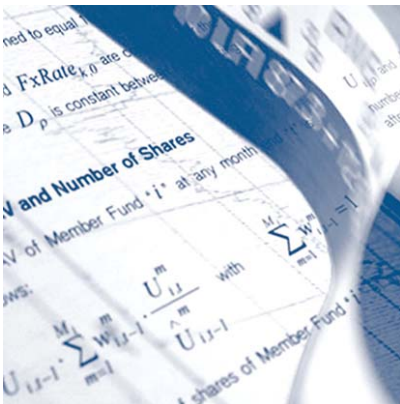


# Monthly Hedge Fund Market Commentary

July 2010



## Hedge Funds and Global Markets Summary

	June	May	Avg. Annualized Return*	Annualized Vol.*	Current Sector Weights
<b>Dow Jones Credit Suisse Hedge Fund Index</b>	<b>-0.84%</b>	<b>-2.76%</b>	<b>9.07%</b>	<b>7.76%</b>	<b>100%</b>
Convertible Arbitrage	0.01%	-2.51%	7.61%	7.17%	1.79%
Dedicated Short Bias	5.45%	5.84%	-2.59%	16.93%	0.22%
Emerging Markets	-0.03%	-4.28%	7.72%	15.39%	7.45%
Equity Market Neutral	-0.99%	-3.30%	5.01%	10.73%	2.14%
Event Driven	-1.58%	-3.07%	10.04%	6.11%	26.73%
Fixed Income Arbitrage	0.92%	-0.79%	5.02%	6.01%	3.57%
Global Macro	0.56%	-0.63%	12.29%	10.16%	18.73%
Long/Short Equity	-2.07%	-4.13%	9.76%	10.02%	21.95%
Managed Futures	0.42%	-4.03%	6.11%	11.76%	3.76%
Multi Strategy	-0.81%	-2.19%	7.92%	5.48%	13.66%

Source: Dow Jones Credit Suisse Hedge Fund Index.  
\*Average annualized Index data begins January 1994.

### Dow Jones Credit Suisse Hedge Fund Index Performance Statistics

3 Months	-2.39%
6 Months	0.63%
1 Year	11.33%
3 Year Annualized Return	0.00%
5 Year Annualized Return	5.62%

### Dow Jones Credit Suisse Correlation Statistics

#### Correlation from January, 1994

Dow Jones Credit Suisse Hedge Fund Index	1.00
S&P 500 (TRI)	0.55
STOXX 50 (TRI) Index (USD)	0.54
TOPIX Index	0.45

	June	May	June Change (bps)	
<b>Equities</b>				
S&P 500	-5.23%	-7.99%		
MSCI World	-3.56%	-9.91%		
STOXX 50	-1.58%	-11.98%		
Nikkei	-3.95%	-11.65%		
<b>Fixed Income*</b>				
10-year US			-35.37	-36.84
10-year Germany			-8.30	-35.70
10-year Japan			-17.40	-2.50
CS High Yield Indx			20.00	116.00

\*Change in bps

	June	May		June	May
<b>Currencies*</b>			<b>Commodities</b>		
EUR	-0.56%	-7.44%	DJ-UBS Index	0.32%	-6.92%
GBP	2.80%	-4.81%	GSCI	1.43%	-11.23%
YEN	3.20%	2.83%	Gold	2.14%	3.14%
CHF	7.20%	-6.69%	Crude Oil	1.41%	-17.52%

Source: Bloomberg, Datastream.

\*vs. US Dollar.

All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information.

