Φ Pelagos Capital®

Capital Markets Outlook
_Q2 2009_

Scorecard through March 2009

Total returns unless otherwise specified

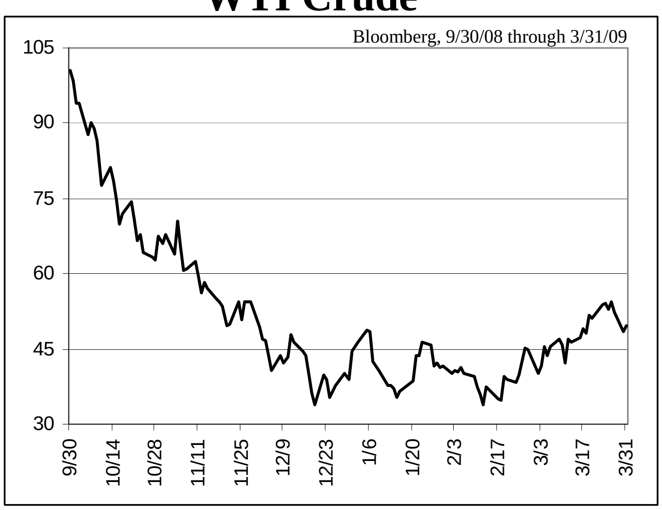
Index	Q1	YTD	1-Year
EQUITY			
S&P 500	-11.01%	-11.01%	-38.09%
DJIA	-12.48%	-12.48%	-35.93%
MSCI EAFE	-13.85%	-13.85%	-46.20%
MSCI Emerging Markets	1.02%	1.02%	-46.90%
FIXED INCOME			
Barclays TIPS	5.52%	5.52%	-2.04%
Barclays Agg	0.12%	0.12%	3.13%
High Yield	2.52%	2.52%	-19.66%
ALTERNATIVE INVESTMENTS			
US Dollar Index	5.07%	5.07%	18.98%
Commodities	-10.64%	-10.64%	-56.50%
Oil Total Return	-18.69%	-18.69%	-64.37%
Gold Spot	4.21%	4.21%	0.25%
Hedge Fund Index	0.68%	0.68%	-20.52%
KEY RATES as of	**3/31/09**	**12/31/08**	**3/31/08**
3 mo. T-bill Yield	0.21%	0.11%	1.38%
10-yr. Treasury Yield	2.71%	2.25%	3.45%
30-yr Mortgage Rate	4.89%	5.26%	5.67%

Please refer to index key on page 4

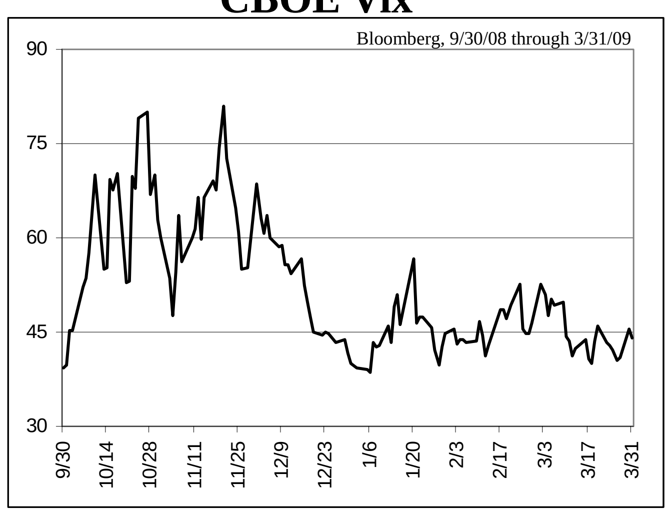
Key Points of Q2 Capital Markets Outlook:

- *Economic data will continue to portray contraction but at an appreciably slower pace than Q4 and Q1*
- *US Consumer will benefit from fiscal stimulus package and mortgage refinancing*
- *Quantitative easing comes with great risk as Treasury issuance balloons while Fed buys securities*
- *Improving fundamentals driving capital markets and commodities though the path will be uneven*

WTI Crude



CBOE Vix



Capital Markets Outlook
Stephen P. Burke

Our conviction that the global economy would emerge from the current historic economic downturn during the second half of the year is gaining greater credibility and wider market acceptance. Policy makers remain ever-vigilant and proactive on a global scale while, not surprisingly, global capital markets and commodity markets have responded.

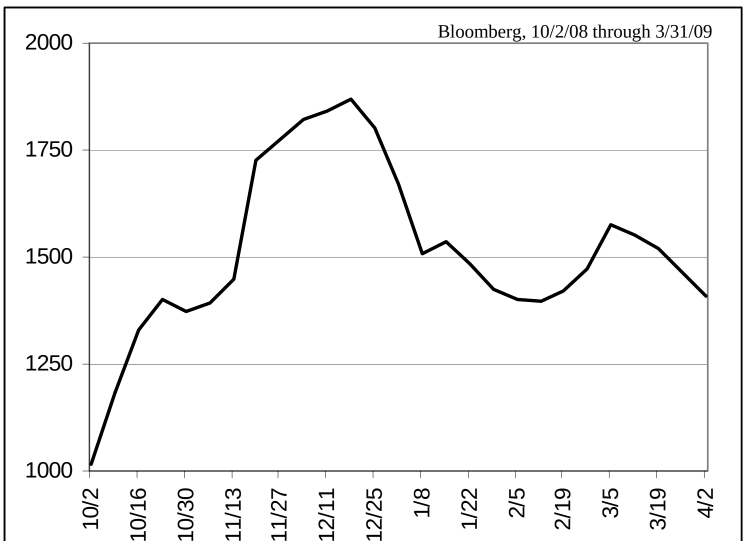
Formidable challenges remain and remuneration for the extraordinarily aggressive policy actions, both monetarily and fiscally, "lies in the reeds" but these are issues that we will have to deal with in late 2010.

