

SciVest Offshore Funds Commentary – December 2008 Year-End

Most investors are happy to see 2008 behind them, hoping that 2009 will be a much better year – a year in which they can start rebuilding their lost investment capital. Well, what if the markets actually fall another 30% to 50% from the level we closed out 2008? This is what I and a reasonably large number of top-down analysts and strategists expect. It is not too late to hedge your existing portfolio with SciVest Funds. And, in fact if my longer-term equity market forecasts are correct, then SciVest Funds may be among the few investment options available to offshore investors which will generate nicely positive returns with relatively low risk over the next five to seven years.

Indeed, it often frustrates me greatly hearing investors who know the SciVest story complain about the magnitude of their investment losses when they could have hedged their portfolios with SciVest Funds one, two or even three years ago when I was also one of the few in the investment community warning about the perils that await the economy and the stock markets.

I also get frustrated at these same investors saying that the SciVest Funds are simply too boring with too low of returns, as compared to those other “hedge” funds that were banging out 20% to 35% p.a. returns during the bull market (when the global stock markets were not coincidentally doing about the same return). I told these investors that *no one* generates 30% returns during a low volatility bull market without having high market risk and/or high liquidity risk. Well it turns out that most of these “hedge” funds did not hedge, had very high market risk *and* very high liquidity risk – that’s how they generated the 30% returns during the bull market, and how they generated -40% to -95% losses during the first part of this bear market. It turns out that many of these “hedge” funds were simply market following funds with very high fees and low liquidity. Seeing this coming was not rocket science – what goes up fast, comes down even faster.

And now investors are saying that the “hedge fund industry let investors down” – this is partially true, especially given the bull market marketing campaigns of the “non-hedge” hedge funds. Although it is also true that “real” hedge funds (i.e., funds that substantially hedge) exist and generated losses that were much smaller than the losses sustained in the equity markets, commodity markets and corporate debt markets, and in certain cases like the SciVest Funds generated returns which were actually nicely positive. While relatively small in number, these true hedge funds thereby added substantial value to client portfolios at a time when clients actually needed it.

I am happy to report that the core SciVest Funds were at or near the top of the list for this small group of “real” hedge funds in 2008. In terms of overall performance in 2008, we are relatively happy with the outcome. In relation to any relative performance benchmark you throw at both our core products (the SciVest Market Neutral Equity Fund and the SciVest Global Net Short Equity Fund), we did extremely well and in fact are near the top of the World. And, obviously on an absolute basis, since we were nicely positive, almost by definition we outperformed almost everybody else. By design and as promised, we proved to be a conservative, low risk, diversifier for the rest of our client’s portfolios.

Below is a detailed analysis of the performance of the SciVest Global Net Short Equity Fund, the SciVest Net Short Master Fund, and the SciVest Market Neutral Equity Fund through December 31, 2008.