# Hedge Fund Market Overview

**The Dow Jones Credit Suisse Hedge Fund Index Posts -0.84% for June and 0.63% for the first half of 2010 as Market Volatility Continued and Managers Trimmed Risk**

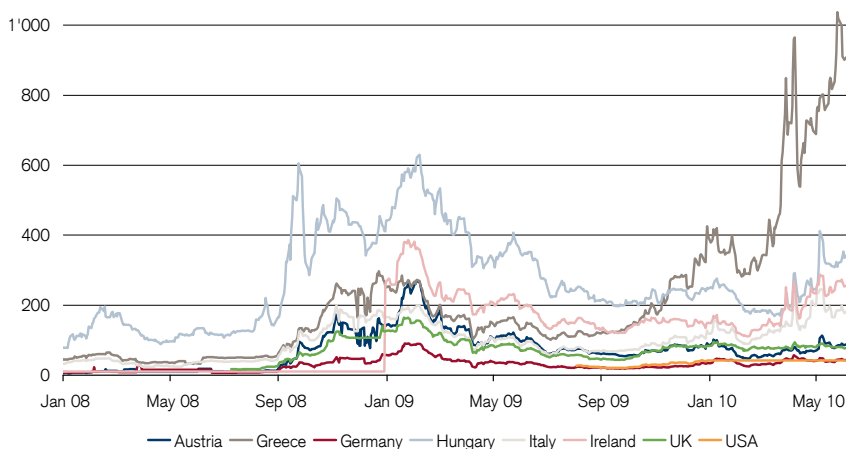
Using a mixture of tactical flexibility and risk management, Fixed Income Arbitrage and Global Macro managers had positive monthly performance, posting +0.92% and +0.56%, respectively, in what was generally a turbulent month for many markets. The short-oriented Dedicated Short Bias was the best-performing strategy for the second month in a row, as it typically performs positively when equity markets are down. Managed Futures also generated positive performance (+0.42%) as the trend-followers found traction in bond and currency markets, while paring back their equity and commodity exposures.



Ongoing concerns over the European debt crisis (see *Figure 1*), weakness in US job and housing data, as well as slowing growth in China dominated a storied month that saw world equity markets struggle, with the MSCI World index posting -3.56% for the month and -10.88% year-to-date (as of June 30). The volatility prompted a flight to quality into safe-haven country bonds (such as Germany, Japan, and US), into the Swiss franc (which rose 12.5% versus the euro this year) and gold (+2.14% in June and +13.2% in the first half of 2010). The changing financial regulatory environment in the US and in Europe contributed to the uncertainty in the markets, and many managers continued to pare back risk. Markets reacted positively to China's surprise announcement that it would end the peg of the yuan to the US. The Shanghai Composite Index was nonetheless down approximately 7.5% for the month and down 23% in the second quarter.

Event Driven, Long/Short Equity and Equity Market Neutral posted negative performance for the month as they were more impacted by the markets and the increased downside correlation among a number of asset classes. The cost of hedging created a drag on performance for many managers focused on hedging their risk exposures, and Credit Suisse Prime Brokerage has reported that managers in aggregate are holding approximately 24% of their assets in cash compared with 19% three months earlier, indicating risk aversion and a preference for keeping "dry powder" on hand.

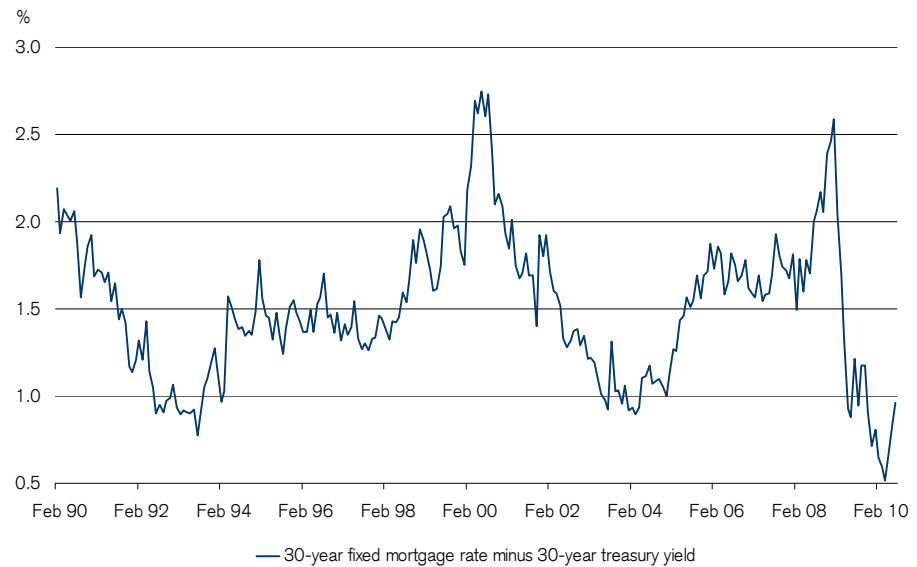
**Figure 1: CDS Spreads<sup>1</sup> Selected EU Governments vs. USA & UK: Concerns Continued**



Source: Bloomberg, Credit Suisse. All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information.

