-800-268-9374
Facsimile: 416-364-6299

Trident Investment Management, LLC
Opportunities Funds Commentary

September 30, 2007

MONTHLY UPDATE

Performance Summary

September was a month for celebration in the global markets. Equities were strong with the S&P 500 up 3.74%, the MSCI Europe Index up 5.00% and the Nikkei up 1.71%. Emerging markets were very strong too with the MSCI Emerging Markets Index up 5.40%. Commodity markets rallied with oil rising to $81.66 a barrel of WTI crude, a new high, and gold rising to $750 an ounce, a 27 year high. The credit markets participated in the general euphoria with the higher grade credit spreads in particular tightening almost back to their all-time low levels. The bond markets were among the few losers with yields on 10-year U.S. Treasuries climbing 0.06% to end the month at 4.59%. The U.S. dollar also suffered depreciating 3.80%, a new low (all figures in U.S. dollars).

Market Outlook & Portfolio Strategy

The market euphoria in September was largely a product of a surprising 0.50% cut in the target federal funds rate as well as in the discount rate by the U.S. Federal Reserve. The Fed had already moved in August to encourage banks to borrow at the discount window by cutting its discount rate by 0.50%. This move did not fully assuage markets since the discount rate is a penalty rate that, even after the cut, is 0.50% above the federal funds rate. Moreover, most bank lending rates are not based on the discount rate. The cut in the federal funds rate in September however, represents the first Fed easing since its tightening cycle began and markets rejoiced because of this.

The U.S. today is facing massive structural imbalances. It has a trade deficit that remains stubbornly at about 6% of GDP, a fiscal deficit that is around 3% of GDP and a total credit to GDP ratio that by many measures exceeds 400%. The trade deficit has persisted despite very strong global growth and a U.S. dollar that has been depreciating steadily over the last few years. The fiscal deficit seems manageable but is almost certainly understated dramatically because of very creative accounting – large expenditures such as the Iraq war, new Medicare drug benefits and the like are not even factored into the deficit calculation. Moreover, the fiscal deficit has increased during a period of very strong economic growth which usually results in enhanced tax collection and lower deficits. The credit creation in turn has produced the biggest housing bubble in human history – a bubble that in 2007 has been deflating rapidly with attendant destruction in credit values. Thus, even in the face of what appears to be relatively robust growth and employment, we have had panic in the credit markets that many have likened to the worst seen in at least the last 30 years.

On a cyclical basis, conditions in the U.S. are equally worrisome. Domestic CPI inflation is between 2.2 and 3% despite the statistics for CPI being doctored extensively over the years. In fact, using CPI measures from the pre-Bill Clinton era, inflation appears to be running at between 8.0 and 9.0%, a far cry from the reported statistics. These higher numbers appear to be more consistent with the rampant inflation that is being observed globally in all commodities including food, as well as in the prices of all hard assets. Also, the housing bust and the knock-on effects from this on consumer spending are likely to create at best a prolonged economic slowdown, and at worst a major recession.

The U.S. political situation does not provide any comfort either. Lawmakers, facing a pivotal election in 2008 are more focused on campaigning than on providing strong leadership in the current environment. There is a marked tendency to look for short-term quick fixes to the festering structural problems rather than push for potentially unpopular solutions that might prove ultimately more effective. Again, the popularity of the President is at a nadir and a war with Iran might occur even if only as a final cynical move to demonstrate "strong leadership".

CI Investments

MONTHLY UPDATE

In sum, U.S. fundamentals today look worse than those of many of the banana republics of yore. A potential recession with debt levels at the consumer and the national levels at all time highs, coupled with a currency that is already plumbing new lows with nary an effect on trade presents an extraordinary challenge for policymakers. The Fed, in particular, is in a thankless position. Structural considerations and the dollar suggest continued tight monetary policy to reduce consumption and increase domestic savings. However, domestic cyclical issues that arise from busts in housing and credit militate for dramatically lower interest rates. The Fed's move in September is thus a very risky action. It appears to have created some near-term stability based on market reaction. However, it could result medium-term in a total loss of credibility for the Fed, a destabilizing collapse in the dollar and the need for a new financial architecture for the world no longer based on the U.S. dollar as a reserve currency.

