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MONTHLY UPDATE

Trident Investment Management, LLC
Opportunities Funds Commentary

November 30, 2008

Performance Discussion

The tale of woe in global markets continued in November 2008. Equity markets suffered with the S&P 500 Index down 7.17%, the MSCI Europe Index down 7.08% and the Nikkei down 0.75%. Intra-month, things were much worse, with the S&P down 22.13% (752.44) at its low on November 20th. Commodities continued to suffer with oil falling 20.52% to end the month at $54.43 a barrel. Gold however, bucked the trend being up 13.81% to end at $819 an ounce. Credit spreads widened across the board to hit all-time highs. Only sovereign fixed-income assets did well globally, with yields on the US-10 year Treasury falling 1.03% to end at 2.92%, a new low. The U.S. 2-year note yields fell to an unbelievable 0.99% (all figures in U.S. dollars).

The climate continued to present major problems for the investment community. Most funds were down substantially in November, adding to their already horrendous performance for the year. The forced de-leveraging showed no signs of abating and in fact, accelerated in some asset classes. Despite massive liquidity injections and rate cuts by the central banks conditions remain as fragile as they have been through much of the year.

Our funds had a very strong month despite the fact that we reduced our risk exposure in September and October given the environment. Our investments in fixed income, taken primarily with options, performed exceptionally well. Most of our long positions in fixed income are in Australia and the U.K. which were precisely the countries that have seen among the biggest rate declines. Our credit positions performed very well also. In particular, our move to reduce exposure to financial credits and expand our short positions in retail, industrial and other growth sensitive companies' credit proved to be timely. Our equity positions did not contribute much to performance – our long positions in gold and in the Canadian equity market, and our short positions in U.S. retailers and consumer discretionary companies largely offset each other.

We believe that current conditions still require prudence. There has already been substantial intervention by policymakers in markets, and most of it has been ineffective. We believe that some new thinking, if not a major policy shift, is called for. Given the U.S. Presidential transition, it is unlikely that these changes will occur until the new President has taken office. This leaves us in an unpleasant limbo where we have uncertainty coupled with continued illiquidity in markets. That said, we continue to believe that the prospects for long-term investing have improved dramatically, especially for investors such as ourselves with a macro focus. There are numerous bargains in equities globally as well as in a host of other investment classes such as convertible bonds. We see a compelling long-term investment opportunity in many of these, but the short-term price moves remain vicious and liquidity driven. Patience is still a requirement for investing today.

Market Outlook & Portfolio Strategy

The major news for November was, of course, the election of Barack Obama as President of the U.S. Mr. Obama was elected despite his ethnicity and despite the fact that his father was a Kenyan Muslim – in fact, Mr. Obama's middle name is Hussein. The election was followed by an outpouring of support from all sides of the political spectrum. Mr. Obama will take office with a very strong popular mandate and the

Democratic Party to which he belongs will command a large majority in both chambers of Congress when he takes office. Moreover, the election sent an unequivocal signal to the world about what America really stands for – freedom, tolerance and opportunity for all – a message that has sadly been masked by the events of the last several years. Mr. Obama's victory has been greeted positively by the whole world. He should initially have unprecedented domestic and global support for any agenda that he might undertake. In so many ways, Mr. Obama's elevation to the U.S. presidency provides much reason for optimism and Americans should justly take enormous pride in the results of this election.

Unfortunately, Mr. Obama is inheriting probably the most challenging economic and political environment since the Second World War. The problems that the U.S. faces today are legion as even a cursory list of the same would indicate:

