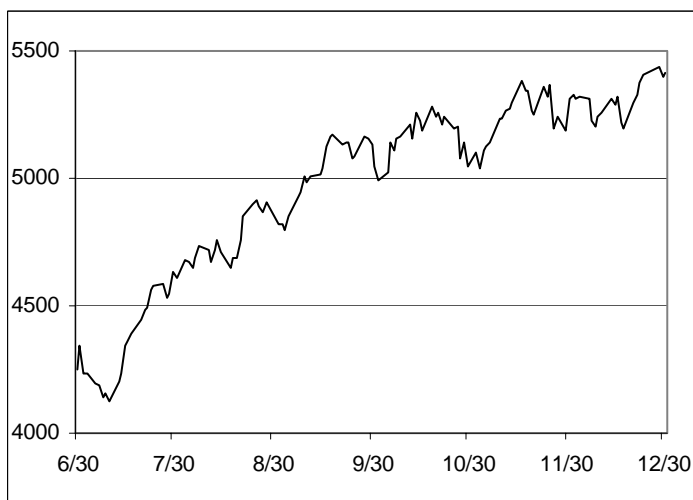


Scorecard through December 2009

Total returns unless otherwise specified

Index	Q4	2009	2008
EQUITY			
S&P 500	6.04%	26.46%	-37.00%
DJIA	8.10%	22.68%	-31.93%
MSCI EAFE	2.22%	32.46%	-43.06%
MSCI Emerging Markets	8.58%	79.02%	-53.18%
FIXED INCOME			
Barclays Agg	0.20%	5.93%	5.24%
Barclays TIPS	1.76%	11.41%	-2.35%
High Yield	4.26%	44.46%	-23.88%
ALTERNATIVE INVESTMENTS			
US Dollar Index	1.57%	-4.24%	6.01%
Commodities	8.42%	13.49%	-46.49%
Oil Total Return	6.67%	4.36%	-53.23%
Gold Spot	8.86%	24.36%	5.77%
Hedge Fund Index	2.16%	13.40%	-23.25%
KEY RATES as of			
	12/31/09	12/31/08	12/31/07
3 mo. T-bill Yield	0.06%	0.11%	3.36%
10-yr. Treasury Yield	3.85%	2.25%	4.04%
30-yr. Mortgage Rate	5.33%	5.26%	5.79%

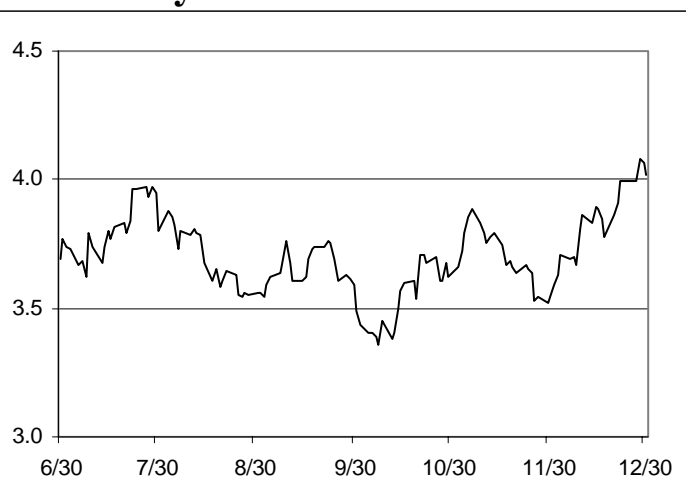
Please refer to index key on page 4

FTSE 100 Index


Bloomberg, 06/30/09 through 12/31/09

Key Points of Q1 Capital Markets Outlook:

- *Horrific 2008 + Robust 2009 doesn't necessarily equate to positive cumulative returns*
- *Expect the People's Republic of China to lead global GDP growth in 2010 as it did in 2009*
- *Record US deficit will challenge cyclical forces and give pundits fodder for debate*
- *10% to 12% US equity returns are within reach in spite of structural currency risks and historic secular forces*