The Fed's willingness to cut rates even with the risks that such an action entails is testimony to just how serious the situations in the housing and credit markets have become. The news on housing has gone from bad to worse. Defaults and foreclosures are soaring across the country, even as inventories of unsold homes continue to mount. The numbers are truly shocking. In Florida for example, numerous counties have inventories of unsold homes being more than 2 years of sales. In some sub-categories such as condominiums, especially in the most frothy areas such as Port St. Lucie, inventories have risen to as much as 8 (yes, eight) years of sales! A disaster of truly epic proportions is taking place in housing. The situation in credit markets is not much better even though higher grade credits have improved dramatically in September. The problem credits in real estate remain in the doldrums and there remains a high degree of investor aversion to the alphabet soup of rubbish financial derivatives.

The reaction in financial markets after the September rate cut suggests that participants are in fact concerned about the potential risks faced by the Fed. The U.S. dollar plumbed new depths in the days following the cut, with gold and oil making new highs. The U.S. ten year Treasury sold off and 10-year rates, and by extension, most mortgage rates are higher than they were before the cut. Despite all this, the response from the pundits on Wall Street and CNBC Bubblevision has been predictably bullish. Most now parrot the end of the "transitory" credit crisis, argue that a "bottom" in housing may be in place and that the "worst" may be over.

The reaction in Wall Street is particularly cynical and self-serving. What is totally obvious is that the credit markets are far from normal and that massive losses are being suffered in credit by both the banks and the brokerage houses. Many of them are being forced to acknowledge (very reluctantly) at least some of these losses. We believe that the losses so far declared by the financial companies are a small fraction of their true losses from the toxic instruments that they hold on their books. The losses declared especially by the brokerage houses have been limited in large part because of some fancy accounting gimmickry which, while legal, borders on fraud.

The brokerage houses (that are not owned by banks) in the U.S. are not regulated by the Fed and do not have access to the discount window. Even the brokerage subsidiaries owned by the banks are technically separate from the banks and are relevant to the Fed only insofar as their operations impinge on the overall bank's operations and capital. The main regulator for the brokerage companies is the Securities and Exchange Commission which is woefully unprepared for this job considering the central role these companies play in the economy. The largest brokerage houses today are complex financial behemoths with huge balance sheets and eye-popping leverage. Morgan Stanley in mid-2007 for example, had total assets of about $1.200 trillion with total shareholder equity of $39.5 billion which represents leverage of over 30 to one. Goldman Sachs had assets of $943 billion with shareholder equity of about 38.5 billion, a leverage ratio of over 24 to one. These numbers moreover, do not reflect swaps, forwards and other off-balance sheet items many of which can be used to increase leverage further. Also, it must be noted that even the large money-center banks probably have similar leverage in their captive brokerage subsidiaries though this is masked to some degree because of the overall bank's capital adequacy requirements which limits banking leverage to 12.5X.

Given the leverage in the brokers, the valuation of their assets is particularly critical especially because many of them have committed to providing loans for takeovers on terms which in retrospect seem like a fantasy. One should recall that in 1989, the collapse in the junk bond market nearly forced brokerage firm First Boston into bankruptcy requiring a capital injection and takeover by Credit Suisse in 1990. At the time, First Boston was in trouble because of a $500 million bridge loan it had extended to Ohio (now Sealy) Mattress in August 1989, just before the junk bond market seized up. This lesson has been forgotten by Wall Street whose exposure today to such bridge loans is a significant multiple of the 1980s. The main difference today is that regulators seem much more willing to turn a blind eye to obvious problems with valuations, and in fact, the accounting profession has actually moved to legalize some of the egregious practices in the financial institutions.

The accounting rules, under FASB 157, now recognize three different methods for valuing financial assets. Level 1 values are those that were arrived at from quoted prices in active markets and are a true "mark-to-market". Level 2 values are measured using "observable inputs" using recently transacted prices for similar items. Thus, assets valued this way have "mark-to-model" pricing. Then, we have Level 3 which allows for pricing assets using "unobservable inputs" which should really be interpreted as a "mark-to-fantasy". A high percentage of Level 3 asset valuations is an automatic red flag since it suggests an illiquid portfolio in which potentially huge losses are surely lurking. Virtually all of the major brokerage houses have Level 3 assets that amount to more than 10% of total assets. What this means is that with leverage of over 20X in the sector is that more than twice the equity of the brokerage houses is in assets for which they make up the own valuations.

