

July 2009

Outright Convertible Investment Opportunity

Q & A with Ravi Malik, CFA, Portfolio Manager, Outright Convertible Strategies

Highlights of Outright Convertibles in 2009



Performance Leader: SSI's Investment Grade Convertible Portfolios continue to outperform its peers

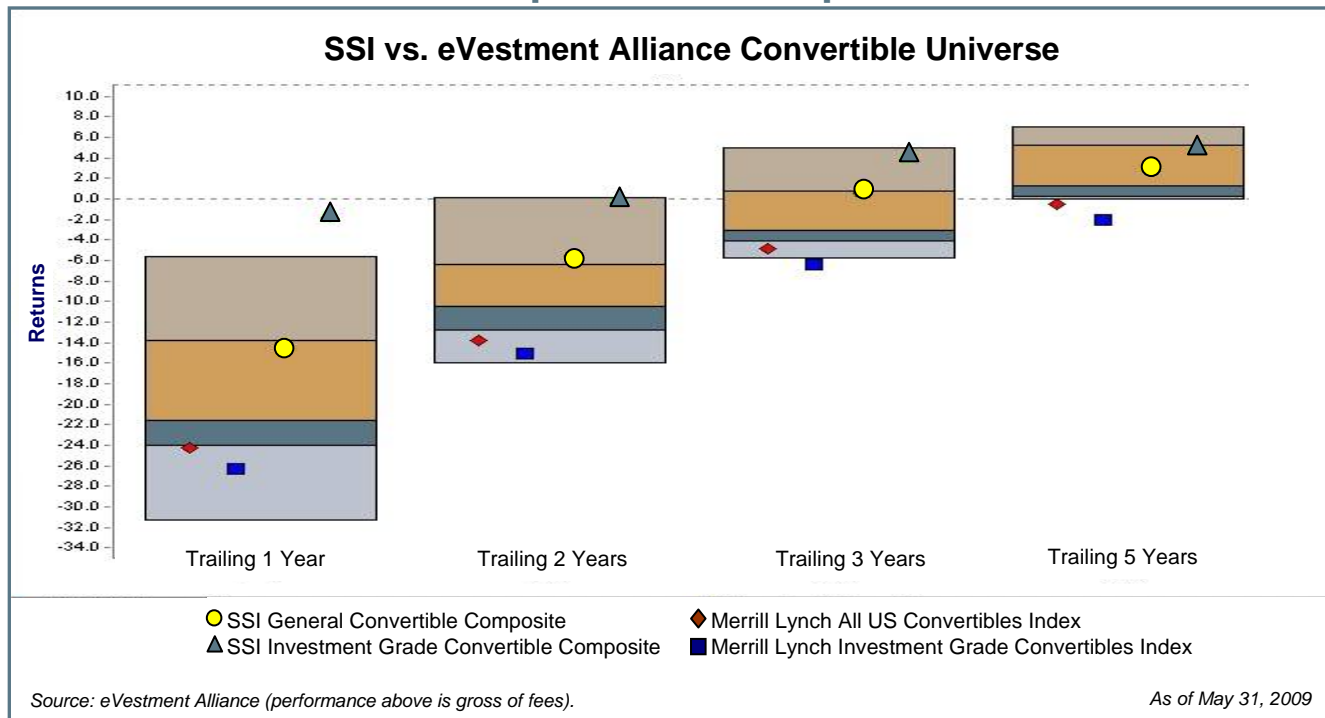
Above Trend Performance: Convertibles have outperformed stocks during the first half of 2009: Annualized return of 10% since January 1, 1983

Attractively Priced: Convertibles remain cheap in theoretical terms relative to equities and credit

Positioning and Outlook: Theoretical cheapness, equity market upside and contracting credit spreads contribute to our outlook for strong outperformance by Convertibles

Performance Leader

SSI Outperforms Competition



Performance (net of fees)	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Trailing 5 Years
SSI General Convertible Composite	-11.84%	-5.70%	0.48%	2.21%
SSI Outright Convertible Investment Grade Composite	1.19%	0.31%	3.84%	4.41%

