Blended Market-Neutral, LP

Quarterly Review – Fourth Quarter 2009

SSi Investment Management

For the Fourth Quarter and year of 2009, the SSI Blended Market-Neutral Fund posted above trend positive returns

Market Environment

The economy continued to recover in the Fourth Quarter, with the Fourth Quarter registering the second consecutive quarter of positive GDP growth.

As it became clear the recession had ended, Investors shifted their focus from recession to the trajectory of recovery.

The capital markets responded favorably, with equity markets rising and corporate credit spreads contracting. Treasury yields moved higher. The yield on Ten-Year Treasuries rose approximately 50 basis points during the Fourth Quarter, from 3.3% at the end of the Third Quarter to 3.8% at year-end.

Hedged Convertible Component

SSI's Hedged Convertible component generated positive, above trend returns for the fourth quarter and the year.

During the Fourth Quarter, the Hedged Convertible Component benefited from evidence that the economic recovery was underway.

Specifically, the Convertible Market profited from:

- Declining credit spreads;
- Continuing strong "buy" interest from both outright and hedged investors; and
- Convertible valuations gravitating toward fair value.

Long/Short Equity Component

SSI's Long/Short Equity Market-Neutral component generated below trend performance for the fourth quarter and the year.

Quantitative Models

This year's unusual market environment made 2009 a tough year for most quantitative models and systematic investors.

As you may recall, our quantitative model utilizes over 40 factors. In the past, we have seen some factors generate inverse performance, but the magnitude of underperformance during 2009 was unprecedented. Three of the year's most problematic areas for quantitative modeling are:

- 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.

Environment for Blended Market-Neutral

2010 Outlook

While we are pleased by the exceptionally strong performance achieved in 2009, we turn our attention to the year ahead. The general consensus is that the road to recovery will be relatively muted in 2010.

We believe 2010 can be a solid year with return potential better than average, though substantially more moderate than 2009.

Hedged Convertible Component

The Hedged Convertible component is expected to achieve excess returns from the following sources: attractive yields, further tightening credit spreads, continued recovery of valuations, favorable stock-specific volatility, and significant new issuance.

Attractive Yields
The Convertible Market continues to offer attractive yields and provide an income advantage.

- Weighted Yield-to-Best was 5.3% at December 31, 2009
- Short-term interest rates remain very close to zero and are unlikely to move higher until later year

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Environment for Blended Market-Neutral - *Continued*

- Longer-term Treasury Yields remain relatively low and have downside risk when interest rates rise

Tightening Credit Spreads

Corporate credit spreads are near prior cycle's highs. Credit spread contraction can continue for some time. In spite of credit spread narrowing this year, credit spreads remain at wide levels:

- 248 bps over treasuries for BBB
- 473 bps over treasuries for BB
- 597 bps over treasuries for B
- 990 bps over treasuries for CCC

Compelling Valuations

Valuations for the broad Convertible Market are close to fair value at the start of the year. However, SSI's Convertible Team is focused on identifying individual issues trading at meaningful discounts to theoretical value. The average portfolio position trades presently at 4% discount to theoretical value. This is significant as the differential of 1-2% is more typical.

Favorable Stock-Specific Volatility

As 2010 begins, stock-specific volatility, while lower than last year at this time, remains at levels substantially higher than most of the last decade. Furthermore, SSI believes that the equity markets will see swings in both directions as the year unfolds. As a result, SSI's Hedged Convertible portfolio may profit from dynamic adjustments of the hedge ratios as stock prices gyrate. As you may recall, Convertible securities gain equity sensitivity as the underlying stock price rises and decreases its equity sensitivity as the underlying stock price falls.

Significant New Issuance

Companies continue to take advantage of the recent strengthening in the stock market and contracting corporate credit spreads. We continue to view new issues as a compelling combination of good yields and low conversion premiums. Furthermore, we expect new issuance to be active in the coming months.

Long/Short Equity Component

The Long/Short Equity component is expected to generate positive returns. The combination of a more favorable market environment, improved performance from the quantitative model and continued positive contributions from the fundamental team should drive excess returns in the strategy.

Favorable Market Environment

The environment for equity market neutral continues to improve. As we have discussed, the macro factors which dominated the stock market during the initial stages of the market rebound made the environment difficult for equity market neutral. As the market environment has become less extreme, company specific variables are becoming a more significant driver of stock prices and dispersion of returns at the stock specific level is returning to a more normal level.

Quantitative Model More Effective

While the environment for quantitative models made 2009 a challenging year, the severe inverse performance seen earlier in the year has begun to abate. Understanding the current market environment, we continue to emphasize those factors not directly linked to the economic cycle and have reduced the momentum contribution. In recent months, model performance has improved significantly. We believe the recent improvement is likely to continue and expect 2010 to be a good year for our quantitative model.

Fundamental Team Adding Value

During 2009, the fundamental team generated consistent, positive alpha. We are excited about the team currently in place and expect positive contributions to continue in 2010.

Summary & Outlook

Putting this all together, although there is no guarantee of future returns, we believe SSI's Blended Market-Neutral Fund has the potential for another solid year in 2010.

We thank you for your continued support and look forward to 2010 being a continued period of opportunity.

Sincerely,

John Gottfurcht
President

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The SSI Blended Market-Neutral strategy invests both long and short in a diversified portfolio of common stocks and convertible securities to attempt to achieve an absolute return. The composite contains fully discretionary accounts including those no longer with the firm. With interest rebates on short sales and coupon interest on convertible bonds comprising a consistent and important component of the return of the Blended Market-Neutral strategy, SSI believes a performance comparison versus 90-Day Treasury Bills ("Index") is appropriate. However, the volatility of this strategy is expected to be greater then the volatility of the 90-Day Treasury Bill due to the inclusion of convertible and equity positions. The return, if any, above the Index is dependent upon higher interest income available in the convertible market and SSI's discretionary management. The other indices shown, if any, are not necessarily comparable to SSI's strategy. These are widely recognized market indices that are shown for informational purposes only. 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 all Blended Market-Neutral portfolios, dollar-weighted, including adjustments for unrealized gains and losses, the reinvestment of dividends and other earnings, the deduction of costs, time-weighted to adjust for additions and withdrawals, and reduced by the management fees paid by such accounts (which may include performance fees), and (b) the net increase (decrease) of the Index.