<sup>1</sup> Credit Default Swaps (CDS) are credit derivative contracts designed to provide protection against bond defaults. Buyers of the protection make periodic payments of the premium to the sellers, the cost of which is based on the "spread." The spread is the annual amount the buyer of the protection must pay, and represents a percentage of the notional amount of the bond.

**Figure 2: 30-year fixed Mortgage Rate minus 30-year treasury yield: Low Mortgage Rates and Government Interventions Have Created a Good Trading Environment**



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Fixed Income Arbitrage managers have found that the current environment is more favorable to their relative value style of trading in contrast to the more directional strategies such that they have outperformed all other hedge fund strategies in the Index in the first half of the year. The market volatility, and the correlation levels among stocks and among various asset classes that have not been seen since 2008, present more of a challenge for directional strategies. On the other hand, these conditions create a divergence in government actions, as well as inefficiencies and dislocations in credit markets that can potentially present opportunities for well-versed fixed income traders. For example, mortgage specialists had a positive month with average returns of approximately 2.2%, aided by an environment of low rates and interventions by the US Federal Reserve to prop up the mortgage markets (Figure 2).

It is interesting to note that returns across various fixed income asset classes are generally trending lower in 2010 than in 2009 when they experienced a rebound from the technical sell-off in the fourth quarter of 2008 (except 10-Year Treasuries which in a reversal from 2009 are the best performing fixed income asset class), but this does not present the same type of hindrance for arbitrageurs that it might for long-only credit funds. High yield bonds, as an example, generated 54.22% in returns in 2009 (as measured by the Credit Suisse High Yield Index, net), but are 4.69% year-to-date as of June 30.

The market inefficiencies that have helped Fixed Income Arbitrage managers can also provide opportunities for Global Macro managers and their tactical style of trading. Macroeconomic divergence across countries and between developed and emerging economies remain pronounced. Whether these be GDP growth (and its related economic data), inflation, government debt and deficit issues in developed countries, or a number of other structural issues, the related imbalances and uncertainty are likely to continue to foster volatility. As seen in this year's performance, and as has historically been the rule, Global Macro has better performance when market volatility is higher, as it tends to generate inefficiencies and thematic trading opportunities. Quantitative managers outperformed discretionary managers in June, and specific trading areas that were profitable included directional investments on Treasuries and currency bets involving long yen and Eurodollar positions versus weakening currencies.

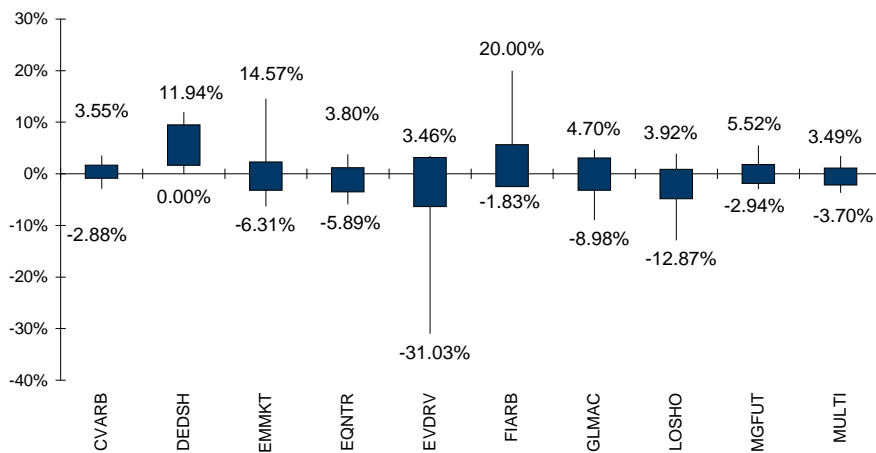
Event Driven managers posted negative performance for a second month after having had 14 months of positive gains starting in early 2009. Though there was no clear catalyst for the losses, the strategy was hampered by the downside correlations across various asset classes, deleveraging and mis-traded hedges.

