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Trident Investment Management, LLC
Opportunities Funds Commentary

March 31, 2010

MONTHLY UPDATE

Performance Discussion

Markets were euphoric in March. The S&P 500 Index was up 5.9%, the MSCI Europe Index was up 7.1% and the Nikkei was up 9.5%. Commodities were mixed, with gold down 0.4% to $1,113.25 an ounce, and oil up 5.1% to $83.76 a barrel. Base metals such as copper did even better with many hitting new highs. The dollar weakened with the U.S. Dollar Index depreciating 0.88%. The credit markets were largely stable, though there was some tightening in Europe. Rates rose globally, with yields in the U.S. 10-year Treasury in particular rising 12 basis points to end at 3.83% (all figures in U.S. dollars).

Our funds continued to suffer in March with virtually all our positions going against us. About half of our losses came from our equity and commodity positions where gains on our long positions (gold, gold stocks, oil stocks and defensives) were dwarfed by losses suffered on our discretionary consumer stocks such as retailers and restaurants. Our credit book hurt marginally, as did our U.S. yield curve steepeners. Remarkably, the other half of our losses came from our fixed-income options in Australia where we suffered from a substantial decline in volatility. Despite our losses over the last two months, we have made few adjustments to our portfolio. In fact, we are looking to add to our core positions since some of our options have declined so much in value that they offer truly compelling reward to risk tradeoffs.

Economic Improvement – Reality or Statistics?

The continued rally in risk assets, especially in consumer discretionary areas, was predicated on a supposed dramatic improvement in the U.S. economy, particularly in hiring. Amazingly, the catalyst, was a payroll report released in March that indicated that the U.S. lost (yes, lost) 14,000 jobs in the month of February. Given that the country suffered a number of snowstorms during February, economists were quick to theorize that the jobs actually created in February might have been as many as 200,000 or more had it not been for the snowstorms that prevented people from going to work. Forget the fact that the Bureau of Labor Statistics (BLS) that tabulates these data sampled firms regarding jobs early in the month, before the snowstorms became particularly disruptive. Ignore also the fact that snowstorms, even somewhat severe ones, are hardly unusual in February. What was important to Wall Street was to spin an unambiguously negative payroll report as being a hugely positive event since "everyone knows that the U.S. economy is improving."

Pundits projected a huge increase in payrolls going forward, with the more vocal bulls calling for as many as 350,000 jobs (or about 300,000 ex-temporary census hiring) to be created in March.

The data from March, which we now have, show that a grand total of 162,000 jobs were created, which when reduced by 48,000 census related hires, results in real jobs of just 114,000. But wait, there is more to this. One would think that a jobs report would only report the number of new jobs created or lost based on data obtained from a representative sample of companies. While the BLS does sample numerous large companies for their payroll data, it also recognizes that many jobs in the U.S. are created by small firms which are not surveyed at all. Therefore, the BLS makes assumptions about the number of jobs created by the unsampled small businesses and incorporates them into the payroll data as birth-death adjustments. These adjustments are calculated using a BLS-proprietary model that even the institution concedes does not capture turning points in the economy correctly. However, the BLS tracks other, more accurate data for job creation that are less timely and ultimately attempts to reconcile the payroll numbers with its other metrics. This process typically results in revisions of the reported data several months later. Clearly, the less accurate the BLS models in a given economic environment, the larger one can expect the ultimate revisions of data to be.

In 2009, the birth-death adjustments created over one million jobs out of thin air – a fabrication that proved incorrect and resulted in a revision downward of the jobs created by over 900,000. The revision of the 2009 data occurred in early 2010, when the BLS changed months of previously provided 2009 payroll information. The large revisions could have been expected by any reasonable observer who should have questioned the frenetic pace of job creation by a moribund small business sector throughout 2009. In fact, some analysts questioned the size of the downward revision in 2009 arguing that it should have actually been considerably more than even the 900,000+ made in 2010. Unfortunately, the charade with job creation continues. The birth-death adjustments for March 2010's payrolls were a net addition of 81,000 jobs. Thus, in strict terms, the U.S. created only 33,000 true, longer-term jobs. Considering that the country needs to create approximately 100,000 jobs per month to absorb new entrants into the labor force, a net increase of 33,000 is nothing to cheer about. Even worse, given the almost 8.5 million jobs lost since the start of this crisis, these job numbers do not put us either on the road to recovery or even stability. Yet, listening to the pundits of Wall Street you would conclude that the boom times are here again.

The rampant optimism in the interpretation of the data releases becomes even more comic when considering the statistical issues that surround them. Most economic data, and especially high-frequency statistics that give us short-term metrics for gauging the economy, involve statistical estimation. That is, the government has to obtain them from a relatively small sample of the group of potential providers and then has to extrapolate from this microcosm to the group overall. Errors are created in this process because the providers sampled are not representative of the group overall (sampling error) and also because there are a number of problems created by the methodology itself that is followed in surveying (non-sampling error). As such, when data are provided by the

government, it also provides the standard error for the measurement, which is the standard deviation of the sampling distribution associated with the data estimate. In layman's terms, the larger the standard error, the higher the noise associated with the data measurement and the less its accuracy.

