

Performance Summary

For the Fourth Quarter and year of 2009, SSI's Hedged Convertible Opportunity Fund produced positive returns, representing SSI's very best since launching this investment strategy in 2001.

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.

The Convertible Market

During the Fourth Quarter, the Convertible Market 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.

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.

SSI's Hedged Convertible Opportunity Strategy 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
- 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 Opportunity Fund portfolio will 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.

Summary

Putting this all together, although there is no guarantee of future returns, we believe SSI's Hedged Convertible Opportunity 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,



George M. Douglas, CFA
Chief Investment Officer
Enclosure(s)

Performance Disclosure:

The SSI Hedged Convertible Market-Neutral Leveraged Composite strategy invests long in a diversified portfolio of convertible bonds/preferreds and short in a diversified portfolio of common stocks to attempt to achieve an absolute return. We expect to use leverage all or most of the time within this strategy. 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/preferreds comprising a consistent and important component of the return, SSI believes a performance comparison versus 90-Day Treasury Bills is appropriate. However, the volatility of this strategy is expected to be greater than the volatility of the 90-Day Treasury Bill due to the use of leverage. The return, if any, above 90-Day Treasury Bill 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 Leveraged Convertible Arbitrage portfolios during the period, 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 actual management fees (which may include performance fees) paid by such accounts, and (b) the net increase (decrease) of the 90-Day Treasury Bill. The SSI Hedged Convertible Opportunity Fund, which was added to the Levered Composite in May, 2008, is expected to incur administrative costs that are approximately between two and eight basis points higher per month than the costs of other accounts included in the composite, and also use a model management fee of the highest management fee used for the strategy.

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