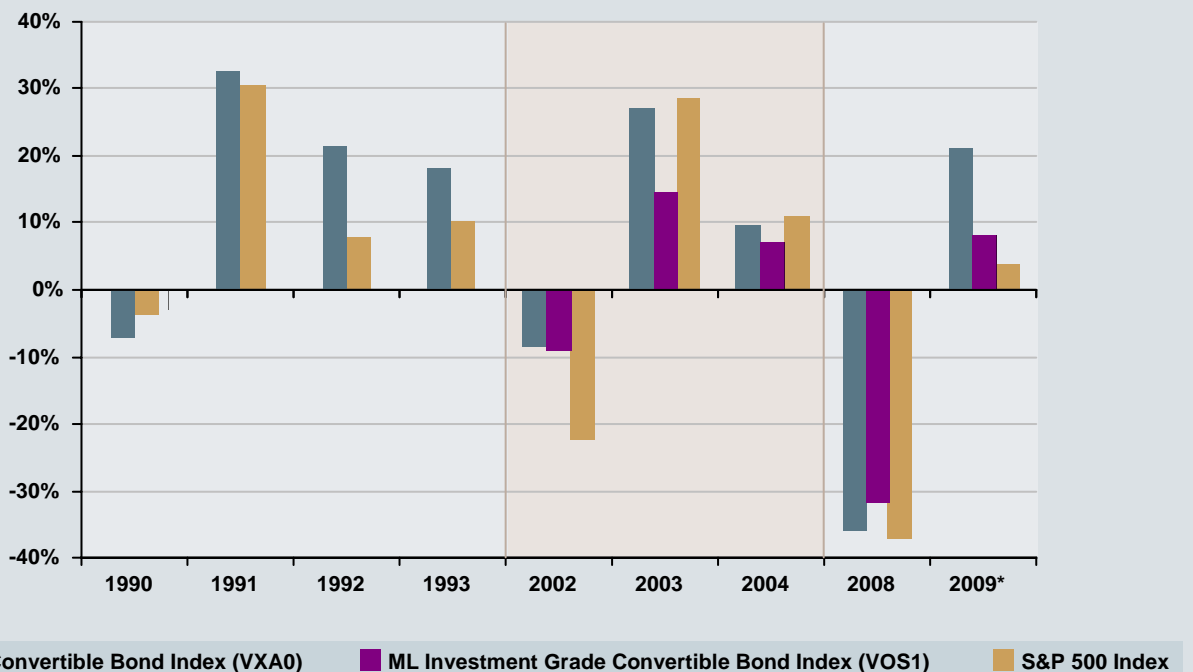
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Q. Outright Convertible strategies have outperformed for the first half of 2009. After a difficult 2008, are you surprised by this?

Outright Convertibles started recovering in December 2008 and have strongly outperformed for the first half of 2009 as spreads and cheapness continue to revert to the mean. At their cheapest level in November 2008, Convertibles as an asset class represented a generational opportunity, with a theoretical cheapness of over 6% on top of the widest credit spreads for high yield on record, and an exceptionally cheap equity market.

History indicates that a period of subpar Convertible returns driven by liquidity and technically driven dislocation is succeeded by a prolonged period of strong outperformance by the asset class. This is demonstrated by Convertible performance in 1991, 1992, 1993, 2003 and 2004. The graph below shows the asset class's biggest drawdowns, followed by above trend performance.

Annual Performance
Merrill Lynch Convertible Index and Investment Grade Convertible Index vs. S&P 500



*As of June 30, 2009

Q. How has the monetary and fiscal stimulus affected the Convertible asset class?

The colossal and unprecedented monetary and fiscal stimulus initiated in the wake of the collapse of Lehman Brothers has started to have an impact across all risk assets and considerably reduced tail risk. By way of perspective, the sum total of monetary and fiscal stimulus measures in this cycle adds up to 29.9% of Gross Domestic Product. From 1929 through 1932 the comparative number was 8.3%. In particular, credit spreads have contracted across the spectrum of debt securities from bank loans and investment grade paper to high yield bonds. The door to the capital markets that was tightly shut, found an opening starting with the convertibles market. Convertibles are continuing to benefit enormously from the rapid new issuance calendar as well as the tightening of credit spreads. Specific to the Convertible Market, the stimulus reignited the new issuance calendar. 45 new deals worth \$16.1 billion came to market through June 2009. Almost all of these deals were priced very attractively, oversubscribed by buyers and traded higher in the secondary market.

Additionally, equities, after 2008's historic decline, have rebounded 35% from the lows of March. We expect the equity market to rally 10% for the year from current levels. Upside should be supported by healthy dividends, expectations of a return to earnings growth in 2010 and reasonable valuations. As you are aware, Convertibles have historically captured 2/3 of the equity market's upside while controlling downside risk.