But wait – it gets worse. Much worse. A particularly misguided change in the accounting rules last year allowed firms to reflect changes in the value of their own debt as earnings. The superficial reasoning for this change was sound. Consider a firm that has issued floating rate bonds and has put on an interest rate swap hedge to limit its risk on the floating interest payment. A rise in rates would obviously mean an increase in the value of the swap hedge but that would be offset by an increase in its liabilities coming from the value of its own debt payment stream. Ergo, a fair value mark of both the swap and the firm's own debt would ensure the correct economic result which is that there is no change in earnings due to the swap. Unfortunately, what the accountants had not counted on was Wall Street's creative use of this concept. The debt of a highly levered brokerage house owning questionable assets will be punished by markets driving its price down. Thus, if an example firm had $5 in equity and $95 in debt with the $100 in cash so raised being invested in toxic and illiquid credit derivatives, the market might well drive its debt down from $95 (par) to $57 (60% of par value) based on bankruptcy risk. Amazingly, the $38 (or 40%) decline in the value of the firm's debt can be counted by our firm in question as a reduction in its liabilities and thus an increase in earnings. Thus, in the most extreme case, if the firm marked 100% of its worthless assets with Level 3 fantasy marks (and the accountants could not disallow this because it would be consistent with the rules), while having its debt driven to zero by the markets, it would book phenomenal earnings of $95. That is, a nearly bankrupt firm would report the best earnings in its history. If Enron had had this latitude, a few years ago, it might have already become the world's largest company!

The brokers, the majority of whom reported earnings in September, used both Level 3 marks (for usually more than 10% of their assets) as well as significant "gains" from the decline in the values of their own debt to boost "earnings", whatever that might mean. The Wall Street analysts who (surprise!) are employed by these same firms simply chose to ignore this blatant sleight-of-hand. And now, as if to add insult to injury, many of the brokers and the banks are considering setting up joint ventures with buy-out funds expressly for buying their own Level 3 toxic assets which investors balk at purchasing. These vehicles, which the Financial Times appropriately called Unidentified Financing Objects (UFOs) will be guaranteed preferential financing by the bank/broker in question as long as it purchases the latter's assets at fantasy prices. Remarkably, numerous market participants are cheering this "innovation". Whoever thought that the Enron playbook would become the rulebook on Wall Street in just a few short years.

MONTHLY UPDATE

We can only describe what has happened over the last few weeks as a financial system that has completely run amok. The regulators and the Fed are completely toothless if not willing co-conspirators and the election-obsessed politicians even more so. Many of our financial chieftains today are the ones who were the nouveau titans when the frauds of the 1980s were perpetrated as was the thrift industry crisis. How unfortunate it is to see this replay of history to the detriment of the investing public, and amazingly with an isomorphic cast of characters.

We believe strongly that we have just entered a decisive phase in the whole credit/financial debacle of 2007. Like the Germans in World War II, the Fed has launched its equivalent of the Battle of the Bulge. While it is making some early headway, the objectives of this offensive are unclear to say the least. That said, we do expect a period of significant volatility near term with potentially significant reversals in some of our key positions. While we have trimmed some positions in anticipation of this, we are sticking to our core themes – the Fed's version of Bastogne is sure to occur soon and that should remove any doubt as to the end result of this campaign.

Performance Summary

Trident Global Opportunities Fund

Performance as at September 30, 2007

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	10 Yr.	YTD	Since Inception (Feb. '01)
2.0%	40.5%	34.1%	46.9%	18.2%	15.0%	9.8%	N/A	43.2%	8.2%

CI Global Opportunities Fund

Performance as at September 30, 2007

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	10 Yr.	YTD	Since Inception (Mar. '95)
3.5%	44.2%	43.9%	57.4%	21.9%	16.9%	11.3%	13.8%	56.9%	18.7%

Nothing herein should be read to constitute an offer or solicitation by Trident Investment Management, LLC or its principal to provide investment advisory services to any person or entity. This is not to be construed as a public offering of securities in any jurisdiction of Canada. The offering of units of the Trident Global Opportunities Fund are made pursuant to the Offering Memorandum only to those investors in jurisdictions of Canada who meet certain eligibility or minimum purchase requirements. Important information about the Funds, including a statement of the Fund's fundamental investment objective, is contained in the Offering Memorandum. Obtain a copy of the Offering Memorandum and read it carefully before making an investment decision. These Funds are for sophisticated investors only. ®CI Investments and the CI Investments design are registered trademarks of CI Investments Inc.