In the Managed Futures space, trend followers had marginally positive performance while high frequency traders had a negative month. Profits were mainly from long fixed income positions and currencies, while commodity trades experienced minor losses. For directional strategies, it is worth noting that while Long/Short Equity managers suffered losses in June of -2.07%, Emerging Market managers were essentially flat, posting a loss of 0.03%. This divergent performance was mainly due to the fact that Latin America-focused managers produced positive performance despite down markets, while managers in Eastern Europe and Asia (ex Japan) did not fare as well.

Dispersions within the various hedge fund sectors were within a tighter range and more mixed than in May (with the exception of Event Driven) when performance was more negative across most strategies. Dedicated Short Bias, on the other hand, had all managers in positive territory as it did in May. *Figure 3* depicts the range of dispersions as well as the bulk of returns, which are shown as the dark blue boxes (one standard deviation from the mean in either direction).



**Figure 3: Dow Jones Credit Suisse June Performance Dispersion by Strategy**



Source: Bloomberg, Credit Suisse. All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information.

## Hedge Fund Sector Overview

### Convertible Arbitrage

Convertible Arbitrage managers posted relatively flat returns in June. While the US market remained sluggish, European and Asian convertibles stabilized and, in some cases, bounced back slightly from a turbulent May. Generally, lower-grade names underperformed investment-grade convertibles amid expanding credit spreads and flight to quality market behavior. Option implied volatility rose with market uncertainty; however, convertible implied volatilities declined as bonds cheapened materially. While funds generally did not suffer meaningful losses on a single-name basis, they experienced small mark-to-market losses across the space. Moreover, stock and credit hedges generally produced gains while interest rate hedges were a notable detractor for most funds.

June was relatively uneventful from a market activity perspective, particularly in the US, as trading volumes remained low amid macro and regulatory uncertainties. New issuances remained sparse in June, with YTD volumes trailing those of prior years. There were some sizable deals issued in the Chinese domestic convertible market, including Bank of China.

Many managers in the space have not significantly altered their portfolios, maintaining the same set of core names and themes. While many believe that the de-risking from outright holders that occurred in May has halted, markets continue to be driven by technical sentiment rather than fundamental factors. Many convertible arbitrageurs are currently underinvested in the space but will increase activity if there is clear evidence to support the economic recovery. There are diverging opinions among the managers, with some choosing to remain cautious, maintaining adequate hedges and low leverage levels, while others are reducing equity hedges in anticipation of another market rally.

### Emerging Markets

Global emerging market focused managers produced mixed to slightly negative returns in June. Markets were difficult to navigate although emerging markets economic activity and portfolio inflow data remained robust. Emerging markets equities (as represented by the MSCI EM Free Index) ended the month down -0.9%, while EM debt (as represented by the JPM EMBI+ and JPM GBI-EM Broad Index) posted positive returns of 2.0% and 0.8%, respectively. Movements in emerging market currencies varied across regions, mainly depreciating in Eastern Europe and appreciating in Latin America while staying relatively flat in Asia.

Asian managers experienced mixed performance for the month as the MSCI Asia ex-Japan Index rose marginally by 1.5%. Asian equity markets started on a positive note in June due to a technical rebound from the previous month and China's decision to end 2 year long RMB peg to USD. Chinese retail sales continued to post growth (+18.7% year-on-year) and India's industrial production grew by 18% for the year. Despite these positive indicators, Chinese stocks led a market decline at the end of the month amid the concerns of slower future growth, potential margin pressure from rising wage costs in China and supply concerns due to a large IPO by the Agricultural Bank of China. The Shanghai Composite Index fell 7.5% for the month ending with a 26.8% decline for the year. While tactical trading managers with limited exposure to the Greater Chinese market produced positive results, those with large exposure to Hong Kong and Chinese markets underperformed. Other strategies generally produced positive performance as the JPMorgan Asian Credit Index rose 1.4%.