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Q. Are we heading into an inflationary period?

The unprecedented monetary stimulus including quantitative easing is sowing the seeds of future inflation. This is supported by the long end of the Treasury curve selling off in anticipation of rising inflation, as well as a rising trend in TIPS spreads. Although we are currently in a period of deflation, or the first phase of an economic recovery following a period of contraction, the risk of a policy error is high. Since monetary policy acts with a long lag, policy makers are likely to be slow in withdrawing the monetary stimulus given the magnitude and duration of the current downturn. The bond market is pricing in this distinct possibility.

The table below displays the performance of the Convertible asset class during the high inflationary period of 1973-1984.

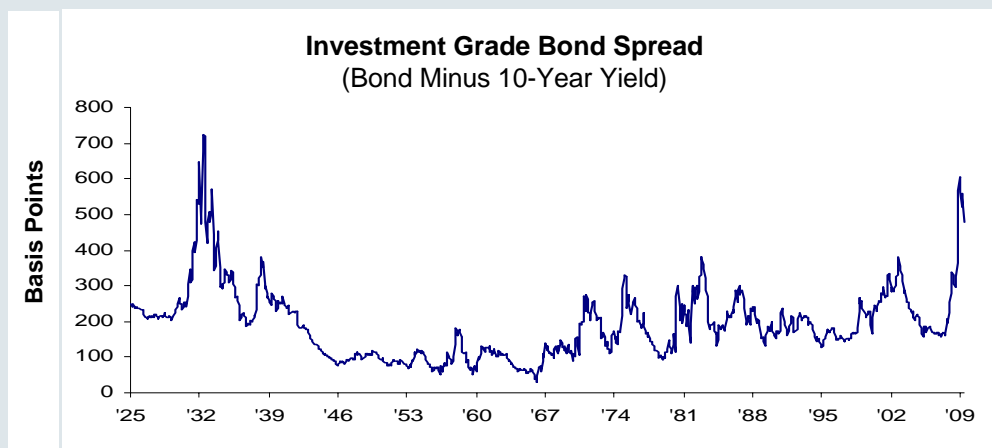
Top 4 Asset Classes Nominal Return
(1973 – 1984)

	Convertibles	Large Cap Stocks	Small Cap Stocks	Gold	CPI
Mean Return	11.7%	9.6%	22.2%	21.6%	7.9%
Standard Deviation	12.8%	18.9%	27.1%	45.4%	3.0%
Sharpe Ratio	0.39	0.15	0.57	0.33	0.40

Q. What is your outlook for the Convertible Market for the remainder of the year?

We are very bullish on the outlook for Convertibles. Convertibles continue to offer very attractive yields with implied credit spreads wider than the straight counterparts in many instances. At the same time, the current crop of high yield Convertibles represents issuers with stronger balance sheets and credit profiles, than their straight counterparts on average. The typical Convertible issuer has a stronger growth profile than the average company accessing capital markets and is able to reduce equity dilution while financing its near term growth prospects.

Despite recent tightening, credit spreads are still pricing in economic catastrophe at 500 bps for investment grade and 1000 bps for high yield. The S&P to GDP ratio is 55% (as of May 2009). Historically, at this starting level of equity valuation, long term patient investors in equities have been handsomely rewarded with prospective cumulative ten year returns ranging from 100% to 300%. Convertibles represent an attractive way of participating in this potential upside, with considerably lower downside risk and return volatility. Theoretical cheapness, attractive and active new issuance and contracting credit spreads add to our confidence in the favorable return outlook for convertibles.



Source: Strategas Research Partners, LLC

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About SSI

SSI Investment Management is a Registered Investment Advisor specializing in the creation of alpha-generating investment solutions for clients. Founded in 1973, SSI is recognized as an innovator in systematic investment strategies and the integration of a disciplined quantitative process with fundamental analysis. SSI's expertise in Market-Neutral strategies and short selling has been honed by the Firm's 36 years of experience. The Firm has 35 employees, including 16 investment professionals. SSI's Senior Investment Team has worked together for more than 15 years with no turnover. Based in Los Angeles, California, SSI is 100% employee-owned. Recognizing ongoing client demand for alpha-generating investment products, SSI, in early 2009, acquired the prestigious Frolely Revy Investment Group. Frolely Revy was founded in 1975 and has built one of the most successful records in the management of both investment grade and non-investment grade convertibles. The Long Convertible Team is comprised of 6 Investment professionals. The Senior Members of the SSI and members of Frolely Revy Teams are stakeholders in SSI Investment Management. SSI and Frolely Revy investment teams will benefit from the combined credit and equity research capabilities of the two firms.