The US economy having sowed the seeds for the current global economic downturn will in all likelihood produce the first signs of any sustainable economic recovery. Improving manufacturing data over the last three months in the US and confirmed by several other developed economies are welcome signs but, for now, should be viewed as flickers of hope rather than tangible signs that the recovery has materialized.

Economic data through the second quarter will continue to portray the global economy contracting but, at the very least, appreciably slower than was the case in Q4 and Q1. On balance, data will support the fears and belief that the contraction is firmly in control. But parts of the economy and capital markets have contradicted the headlines and more than likely will continue to do so.

The CBOE SPX Volatility Index has fallen approximately 50% from its high, with potential for further decline. US investment-grade and non-investment-grade credit spreads, which had materially tightened at the beginning of the year, gave little back (about a third) in the January/February stock sell off. Corporate debt issuance in the first quarter was nearly $900 billion, twice the pace of Q1 2008, demonstrating that debt markets are thawing while borrowings from the Federal Reserve discount window in March materially slowed. Although this obscure data makes for largely unattractive headlines, it provides insightful readings into the belly of the US economy and capital markets.

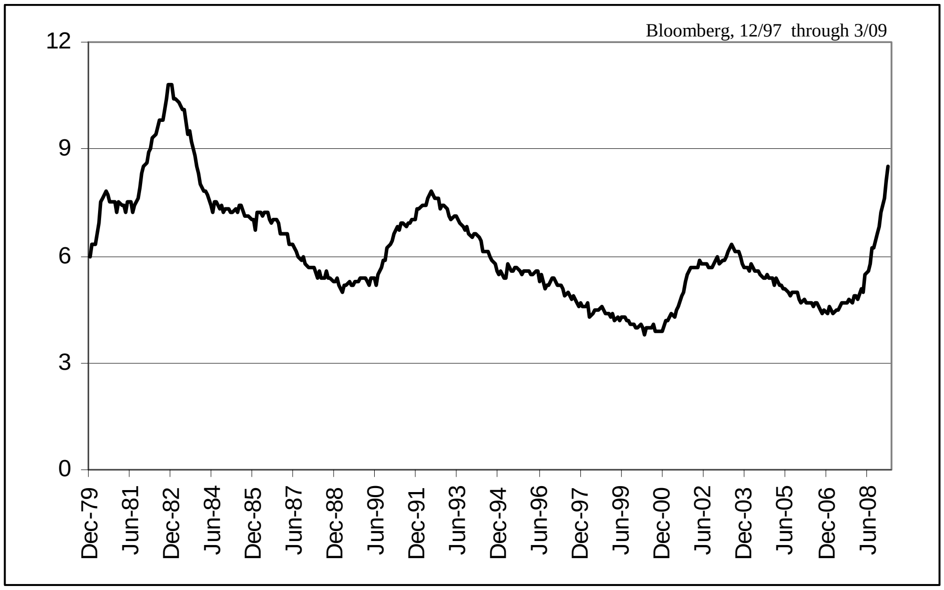
High Yield Spread (expressed in basis points)



CS High Yield Index II (formerly DLJ High Yield Index) spread over 10-Year Generic Treasury

In the coming quarters the US consumer will begin to benefit from the recently enacted fiscal stimulus package and mortgage rates below 5% resulting from the Federal Reserve buying of 10 and 30 year Treasuries (quantitative easing actions). The result will largely improve savings rates and will be

US Unemployment Rate Total in Labor Force Seasonally Adjusted (expressed in percent)



additive to currently very weak consumption. Clarity regarding the auto manufacturers' ultimate status combined with incentives, government or otherwise, should lead to some replacement purchases of a historically old existing auto fleet, which is approaching 10 years old.

Corporate earnings will, on balance, largely disappoint in Q1 and Q2 as current estimates for calendar year remain too high. Although estimates are down materially from late 2008 projections, 2009 expectations remain optimistic. This transition period to more realistic levels will at times pressure the overall equity markets, but will ultimately give way to greater market stability. Initially improving equity prices will be driven by price earnings (P/E) expansion, as has historically been the case, but any sustainable equity market recovery will only be achieved by earnings expansion which should occur in Q4.

Deflationary pressures through the remainder of the year, and into 2010, along with continued support from the Federal Reserve should limit any material sell-off in the Treasury market as improving economic fundamentals and the prospects of Fed tightening are contemplated by the "bond vigilantes". With the unemployment rate potential peaking at 10% sometime in early 2010 and full employment estimated to be close to 5%, the Federal Reserve will be in no rush to unwind a large portion of the monetary stimulus currently in the system. Combined with 40-year low utilization rates, the Fed has ample forbearance.

The historic quantitative easing process currently being executed by the Federal Reserve and designed to help elevate the vast housing inventory comes with great risk. The hypocritical buying of 10 and 30 year Treasuries while budget deficits and Treasury issuance are ballooning puts the Fed on razor-thin ice. The risk of potential unwinding and a 1994-esque bond market sell-off are clear and present dangers.

On balance the global equity, commodity and credit markets (non-government debt) should benefit from improving economic fundamentals through the remainder of the year. This process will be uneven at times, and produce periods when the recovery and capital markets will show signs of being undermined, however the challenges remain formidable yet winnable at least for 2009.

Five Potential Q2 09 Surprises:

At least two major banks return TARP money

Additional capital infusion resulting from stress tests

Upward revision in Q3 and Q4 growth forecasts

ECB stressed further from euro-zone economic deterioration

IMF funding program tapped by Eastern European countries

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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