

130/30 Extended Alpha Strategy

Quarterly Review – Fourth Quarter 2009



Performance Summary

The 130/30 Extended Alpha Strategy generated significant positive alpha for the year.

Investment Environment

The economic and investment environment changed dramatically during 2009. The year began with the economy in the midst of recession and the financial markets faltering as investors feared a complete meltdown of our financial system. However, as the year progressed, unprecedented government actions helped ease investor fears and the environment began to improve.

After four consecutive negative quarters, GDP growth turned positive in the third quarter. The economy continued to recover in the fourth quarter and positive growth is expected to continue in the coming quarters.

After huge rallies during the second and third quarters, the capital markets continued to improve during the fourth quarter, with the S&P 500 rising over 6%. The credit crises of late 2008 and early 2009 is now a distant memory, as credit spreads continue to narrow.

Coming off the market bottom in early March, the major theme driving the markets had been the improving economic environment. As a result, those areas perceived to be beneficiaries of the improving environment performed extremely well, with little attention paid to company specific variables like business trends and valuation. More recently, stock prices have become more reliant on these company specific variables, which generally leads to improved performance from our quantitative model.

Portfolio Structure and Positioning

As you will recall, SSI's 130/30 Extended Alpha strategy is an active strategy, which strives to outperform the S&P 500 annually, while maintaining a tracking error in the 5% range. The portfolio is always fully invested; meaning it maintains a net exposure (Longs – Shorts) near 100%. It is a widely diversified portfolio with 70-90 long holdings (currently 88) and 20-40 short holdings (currently 32).

We seek to add value on both the long and the short side.

During 2009, the value added was driven by the long side of the portfolio, which significantly outperformed the S&P 500.

We expect most of our value-added to come from stock selection and sector allocation, due to our bottom-up investment process.

During 2009, we saw positive contributions from both stock selection and sector positioning.

After beginning the year with a relatively defensive posture, we repositioned the portfolio to benefit from the more positive economic and market environment during the second and third quarters.

As you can see from the table below, the portfolio's largest overweights are Technology, an economically sensitive sectors and Health Care, a traditionally defensive sector. The largest underweights, Utilities and Consumer Staples, are both considered more defensive sectors:

	SSI 130/30	S&P 500
Overweight*		
Technology	23.1%	19.8%
Health Care	14.0%	12.7%
Underweight*		
Utilities	1.3%	3.7%
Consumer Staples	9.0%	11.3%

* Net Sector Allocation

Quantitative Models

2009 was a difficult year for many of the quantitative factors. Three of the year's most problematic areas for quantitative modeling are highlighted below:

- **Company Performance** – Over the long term, quantitative factors which look back at historical trends in operating metrics like revenue, earnings, margins, etc. have performed well. During 2009, these measures were contrary indicators, because investors were not concerned with how a company performed historically. Instead, they were focused on potential benefits from a recovery.

- **Corporate Quality** - Companies with relatively high credit risk and uncertain business prospects outperformed as the economic environment improved and investors became more comfortable taking on risk. As a result, quantitative factors based on quality, consistency and safety saw substantial inverse performance.

- **Stock Price Momentum** – Historically, stocks which have outperformed over the prior 6-12 months, generally, continue to outperform. During 2009, not only did these stocks fail to outperform, but they underperformed dramatically.

The quantitative model is continuously being adjusted and enhanced.

Given the economic and stock market environment, we anticipated a certain amount of temporary adverse performance from some of these quantitative factors and were proactive in adapting our quantitative model. This was accomplished by:

- Increasing the model's reliance on factors not directly linked to the economic cycle.
- Decreasing the emphasis on factors which are skewed by the market and economic cycle

In addition, extensive research has been done assessing the impact economic indicators have on the performance of various factors. This was utilized to adapt the model and is improving performance during the economic recovery.

Environment improving for quantitative models.

As we have discussed, the economic and market environment made 2009 a challenging year for several quantitative factors. In recent months, factors based on; company performance, corporate quality and price momentum are seeing improved results. As a less extreme market environment develops, we believe the recent improvements will likely continue and expect 2010 to be a good year for our quantitative model.

The fundamental component is performing well.

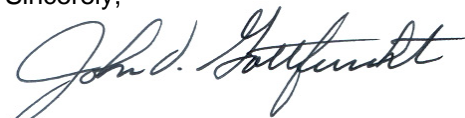
As you know, SSI combines quantitative and fundamental analysis. The fundamental component has been especially important in the current environment, with the SSI Fundamental Research Team thoroughly analyzing the impact an improving economic environment has on each portfolio candidate. We are excited about the fundamental team currently in place and expect the positive contributions seen in 2009 to continue.

Summary & Outlook

As we have discussed, 2009 was a good year for the 130/30 Extended Alpha strategy. The environment remains quite favorable for the strategy and we expect the trend of positive alpha to continue.

We thank you for your continued support and look forward to helping you achieve your long term financial goals.

Sincerely,



John Gottfurcht
President

Performance Disclosure:

The 130/30 Extended Alpha ("Strategy") began July 1, 2007. The portfolio is an estimated 130% long (with 70-100 positions) and 30% short (with 20 to 40 positions).

All returns are based in U.S. dollars and reflect, on a percentage basis for each of the periods indicated: (a) the net increase (decrease) of the Strategy, dollar-weighted, including adjustments for unrealized gains and losses, the reinvestment of dividends and other earnings, the deduction of costs, except for SSI's management fees, time-weighted to adjust for additions and withdrawals, and (b) the net increase (decrease) of the Index.

SSI believes a performance comparison versus the total return of the S&P 500 ("Index") is appropriate. However, the volatility of this strategy could be greater than the volatility of the S&P 500 due to the inclusion of slight margin and short positions. The return, if any, above the Index is dependent upon SSI's discretionary management. The other indices shown are not necessarily comparable to SSI's Strategy. These are widely recognized market indices that are shown for informational purposes only.

The performance returns from May 1998 through June 2007 are back-tested and generated solely based on SSI's quantitative model used for the Long/Short Equity Market Neutral Strategy. Simulated performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are often significant differences between simulated results and actual results subsequently achieved. One of the limitations of simulated performance results is that they are prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. The results may not reflect the impact that any material market or economic factors might have had on SSI's use of the simulated model, if the model had been used during the period to actually manage client assets. SSI was not managing money within this strategy during the period of the simulation. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of simulated performance results and all of which can adversely affect actual trading results.

A client's actual return will be reduced by the advisory fees and any other expenses which may be incurred in the management of an investment advisory account. See SSI's Form ADV, Part II for a complete description of the investment advisory fees customarily charged by SSI. As an example, an account with an initial \$1,000,000 investment on January 1, 2003, earning a recurring 5% semi-annual gross return (10.25% annualized), and paying a .375% semi-annual management fee (0.75% annual fee) would have grown to \$1,340,096 on a gross of fees basis and \$1,310,225 on a net of fees basis by December 31, 2005 (3 years).

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