- The financial system in the U.S. is virtually bankrupt. The banks are short of capital as are the brokerage houses. Many of the insurance companies, especially those providing credit or mortgage insurance or which had significant holdings of mortgage assets, are in trouble as well.
- Numerous leveraged, non-financial companies are in a dire situation. The automakers, which are near bankruptcy, are the most obvious examples. Most auto parts suppliers, auto retailers and homebuilders are in equally bad shape. Many other industrial companies are facing severe stresses in their businesses.
- The U.S. consumer is very leveraged and, depending on the metrics used, is the most indebted he has been in the country's history. The Financial Obligations Ratio which measures total debt, lease, rent and property tax payments as a percentage of disposable personal income has increased from 15.90% at the start of 1980 to 18.83% in mid-2008. Given that interest rates have dropped to less than 1/2 of 1980's levels, it is clear that debt loads have increased dramatically. Moreover, the consumer keeps adding to his debt burden. As of the third quarter of 2008, the net savings rate in the U.S. was negative with the ratio of net savings to gross national income being -1.7%. To find this level of dissaving, one has to go back all the way to the early 1930s.
- The U.S. government is not in much better shape than the U.S. consumer. While the headline budget deficit appears to be only about 4.3%, this number does not fully include the costs of the Iraq war, nor does it include the costs of the various bailouts that the government has undertaken in the last few months. In particular, the guarantees for Fannie Mae and Freddie Mac are not captured in these deficit figures. In fact, when these backstops are added to the other guarantee programs the government has introduced through the Federal Reserve and other agencies, the total amount guaranteed is a staggering $8.5 trillion. The costs of these are not factored into the government debt. Moreover, if the U.S. continues in its current recession, the government's fiscal position is only going to get worse.
- The states, and even many major cities, in the U.S. are in difficult financial straits. Many such as California and Florida, had bloated expenditures that were barely offset by tax revenue even in the best of times. Property, capital gains and corporate tax payments, all major sources of revenue for the states, have declined dramatically of late, putting many of them into situations of fiscal deficit. Not surprisingly, the states and the cities are turning increasingly to the Federal government for assistance representing an even greater expected drain on the latter's resources.
- The U.S. continues to be hugely indebted to foreigners. The U.S. trade deficit remains stubbornly at about 5% of GDP. This is despite the fact that we appear to have been in a recession since December 2007. Just our interest payments to foreigners based on very low prevailing U.S. interest rates totals about 3.5% of GDP. Any rise in domestic U.S. rates will mean a corresponding increase in this ratio.

With all of these problems, what is obvious is that the U.S. is not facing a cyclical slowdown or minor recession. Rather it is facing what can only described as a major crisis that has resulted from years of economic mismanagement. The continued problems in Iraq and Afghanistan are political issues that add to the already monumental task that Mr. Obama faces on the economy.

The problems in the U.S. were hardly unforeseeable. If anything, most of them have been festering for years and a simple-minded analysis should have convinced policymakers even in 2005 that the risks the U.S. faced due to the prevailing policies were immense. However, there was a collective lack of willingness by policymakers, market participants and the media to even consider, let alone act on the facts. In 2005, then Fed-chairman Alan Greenspan was being touted as the "maestro" for his management of the economy, and every hare-brained Ponzi scheme was being financed by a corrupt Wall Street community aided by a willing group of sheep-like investors. Unfortunately, even when the problems became so obvious as to be undeniable as they did by late 2007, policymakers persisted in denying the reality. Note for example that Treasury Secretary Paulson, and Fed chairman Bernanke were both touting the view that the sub-prime crisis was "contained" in late 2007 when it was obvious that it was anything but. Paulson, in numerous pronouncements, kept arguing that the financial system was "well-capitalized" even in early 2008. Most policymakers, not to mention the Wall Street intelligentsia, in mid-2008 were looking to Fannie Mae and Freddie Mac to be part of the "solution" that would stabilize the housing markets rather than being the main problem. Several eminent economists were arguing that the fallout from the worst housing market since the Great Depression would be a "shallow recession". What is truly incredible in all this, is how long numerous capable individuals persisted in denying the obvious.

The lack of foresight has been reflected in the haphazard policies that have been adopted in 2008, not just by the U.S., but by the world at large. We have had a sequence of bailout programs introduced by the Federal Reserve to provide liquidity (PDCF, TSLF, ABCP MMMF, MMIF, TABSLF, CPFF – we are not joking!) with more cropping up it seems every week. There appears to be a daily call as well on the Treasury to provide bailouts – in the last few months we have seen the Fannie/Freddie bailouts, the AIG bailout, the TARP, the Citibank bailout and now a contemplated automaker bailout – the list just seems to have no end. Every failing company in the financial arena wants a bailout of some kind so that its management, with their proven record of incompetence, can remain at the helm. The world continues to face not just a real-estate and credit crisis, but a very real crisis of confidence in its economic leadership.