Fund and Benchmarks	Trailing Total Performance							Annual Performance				Risk		Sharpe
	1 Month	3 Month	6 Month	12 Month	24 Month	36 Month	Since Incpt	2008	2007	2006	2005	Volatility	Beta/Mkt	Ratio
	Return	Return	Return	Return	Return	Return	Return					Risk	Risk	
SciVest Global Net Short Equity Fund - CI A	1.1%	13.5%	16.1%	29.0%	32.3%	37.0%	39.8%	29.0%	2.6%	3.6%	8.3%	11.8%	(0.59)	0.43
CSFB Blue Chip Dedicated Short Bias Investable Index	-2.8%	4.3%	-19.7%	-9.0%	-6.3%	-14.7%	-20.0%	-9.0%	3.0%	-8.9%	8.0%	17.9%	(0.42)	(0.35)
CSFB AllHedge Dedicated Short Bias Investable Index	-1.6%	6.9%	-10.8%	-1.7%	2.4%	-4.0%	-9.2%	-1.7%	4.1%	-6.2%	10.0%	15.4%	(0.49)	(0.26)
CSFB Broad Dedicated Short Bias Non-Investable Index	-1.7%	11.1%	2.6%	14.9%	21.8%	13.7%	14.4%	14.9%	6.0%	-6.6%	17.0%	14.8%	(0.67)	0.06
HFRI Net Short Non-Investable Index	-1.7%	12.7%	17.0%	28.6%	34.7%	31.2%	30.6%	28.6%	4.7%	-2.6%	7.3%	9.6%	(0.63)	0.34
MSCI World Index (Total Return)	1.1%	-20.5%	-29.5%	-38.3%	-35.1%	-24.6%	-4.4%	-38.3%	5.2%	16.1%	16.3%	13.9%	1.00	(0.22)
SciVest Net Short Master Fund - CI A	1.4%	17.5%	21.6%	40.2%	46.7%		46.7%	40.2%	4.7%			17.1%	(0.77)	1.13
CSFB Blue Chip Dedicated Short Bias Investable Index	-2.8%	4.3%	-19.7%	-9.0%	-6.3%		-6.3%	-9.0%	3.0%			23.8%	(0.30)	(0.13)
CSFB AllHedge Dedicated Short Bias Investable Index	-1.6%	6.9%	-10.8%	-1.7%	2.4%		2.4%	-1.7%	4.1%			19.3%	(0.39)	0.01
CSFB Broad Dedicated Short Bias Non-Investable Index	-1.7%	11.1%	2.6%	14.9%	21.8%		21.8%	14.9%	6.0%			16.9%	(0.61)	0.52
HFRI Net Short Non-Investable Index	-1.7%	12.7%	17.0%	28.6%	34.7%		34.7%	28.6%	4.7%			11.9%	(0.63)	1.13
MSCI World Index (Total Return)	1.1%	-20.5%	-29.5%	-38.3%	-35.1%		-35.1%	-38.3%	5.2%			18.0%	1.00	(1.14)
SciVest Market Neutral Equity Fund - CI I	1.0%	7.3%	2.2%	7.6%	18.1%	27.0%	65.6%	7.6%	9.7%	7.5%	1.9%	10.6%	(0.11)	0.40
CSFB Blue Chip Market Neutral Eqty Investable Index	-0.3%	-34.5%	-35.4%	-37.9%	-37.1%	-32.9%	-15.8%	-37.9%	1.3%	6.6%	5.3%	11.0%	0.34	(0.40)
CSFB AllHedge Market Neutral Eqty Investable Index	-0.1%	-19.2%	-21.3%	-23.0%	-19.3%	-14.4%	6.3%	-23.0%	4.9%	6.1%	4.2%	5.7%	0.15	(0.35)
CSFB Broad Mkt Neutral Eqty Non-Investable Index	0.4%	-41.3%	-42.5%	-40.3%	-34.8%	-27.5%	-2.4%	-40.3%	9.3%	11.2%	6.1%	15.0%	0.19	(0.12)
HFRI Mkt Neutral Eqty Investable Index	-2.1%	-1.3%	-3.4%	-1.2%	1.9%	6.7%	8.0%	-1.2%	3.1%	4.8%	0.2%	3.3%	(0.04)	(0.58)
HFRI Mkt Neutral Eqty Non-Investable Index	-2.8%	-3.3%	-8.5%	-6.2%	-1.2%	6.0%	26.6%	-6.2%	5.3%	7.3%	6.2%	2.7%	0.04	0.05
MSCI World Index (Total Return)	1.1%	-20.5%	-29.5%	-38.3%	-35.1%	-24.6%	-16.2%	-38.3%	5.2%	16.1%	16.3%	14.7%	1.00	(0.28)

Notes and Disclaimers: Sales commissions, management fees and other expenses all may be associated with pooled fund investments. Please read the Offering Memorandum before investing. The indicated rates of return are the historical compounded total returns including changes in share value and reinvestment of all distributions and do not take into account any sales, redemptions, distributions, or optional charges, or income taxes payable by any shareholder, all of which would have reduced returns. The indicated rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the Fund or returns on investment in the Fund. All rates of return are calculated on Series 1 shares of the stated class of each Fund, net of all management fees and fund expenses. The inception date of the SciVest Global Net Short Equity Fund is July, 2004, the inception date of the SciVest Net Short Master Fund is January, 2007, and the inception date of the SciVest Market Neutral Equity Fund is May, 2001. From July 2004 to December 2006, the rates of returns for the SciVest Global Net Short Equity Fund's are from the Fund's onshore sister fund, the SciVest Net Short Equity Fund, adjusted for the difference in fixed management fees between the funds.