Dow Jones Credit Suisse Convertible Arbitrage Index (USD)	
Performance	0.01%
Avg Month	0.63%
Best Month	5.81%
Worst Month	-12.59%
Monthly Standard Deviation	2.07%
Annualized Standard Deviation	7.17%
Sharpe Ratio	0.58

Dow Jones Credit Suisse Emerging Markets Index (USD)	
Performance	-0.03%
Avg Month	0.72%
Best Month	16.41%
Worst Month	-23.03%
Monthly Standard Deviation	4.44%
Annualized Standard Deviation	15.39%
Sharpe Ratio	0.28

Emerging Europe-focused managers posted overall negative returns in June as the MSCI EM Eastern Europe Index finished the month down 5.3% while some regional markets such as Egypt, Greece and Romania incurred losses of up to 9.2%. On the other hand, Turkey ended the month slightly positive (+0.1%) as a result of rapid growth expectations. The Russian RTS Index was down only 3.2%, helped by generally stable oil prices. Metals and mining were the most volatile sectors, while mobile operators outperformed the market.

Latin America-focused managers (Latam) produced overall positive returns in June. This was achieved despite Latam equities (MSCI Latam) finishing the month down 3.4% and highlights a combination of stock picking and hedging by regional managers. With regard to credit markets, both the JPM EMBI+ Latin (+2.9%) and the JPM ELMI+ Latin (+0.8%) ended the month in positive territory. Managers generated profits through long exposures to specific sovereign credits such as Argentina as well as long interest rate exposures or applying curve steepeners in Brazil.

### Equity Market Neutral

Equity Market Neutral managers experienced overall mixed to negative performance in June. Managers' exposure to European markets largely affected performance last month, as those managers with higher levels of exposure experienced losses across their European books. Volatile and uncertain markets caused losses in managers' European forecasting models, in particular their relative value and fundamental models. In addition, the sharp, macro-driven market movements generally proved challenging for managers, as these types of movements are typically difficult to predict with forecasting models. Managers who generated positive performance did so by correctly identifying the potential characteristics of the immediate market environment and adjusting their exposures accordingly.

Credit Suisse/Tremont Equity Market	
Neutral Index (USD)	
Performance	-0.99%
Avg Month	0.47%
Best Month	3.63%
Worst Month	-40.45%
Monthly Standard Deviation	3.10%
Annualized Standard Deviation	10.73%
Sharpe Ratio	0.14

### Event Driven

The Event Driven strategy posted mixed to negative performance in June, following another volatile month in financial markets. Equity strategies were the largest performance detractors, followed by modestly negative results in the credit space. These losses were slightly offset by gains from specific and general overlay hedges. Managers continued to monitor and defensively position their portfolios in the context of an uncertain economic landscape and correlation on the downside for many asset classes. However, many managers believe that it is essential to be appropriately positioned to capitalize on idiosyncratic and thematic events when performance dispersion returns.

Dow Jones Credit Suisse Event	
Driven Index (USD)	
Performance	-1.58%
Avg Month	0.82%
Best Month	4.22%
Worst Month	-11.77%
Monthly Standard Deviation	1.76%
Annualized Standard Deviation	6.11%
Sharpe Ratio	1.08

Despite stock market turbulence, the M&A deal environment continued to experience activity in a number of smaller to mid-sized transactions. The closing of some pending deals late in the month caused spreads to tighten as managers monetized their gains and redeployed capital into other opportunities. Even though announced deal volume of about \$122 billion in June is slightly down from last year, there are expectations that a greater amount of higher quality middle-market opportunities will arise along with a few megadeals, as a result of low interest rates and high corporate cash balances. European related M&A activity gained traction with several noteworthy announcements including the agreed sale of AXA's UK life insurance business to Resolution, healthcare group Grifols' acquisition of Talecris, contested bidding by Emerson Electric against ABB for Chloride, News Corp.'s all cash bid for its remainder portion of BSkyB, and an all cash merger between Polyus Gold and KazakhGold. We expect to see more deals unfold as well-capitalized corporations and

financial sponsors continue to pursue investment opportunities in select markets.