UK 10-yr. Government Note Yield


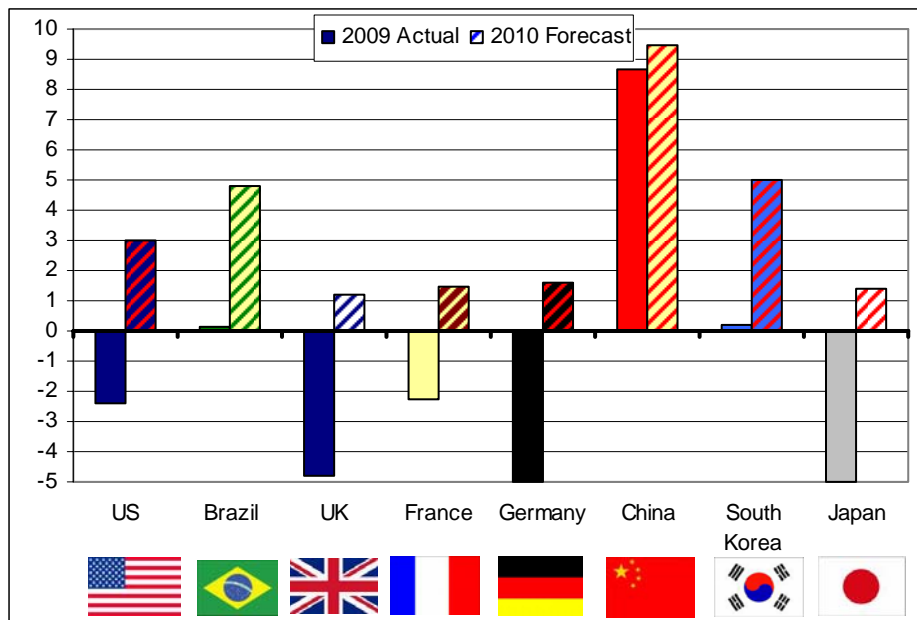
Bloomberg, 06/30/09 through 12/31/09

Capital Markets Outlook

Stephen P. Burke

The mantra that permeated the global capital markets over the last two years has been one of risk, avoiding it in 2008 and embracing it in 2009. The best performing asset classes during 2009 were largely the ones that inflicted the greatest pain in 2008. This uneven “give and take” has wreaked havoc across investor portfolios, both large and small. The low hanging fruit for all intents and purposes was picked in 2009 and enormous structural challenges now face the global economy and capital markets as adroit investors have entered 2010 with a great deal of trepidation and disdain.

Real GDP 2009 Actual vs. 2010 Forecast



Source: Bloomberg, Bloomberg Contributor Composite, Pelagos Capital

The good news is that the global economy is likely to expand by 3% or greater during the year. Growth in the US may exceed 3% while in Japan and Europe growth may be a more tepid 1% and 2%, respectively. Asia ex-Japan will resume its torrid pace growing by nearly 7% with China leading the way, expanding close to 10%. Despite these healthy GDP expectations, global inflationary pressures should be held in check due to high unemployment and early cycle disinflationary pressures.

Corporate earnings in the developed markets should improve by 20% to 30% largely the result of cost cutting and payroll reductions implemented throughout 2008 and 2009. In the US, operating earnings of the S&P 500 is forecasted to expand 25% which is not out of the realm of possibility due to the improving productivity environment. Assuming a P/E multiple of 15x to 16x at year end (reasonable given the level of interest rates) a return of 10% to 12% is certainly achievable. Unfortunately these reasonable assumptions do not acknowledge that this cyclical economic recovery will likely be different from any of those we have experienced since WWII due to mounting secular forces.

Earnings growth in developed Europe will be slightly less than in the US, at a rate closer to 15% to 20% driven by productivity gains and early cyclical factors. Reasonable valuations allow for similar gains to those expected in the US. However, similar structural issues to those in the US as well as currency pressures will limit capital appreciation.

Clairvoyance in the global capital market is at best fleeting and 2010 presents challenges that few pundits have encountered. Cyclical forces will support economic and earnings growth while secular forces present clear and present dangers. Equity prices will receive support from healthy earnings gains and reasonable valuations but will be challenged by reality in that the cost of averting financial armageddon in 2008 has yet to be levied.

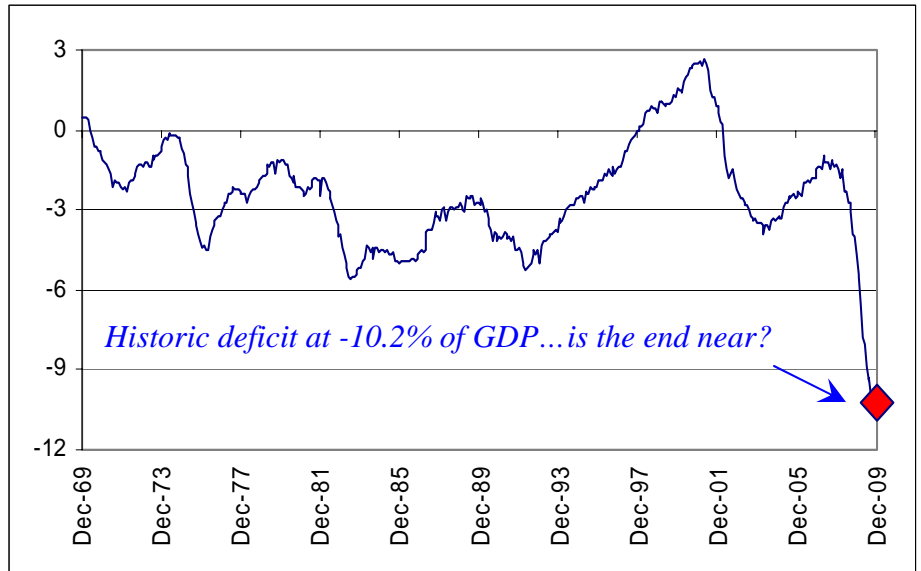


"This game cannot persist indefinitely"