Most economic data based on small sample surveys have relatively high standard errors. For payrolls, the government samples about 400,000 individual worksites out of about 9 million unemployment insurance tax accounts, or less than 5% of U.S. business establishments. The standard error as reported by the BLS is 61,000 and even this number presumes a "normal" environment where its birth-death model is largely accurate – something that appears to have not been the case in this recession. This means with a payroll report of 162,000 we can say with 95% confidence that the economy created somewhere between 42,000 and 282,000 jobs. When we adjust for census jobs and view the birth-death adjustments with the skepticism they deserve, it is clear that the number of jobs the U.S. economy created in March is statistically insignificant. In fact, the payroll service provider Automatic Data Processing determined from its internal data, which are certainly more accurate and complete than the BLS surveys, that the U.S. had a net job loss in March of 23,000. The latter information and the analysis of the BLS data and its biases suggest that the March payrolls were very likely relatively lacklustre and statistically indistinguishable from zero. But this is the kind of analysis that is essential for virtually all the economic data reported. Survey data such as those provided by the Institute for Supply Management have even more sampling and methodology problems than payroll information and as such, have high standard errors. Unfortunately, most of Wall Street's analysts opine at length about what is essentially statistical noise in the grand scheme of things. Even worse, they do so while selectively picking economic statistics to bolster their permanently bullish projections. Unfortunately, to the extent that the financial analysts still continue to have significant (and undeserved) market influence, we have had a huge up-swing in global markets, with the upward momentum itself serving to change public perceptions about what the reality might be.

Investment Risk and Reward

Considering the strong moves up in the markets, a question that can be reasonably asked is why we do not participate more aggressively in these rallies. After all, we are looking to find investment opportunities that provide significant upside relative to the risks taken and are perfectly prepared to bet on outcomes which may be of lower probability but still provide a desired payoff skew. We believe that the current environment does not provide many attractive opportunities where the upside clearly outweighs the downside.

When markets are driven by psychology as happened during the NASDAQ bubble of 1999 or later during the credit bubble of 2006, there is a tendency for participants to focus on the near-

term winnings to the exclusion of risk. In fact, the longer a bubble continues and the greater the upward momentum, the more the perception of safety in the prevailing trend. Even worse, as the consensus view gains traction, volumes increase as investors get sucked in, creating an illusion of liquidity that in turn leads to a reduced perception of risk. Unfortunately, given that bubbles involve extreme divergences from fundamentals, they result in upside that is hard to determine absent continued speculation, while the downside represents a return to values suggested by reality. This opportunity on an ex ante basis thus provides an unclear and/or limited upside, with quantifiable and a significant downside. Any prudent investor who lacks an innate ability to call market tops and bottoms, and we would certainly include ourselves in that group, would have to pass on such an investment. In fact, the case to be long such an investment is much worse than that to be short.

The problem with the performance measures that have evolved for the financial industry is that they look only at ex post returns, and not at the ex ante risks that were taken to obtain them. Thus, many of the absurdly risky leveraged investments in the credit markets from 2004-2007 looked very safe based on return history. In fact, the ratings agencies scrambled to assign AAA ratings to junk investments on the basis of observed returns and default rates – a classic example of relying on after-the-fact data rather than analyzing the actual risks undertaken. Not surprisingly, the financial industry has been replete with examples of blow-ups. In fact, the recent bail-outs of failed firms have reinforced the moral hazard in the system to the point that ill-considered risks are now the norm rather than the exception. As such, the industry operates today in a manner that is diametrically opposed to our views on risk.

When we consider the current euphoria about global growth, we feel that the facts are much less supportive than markets believe. There is certainly evidence of some economic improvement, although it has largely been in Asia and parts of Latin America. While U.S. growth has proved relatively resilient of late, that strength has not been mirrored in Europe. Even worse, China has already started to tighten credit significantly and could well serve as a damper for Asian growth. Also, the European Union, which is the world's largest single economic region, is likely to weaken further due to the dramatic fiscal tightening that should continue across most of Southern Europe. The U.S. consumer's continued well-being is highly unlikely notwithstanding the near-term improvements. And the U.K. and Japan cannot be locomotives for global growth given their current problems and relatively small size. Thus, we remain convinced that markets are projecting a future that cannot be, while ignoring reality.

We believe that current reality is so divorced from fundamentals that any sudden change in sentiment could result in massive downside. Even worse, the upside comes less from valuation but more from a continuation of bullish sentiment. Given our obsessive focus on the risks of our

investments relative to their potential returns, we simply cannot exploit investments where the risk control involves out-trading the public, and where the upside is predicated on crowd madness. In fact, we would argue that the current environment offers a largely unquantifiable (and possibly very limited) upside, with a clear and determinate downside that in most scenarios could well dwarf any upside. We expect a painful adjustment and see a huge potential payoff in going against the consensus.

Conclusion

The last month, in particular, has thrown up numerous compelling opportunities. In a world where the imbalances remain extreme and cracks in the edifice are everywhere apparent, the market price of risk has declined dramatically. With China tightening, Greece on life-support, and the U.S. consumer virtually moribund, we would argue that risks have never been higher. Expressing our views with options on the resolution we expect is almost as compelling today as it was during the halcyon days of early 2007. We have not seen better reward to risk ratios in years…we never expected this to occur so soon after the recent global crisis.

Performance Summary at March 31, 2010

Trident Global Opportunities Fund

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	10 Yr.	YTD	Since Inception (Feb. '01)
-2.2%	-3.0%	-3.4%	-8.7%	9.7%	33.4%	20.9%	N/A	-3.0%	12.7%

CI Global Opportunities Fund

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	10 Yr.	YTD	Since Inception (Mar. '95)
-2.0%	-2.9%	-3.3%	-8.2%	12.2%	36.8%	22.1%	6.3%	-2.9%	19.9%

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