First, the SciVest Global Net Short Equity Fund performed very well relative to all benchmarks. Because the Fund is probably the lowest risk net short fund in the World, we assume that the SciVest Global Net Short Equity Fund will generally outperform competitors within the strategy category in bull markets and generally marginally underperform competitors in bear markets, while still outperforming competitors over an entire economic cycle. This actually has not happened – we have been significantly outperforming competitors in both the bull market and the bear market. Despite 2008 being one of the worst and toughest equity market years in history, the SciVest Global Net Short Equity Fund generated a return of +29.0% net to investor, as compared to the two investable CSFB|Tremont Dedicated Short Biased Index returns of -9.0% and -1.7% and as compare to the non-investable CSFB|Tremont Dedicated Short Biased Broad Market Index of +14.9% and the non-investable HFRI Net Short Index of +28.6%. (Note that the non-investable indexes (i.e., self report indexes) likely have a large upward bias for 2008 because many of the numerous funds that blew-up in 2008 would not have reported returns to the index vendors from their blow-up months forward).

Over the longer term as well, the SciVest Global Net Short Equity Fund has performed extremely well both in an absolute sense and relative to competitors within the strategy category. In fact, the MSCI World Index is approximately flat since the inception date of the Fund, while the Fund itself is up approximately +40% – thus, showing significant value added since the inception of our net short strategy more than 4.5 years ago. In addition, the SciVest Global Net Short Equity Fund has been up each of the past four years, something few, if any, net short funds in the World can claim. Relative to all net short benchmark indexes (even the highly upwardly biased non-investable, self-report, indexes), the Fund has dramatically outperformed all of them over virtually every trailing period since inception.

While the SciVest Global Net Short Equity Fund's World leading performance is impressive, its risk and diversification characteristics are equally as impressive. The Fund's since inception volatility risk comes in at an extremely conservative 11.8% p.a., which is 15% less that the volatility of the MSCI World Index over the same time period, and likely less than virtually every other stand-alone net short fund in the World. The SciVest Global Net Short Equity Fund maintains this impressively low volatility risk level despite being as short the global equity markets as all the net short benchmark indexes, as measured by its beta of -0.59.

Combining risk and return, the SciVest Global Net Short Equity Fund has generated a since inception Sharpe Ratio of 0.43, thereby crushing all global equity markets and all net short benchmarks. While unconfirmed, these performance and risk characteristics probably result in the SciVest Global Net Short Equity Fund being the best risk-adjusted net short equity fund in the World since its inception.

We also report the returns of the SciVest Net Short Master Fund in the table as well. This is the master fund to the SciVest Global Net Short Equity Fund (the feeder fund), and thus the SciVest Net Short Master Fund provides the net return to our raw Global net short equity strategy (i.e., net of all costs of operating the strategy, but prior to management fees, performance fees, and the majority of the fund expenses). That is, the returns of the SciVest Net Short Master Fund are a proxy to the pre-fee return that SciVest would have generated from a generic separately managed account. As the SciVest Net Short Master Fund was only launched in January, 2007, its track record is about half the length of the overall strategy's track record.

The gross returns to our net short strategy, as measured by the returns of the SciVest Net Short Master Fund, are not surprisingly even better than that of the feeder fund (because management fees have not been deducted). It is obvious that SciVest added substantial value and alpha, with very controlled risk within the SciVest Net Short Master Fund, even in the most difficult equity markets since the Great

Depression. In fact, despite almost exactly meeting its stated target beta of -0.75, the SciVest Net Short Master Fund generated a 2008 net return that was actually higher than the inverse of the MSCI World Index return (i.e., +40.2% for the Fund versus -38.3% for the MSCI World Index). In addition, our returns dwarfed the returns of all the strategy benchmark indexes.

Lastly, the SciVest Market Neutral Equity Fund also performed incredibly well in 2008 as compared all strategy benchmark indexes. Not a single market neutral equity index generated a positive return in 2008 (not even the highly upwardly biased non-investable, self-report, indexes), while the SciVest Market Neutral Equity Fund generated a solid +7.6% net return to investors. The performance story is similar if you add 2007 and 2006 – in each year the SciVest Market Neutral Equity Fund outperformed the majority, if not all, the benchmark indexes, and has averaged a solid +8.3% per year. Since the inception of the Fund almost eight years ago (yes, we are also one of the most experienced market neutral managers in the World), we have generated a total net return of +65.6%, versus fairly flat for most strategy benchmark indexes and a miserable -16.2% total return for the MSCI World Index.