Structural challenges emanate from numerous sources and are not unique to the US. Specifically, US housing prices have seemingly stabilized but foreclosures continue to rise at an alarming rate with little signs of subsiding this year. Unemployment at nearly 10% coupled with the enormous output gap (actual growth of US economy versus potential growth) suggests limited job creation over the near term. However, the mother of all is the US Treasury market.

As the markets prepare for the much anticipated unwind of historic monetary easing efforts and undeniable historic global budget deficits the US Treasury market operates with unbridled compliancy. The faintest of concern is being raised about expectations that the US Treasury will issue nearly \$2.5 trillion in debt this year, up from \$2.1 trillion in 2009, and that budget deficits are expected to total \$8 trillion over the next ten years which would bring our collective debt to nearly \$20 trillion.

US Budget Deficit as % of Nominal GDP

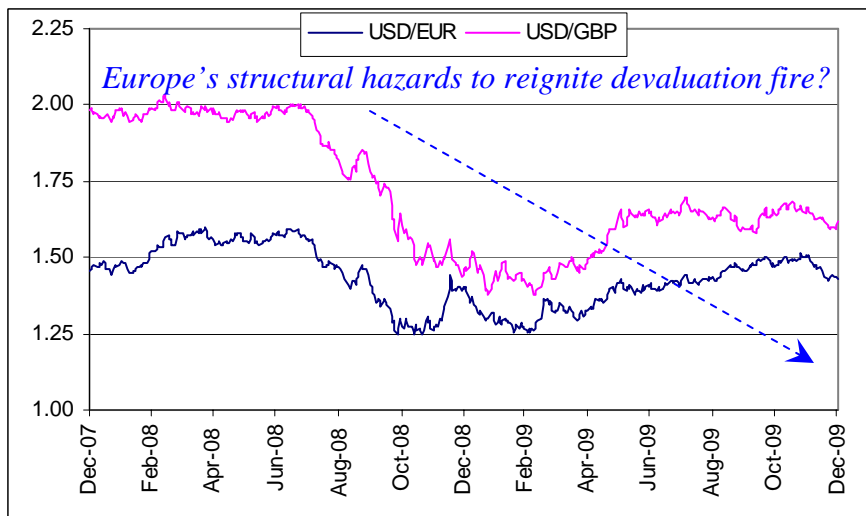


Source: Bloomberg, Pelagos Capital

Notwithstanding, ten year Treasury yields in the US produce a real return of less than 1% while in the UK where there is a real threat of losing the Aaa rating, real returns are slightly better at 1.3%. Surely part of the dysfunction in the US can be attributed to the seemingly new "Fed Put". It is a misguided belief that, given the fragile nature of the US economy and housing market, any meaningful upswing in Treasury yields will be met with aggressive Federal Reserve buying of treasuries and if need be mortgage securities. This may well be the case over the near term but Fed officials understand the dangerous game that they are currently locked into. This game cannot persist

indefinitely and needs to end sooner rather than later or we may face a Japanesque multi-decade malaise.

European Exchange Rates



Source: Bloomberg, Pelagos Capital

Realizations will more than likely ebb and flow during the year as equities are heightened by improving earnings and conversely nagged by pundits, who believe that the costs of policy actions over the last eighteen months have not been fully exerted upon the capital markets. During the year, global equity prices should be supported by improving fundamentals but capital appreciation should be limited due to historic secular forces.

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Index Key: Standard & Poor's 500 Index, Dow Jones Industrial Average Index, MSCI EAFE Index (Gross), MSCI Emerging Markets Index (Gross). Barclays TIPS Index, Barclays Aggregate Bond Index, iBoxx \$ Liquid High Yield Index. US Dollar Index, S&P GSCI Commodity Index, DJ-UBS Crude Oil Total Return Index, Gold Spot price, Hedge Fund Research HFRX US Global Hedge Fund Index. Constant maturity 3 mo. Treasury, constant maturity 10 year Treasury, Bankrate.com US Home Mortgage 30 Year Fixed National Average. Inclusion of indexes mentioned is for illustrative purposes only. Keep in mind that an individual can not invest directly in any index and that index performance does not include transaction costs or other fees, which will affect actual investment performance.

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One International Place
Boston MA 02110
(Tel) 617.310.6530
www.pelagoscapital.com