SSI's Outright Convertible Investment Strategy

SSI's Outright Convertible products seek to add value by producing equity-like returns with bond-like risk. Utilizing both quantitative and fundamental analysis to determine the best portfolio candidates, SSI's portfolio team constructs a diversified portfolio of convertible bonds and convertible preferred stocks that have been evaluated on relative valuation and risk attributes.

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Outright Convertibles Performance Disclosure

SSI Investment Management, Inc. acquired the assets of Frolely Revy Investment Co., Inc and its composites as of March 1st, 2009. SSI is not and does not claim to be GIPS compliant. However, from January 1, 1983 through September 30, 2008, Frolely, Revy claimed GIPS compliance and was verified by Ashland Partners & Company, LLP.

The Outright Investment Grade Bonds Only strategy is invested in convertible bonds. This composite was created in January 1999. The composite contains fully discretionary accounts including those no longer with the firm. SSI believes a performance comparison versus the Merrill Lynch Investment Grade Convertible Bonds (V0S1) index is appropriate. However, the volatility of this strategy is expected to be greater than the volatility of the Merrill Lynch Investment Grade Convertible Bonds index as the strategy holds a smaller number of positions as the index and may hold 144A securities. The return, if any, above the Merrill Lynch Investment Grade Convertible Bonds 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.

Actual results of an individual account may be materially different from the performance shown herein because of differences in inception date, transaction and related costs, restrictions, fees and other factors. The annual composite dispersion presented is an asset-weighted standard deviation calculated for accounts in the composite the entire year.

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 Outright Investment Grade Bonds Only portfolios, 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 fee and any separate custodial fees, time-weighted to adjust for additions and withdrawals.

The Outright General Convertible strategy is invested in convertible bonds and convertible preferred stocks. This composite was created in January 1997. The composite contains fully discretionary accounts including those no longer with the firm. SSI believes a performance comparison versus the Merrill Lynch All Convertibles excluding 144A (VXNO) index is appropriate. However, the volatility of this strategy is expected to be greater than the volatility of the Merrill Lynch All Convertibles excluding 144A index as the strategy holds a smaller number of positions as the index. The return, if any, above the Merrill Lynch All Convertibles excluding 144A 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.

Actual results of an individual account may be materially different from the performance shown herein because of differences in inception date, transaction and related costs, restrictions, fees and other factors. The annual composite dispersion presented is an asset-weighted standard deviation calculated for accounts in the composite the entire year.

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 Outright General Convertible portfolios, 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 fee and any separate custodial fees, time-weighted to adjust for additions and withdrawals.

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 .5% semi-annual management fee (1% annual fee) would have grown to \$1,340,096 on a gross of fees basis and \$1,300,392 on a net of fees basis by December 31, 2005 (3 years).

THIS MATERIAL IS INTENDED ONLY FOR QUALIFIED INVESTORS. IT DOES NOT CONSTITUTE AN OFFER TO PURCHASE AN INTEREST IN ANY PRIVATELY OFFERED FUND MANAGED BY SSI. SSI INVESTMENT MANAGEMENT INC. BELIEVES THAT RESULTS WERE GENERATED WITH AN INVESTMENT PHILOSOPHY AND METHODOLOGY SIMILAR TO THAT DESCRIBED HEREIN. FUTURE INVESTMENTS, HOWEVER, WILL BE MADE UNDER DIFFERENT ECONOMIC CONDITIONS, IN DIFFERENT SECURITIES AND USING DIFFERENT INVESTMENT STRATEGIES. IT SHOULD NOT BE ASSUMED THAT FUTURE INVESTORS WILL EXPERIENCE RETURNS, IF ANY, COMPARABLE TO THOSE DISCLOSED HEREIN. THE INFORMATION GIVEN IS HISTORIC AND SHOULD NOT BE TAKEN AS ANY INDICATION OF FUTURE PERFORMANCE. THE PERFORMANCE DATA WAS PREPARED BY SSI INVESTMENT MANAGEMENT INC. AND WAS NOT COMPILED, REVIEWED OR AUDITED BY AN INDEPENDENT ACCOUNTANT. ANY INVESTMENT IS SUBJECT TO RISK OF LOSS.

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