The most important question that faces President-elect Obama is how to even start in dealing with the current set of economic problems. What is obvious is that neither the U.S. nor any other country in the world has the resources to take us back to the halcyon days of 2006. The U.S. in particular, has to make some very difficult choices as to whom to help and whom to let go. And it has to make these trade-offs recognizing its precarious position as the world's largest debtor. There is no doubt that a considerable amount of pain is going to be felt going forward, and the U.S. leadership has to be strong enough to deliver that unpleasant message to the public. In particular, the U.S. leadership has to:

- Accept the sober reality of the present economic conditions.
- Recognize that the economic conditions call for painful, long-term adjustments with no quick fixes.
- Convince the population of the need for these painful adjustments which would be a significant reversal of prior pronouncements.

- Adopt a prudent set of policies that will not put the U.S. dollar's status as a reserve currency or the U.S.' role as an exponent for free, unfettered markets in jeopardy.
- Reassure the skeptical electorate that the policies in question are inherently fair without special interests receiving favourable treatment at the expense of the public.

The above might seem obvious, but the unfortunate part is the current administration appears to have violated every one of the above principles. For one, policymakers have persisted in pretending that the problems today are somehow due to "illiquidity" or "mispricing" or other factors that are short-term in nature. There is still no willingness to recognize that the problems are more deep-rooted and that much of the money lost in subprime or other housing assets will never be recovered. Next, the administration has lurched from bailout to bailout with no clear sense of either the scope of the crisis or the longer-term fixes that need to be put in place. Both presidential candidates campaigned on platforms of tax cuts when the country already spends too much , and President-elect Obama has said little to even suggest that considerable belt-tightening lies ahead. And even worse, the policies that have been put in place so far by the Bush administration have all favored the special interests in the financial industry at the expense of the taxpayer. By no means have the policies implemented been fair or capitalist in nature – if anything they suggest that the U.S. is a plutocracy where the ruling class is the wealthy with the country being run for their benefit – so massive has been the wealth transfer from the taxpayer at large to the privileged few in the managements of the financial industry. Finally, the U.S. has been completely insensitive to its situation as a debtor nation in formulating its policies. The recent pronouncements by Fed Chairman Bernanke regarding potential measures such as the outright monetization of U.S. debt (which could lead to a collapse of the U.S. dollar) and the president-elect who believes that deficits do not matter in the short run (and they certainly do, especially if monetized) suggest that the U.S. is not concerned about the prospect of foreign capital refusing to accumulate more U.S. obligations.

Mr. Obama campaigned on a platform of change and it is clear that there is much in the U.S. that needs to be changed. The one overriding requirement for a new President is to acknowledge that business as usual is simply not possible and that a period of painful adjustment and sacrifice is called for. In a disappointing start, the economic team that the president elect has chosen is a throwback to the Bill Clinton administration. Tim Geithner, currently president of the New York Federal Reserve was named as the new Treasury secretary and Larry Summers, formerly the Deputy Secretary of the Treasury, as the head of the president's National Economic Council. And Robert Rubin, yes the same one of Citigroup fame, is a prominent member of the presidential transition team no doubt championing the elevation of his former staff members to their new posts. While the Clinton team is often regarded as highly competent given the prosperity that the country enjoyed during their tenure, it should be remembered that the seeds for the explosion in leverage were laid during the Clinton administration. The failure of Long Term Capital Management, relaxation of the Glass-Steagall Act that allowed for the takeover of Citibank by Traveler's and the technology bubble and bust all happened during Clinton's watch. While the Bush administration is to blame as well since it did nothing to rein in these excesses, and in fact, encouraged them especially after 9/11/2001, the rot nevertheless started much earlier. In fact, the Clinton team's errors were far more serious in that they did not act to rein in the financial system at a time when the economic environment was benign and there were no real impediments to doing so. An economic team that could not make adjustments when it was possible to do so, does not inspire confidence in the current environment. Hopefully, our concerns will not come to pass, but the Obama transition has not been auspicious so far.