Credit strategies experienced mixed results in June, as bank loan indices were moderately negative while high yield markets registered gains. The Credit Suisse Leveraged Loan Index returned -0.24% and the High Yield Index gained 1.16% in June. As equity market volatility carried over to technical imbalances in the credit space, managers remained firm on their senior secured holdings in idiosyncratic situations that have been less beta sensitive and more based on credit fundamentals. Distressed credit opportunities remain attractive as the increase in the percentage of corporate bonds trading at distressed spreads in the past few months has further enabled managers to benefit from classical restructuring process-driven credit transactions.

### Fixed Income Arbitrage

Fixed Income focused managers generally finished June in positive territory, recovering the losses which occurred in May.

As Europe's sovereign crisis intensified in June, peripheral spreads to German Bunds continued to widen. Moody's downgrade of Greek government bonds from A3 to Ba1 triggered selling by market participants. Additional pressure likely came from European banks, which continued reducing their peripheral exposures in light of the European bank stress test. Uncertainty around the outcome of this test was also reflected in higher Euribor rates (benchmark rate at which European banks lend to each other). Resulting flight to quality behavior caused a bull flattening of yield curves to occur in major markets. Longer-term rates also came under pressure due to the prospect of slowing economic growth.

Directional managers with long duration exposure generally benefited from the June market environment. Most managers continue to have some front-end exposure, which also contributed positively in June.

Bond arbitrageurs had an overall decent month as the dislocations caused by May's de-levering started to dissolve in June.

Returns of relative value credit managers were mixed, depending on sector exposures. Credit generally outperformed equity markets in June and spreads were only slightly wider during the month. Single name and sector volatility remained relatively high however, offering opportunities for managers with a top down relative value investment approach. Within the investment grade universe, financials suffered the most on the back of European sovereign debt concerns and uncertainty around regulatory changes in the US.

Mortgage specialists posted overall positive returns in June as US Agency mortgage backed securities and treasuries rallied further. With mortgage rates hitting new all time lows, managers are focusing on potential impacts on prepayment speeds.

Dow Jones Credit Suisse Fixed Income Arbitrage Index (USD)	
Performance	0.92%
Avg Month	0.42%
Best Month	4.33%
Worst Month	-14.04%
Monthly Standard Deviation	1.73%
Annualized Standard Deviation	6.01%
Sharpe Ratio	0.26

## Global Macro

Global Macro hedge funds continued to outperform in June as a number of diversified and quantitative funds generated positive performance for the month. Signs of slowing growth and select idiosyncratic sovereign events continued to drive the opportunity set for global macro investors, as funds remained tactical and traded opportunistically through market volatility.

With leading indicators softening in many developed economies and the persistence of uncertainty surrounding European credit problems, government bond yields fell across the developed world. 10-year Treasuries led the way, and while this move hurt Global Macro hedge funds with curve steepening positions, many funds trading on a purely directional basis profited from it. In foreign exchange, China's announcement to end the two-year-long renminbi peg to the USD drove large movements in 12-month non-deliverable forwards (NDFs), which was broadly positive for global macro hedge funds. Weakness in the dollar and strength in select emerging markets currencies also benefited the Global Macro sector as a number of previously profitable fundamentally-based trades rebounded during the month.

In equities, risk levels remained low and funds generally traded tactically with short-term directional index positions. Few funds employed long-term strategic trades and were thus able to largely avoid downside losses in many developed markets. Trading proved difficult in the commodities space although core gold positions held on a month-to-month basis after reaching record highs.

Overall, a changing macroeconomic relationship between the developed and emerging world, coupled with more traditional business cycles, have created an opportunity set for Global Macro hedge funds. Given these conditions, funds continue to operate with high levels of unencumbered cash in relatively liquid markets so as to maintain their ability to trade opportunistically across various asset classes.