I have been writing repeatedly about the reasons as to why we were in a major crisis and the specific policies that need to be adopted, most of which would be relatively painful. The measures that need to be implemented include:

- Injection of capital to stabilize the credit markets and ensure lending at normal (as opposed to bubble) levels. This could happen either by the direct creation of a new government bank or by capital injection into existing banks at a level senior to that of existing stock and debt holders. The important point to note here is that the incremental capital should be used exclusively to allow for new lending rather than to deal with existing losses.
- Much tighter regulation of financial firms, especially where it comes to leverage. The goal would be an orderly deleveraging of the existing financial system with numerous banks, brokerages and others being allowed to fail. The government may inject capital to allow for an orderly deleveraging, but again, the injections should be at a level senior to existing claimholders. Taxpayer money should not be put at risk to bail out bad financial decisions made by private lenders.
- A move to greater transparency in reporting. Firms should be forced to place accurate valuations on Level 3 and other assets and off-balance sheet liabilities should be disclosed completely or forced to be brought on the books.
- Reduction in consumer leverage. This is extremely painful to achieve today, but any postponement is only going to make the reckoning much worse. Some combination of tax rebates and/or loan forgiveness might reduce the pain of this adjustment.
- Coordination with trading partners to ensure that they revalue their currencies and prime their domestic economies for growth, rather than adopting a beggar-thy-neighbor policy of looking to the U.S. for exports. The U.S. urgently needs external engines for its growth and its consumer needs to sharply limit his imports.

The specifics of the above policies do not matter as much as the overall thrust. The simple fact is that a crisis brought on by too much leverage cannot be dealt with by creating even more debt. The overriding goal of the new administration should be to think longer-term and make the painful short-term decisions that are all but unavoidable now.

The above measures may sound unworkable, but the U.S. really has no alternative. An attempt to dramatically expand fiscal expenditure to deal with the economic problems while monetizing the deficits so created will set the stage for a hyperinflationary collapse of the U.S. economy and the U.S. dollar. If that sounds improbable, one should note that the events of 2007 and 2008 seemed unlikely in 2006, even though the real estate market had started to falter then. With so much pain to be felt in the economy, it is essential that the U.S. leadership address the problems without equivocation and quick fixes. If this does not happen, we have little to look forward to in 2009 except further erosion of market confidence and more volatility. The conditions for a continued bear market are firmly in place in the U.S. and only policies that will engender long-term stability are likely to induce investors back into the markets.

All this said, I must confess that I am still hopeful that Mr. Obama will be up to the task at hand. He has made history just by being elected President against overwhelming odds. He can write history for the coming generation by the policies his administration will pursue in dealing with the current crisis. With some real economic leadership, we feel the markets will be exciting for us in 2009. It is not to suggest that the world

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economy will do well – far from it in fact – but if the global policy mix finally moves to setting the stage for long-term stability, the risks in exploiting the numerous attractive long-term opportunities we see already today, will be much reduced. We have believed for several weeks that market valuations globally, especially in some equity sectors, are very attractive. Reasonable policies will allow us to be much more aggressive in exploiting them.

In terms of the portfolio, we remain in many of our core bets with which we started 2008 because events have not fully run their course. We have reduced our financial shorts, both in equities and credit. However, we have actually increased our short positions in retail and industrial credits expecting a prolonged U.S. recession. Our fixed-income exposure has increased dramatically in the last months because the bulk of our options positions are now significantly in the money. We have begun to increase our short position in the U.S. dollar and have continued to build long positions in Canada and in gold. There is still considerable uncertainty, but perhaps, also reason for hope!

I wish all of you a wonderful holiday season and a happy and prosperous 2009.

Performance Summary at November 30, 2008

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)
8.3%	18.8%	31.9%	42.2%	63.9%	40.6%	24.0%	N/A	41.1%	15.8%

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)
8.1%	22.2%	38.5%	39.6%	70.3%	44.1%	22.9%	15.8%	40.3%	22.5%

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