## Long/Short Equity

Long/Short Equity funds faced a difficult month of performance in June and extended their May losses. Like May, June was characterized by heightened volatility in equity markets as the MSCI World first dropped 3.6%, then staged a brief rally of 7.6%, only to give it all back during the second half of the month when it lost 7.5% to finish the month down 3.6% overall. Continuing macro fears drove global markets down as sovereign debt issues remained elevated in Europe. Global growth issues were exacerbated by weakening leading economic indicators, and questions around China's ability to curb inflation continued. It was an especially difficult investment environment for managers with a focus on bottom-up stock selection, as stock correlations hit their highest levels since the fall of 2008. Funds struggled to identify discernible market trends and stocks that would trade off their individual merits, and thus were forced to continue operating with relatively higher cash levels and lower gross exposures. Trading-oriented funds and those with net short exposures fared better during the month. On a regional basis, global and US-oriented managers saw the worst performance followed by European and Japan-focused funds.

Losses for US Long/Short Equity funds were predominantly driven by long books and were greatest in cyclical sectors such as Consumer Discretionary, Industrials, and Financials. Moreover, while defensive positions generally held up better than the market, they still finished in negative territory. For example, the S&P 500 Healthcare Index lost only 1.9% in June, but all 10 S&P 500 sectors still finished in negative territory for the second month in a row. The S&P 500 was up 2.6% at one point in the month, but finished down 5.4%, leading to its first quarterly drop in over a year.

Dow Jones Credit Suisse Global Macro Index (USD)	
Performance	0.56%
Avg Month	1.01%
Best Month	10.59%
Worst Month	-11.55%
Monthly Standard Deviation	2.93%
Annualized Standard Deviation	10.16%
Sharpe Ratio	0.87

Dow Jones Credit Suisse Long Short Equity Index (USD)	
Performance	-2.07%
Avg Month	0.82%
Best Month	13.01%
Worst Month	-11.44%
Monthly Standard Deviation	2.89%
Annualized Standard Deviation	10.02%
Sharpe Ratio	0.63

European equity markets, namely the MSCI Europe Index, outperformed both the MSCI World and S&P 500 for the month despite the negative global sentiment towards the region and its debt issues. As a result, European-focused hedge funds performed better on a relative basis, but still finished in the red. Individual sector performance was more mixed than in the US with Consumer sectors, Healthcare, and Telecom Services all finishing the month in positive territory. European managers primarily struggled with long positions in Energy, Materials, and Industrials. Regionally, the UK (as represented by the FTSE 100 Index) returned -5.2%, France (as represented by the CAC 40 Index) returned -1.8%, and Germany (as represented by the DAX Index) was flat.

Japanese managers generally produced slightly negative performance in June as the Japanese equity market continued its choppy performance during the month with the TOPIX index falling -4.4% by month-end. Declining risk appetites amid macro-economic concerns outweighed improving Japanese corporate fundamentals and a potential positive impact from the RMB reform. Further, sell-offs by foreign investors of cyclical stocks in Financial, Manufacturing, and Resource sectors made stock selections difficult for Japanese funds. Long domestic demand and defensive stock positions contributed positively to managers' portfolios.

### Managed Futures

Managed Futures managers posted mixed returns with a slight positive skew for the month of June.

Trend followers were generally able to finish the month in slightly positive territory. Profits were largely generated from long fixed income positions which benefitted from a continuing fall in yields. While long equity index positions were the largest detractors for the month, the losses were marginal as the models have recently reduced risk in equities due to weakening signals. Currency and commodity positions also experienced small losses which were offset by gains in fixed income positions.

Multi-strategy managers posted mixed returns in June. Managers with a larger weight on trend following models ended the month in positive territory, while those with exposure to statistical arbitrage and carry models faced difficulty generating profits.

High-frequency managers with volatility breakout models ended the month in positive territory as they were able to capture market reversals, especially those in equities.

Dow Jones Credit Suisse Managed Futures Index (USD)	
Performance	0.42%
Avg Month	0.55%
Best Month	9.95%
Worst Month	-9.35%
Monthly Standard Deviation	3.39%
Annualized Standard Deviation	11.76%
Sharpe Ratio	0.22

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