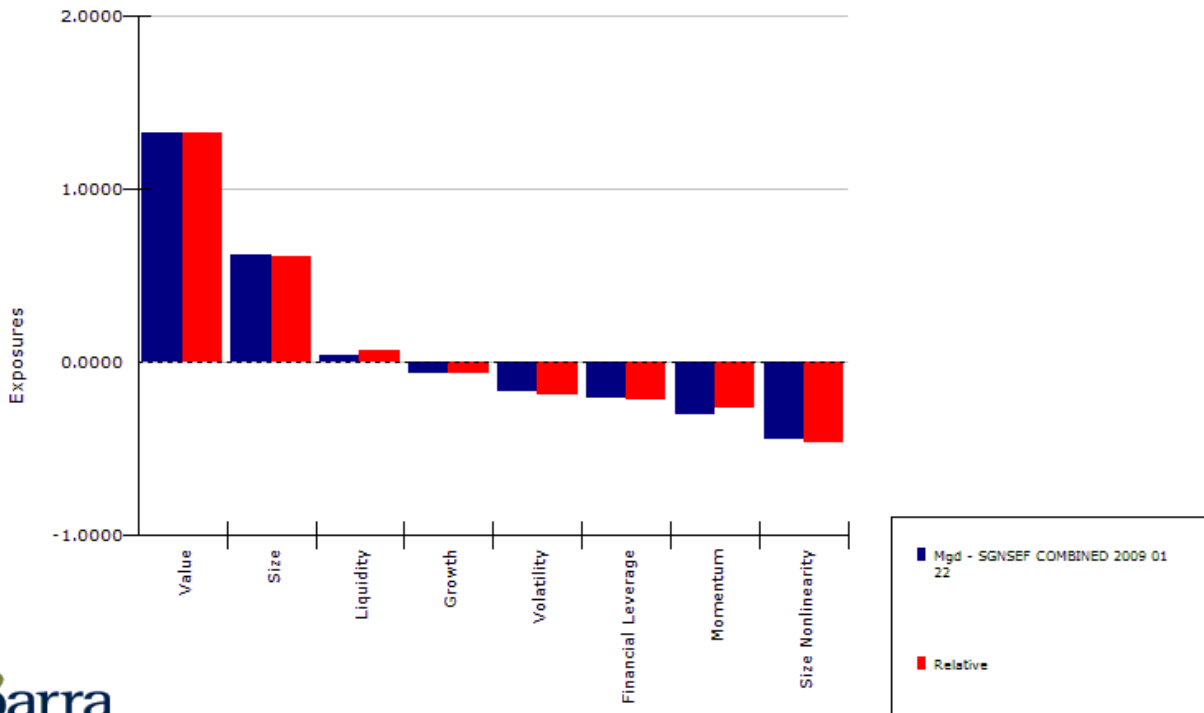
We also generated these solid returns with a very low risk profile. With a market beta on mandate at near 0.0, the SciVest Market Neutral Equity Fund's returns were generated with 28% less volatility risk than the MSCI World Index. Combining risk and return, the SciVest Market Neutral Equity Fund has generated a since inception Sharpe Ratio of 0.40, thereby crushing all global equity markets and all market neutral equity benchmark indexes. These performance and risk characteristics probably result in the SciVest Market Neutral Equity Fund being one of the best risk-adjusted market neutral equity funds in the World during the recent difficult markets, and since its inception almost eight years ago.

Overall, the two core SciVest strategies continue to perform on mandate in terms of both expected risk and return, something that few funds of any type in the World can now say. We have proved over a fairly long time period, through some of the most difficult markets in history, that we are one of the top systematic investors in the World, and have one of the top (likely *the* top) dedicated net short strategy in the World and one of the top market neutral equity strategies in the World. We have managed through the early 2000's recession and bear market, one of the longest and lowest volatility bull markets in history during the mid-2000's, and the one of the faster, broadest, deepest bear markets in history during 2008. We have managed through 9/11, wars, the Lehman bankruptcy, a quant-fund liquidity crisis, the rise and crash of commodities, the lowest volatility equity market in history, and the highest volatility equity market in history. It should not be a surprise, therefore, that we expect going forward to generate performance *at least as good* as we have in the past, while all the time controlling risk and correlation like few others in the World can. Through many trials and tribulations, SciVest has emerged as one of the top systematic investors in the World, and with its hard gained experience, SciVest should put even more distance at a faster pace between itself and all other net short and market neutral managers around the World in the years to come.

As part of our continuous improvement efforts, for this month's rebalance of each Fund's portfolios we converted over to a fully global risk model, from country specific risk models. We still, nevertheless, manage each country/region independently of each other within the Funds, as we always have, to maximize global diversification. This new risk model will be better for the smaller countries because it is better and quicker "tuned" to recent changes in risk in these countries than the former single country models (most specifically in Canada, Hong Kong, and Australia). The primary surface benefit of the switch, however, is that the new model reports risk factors for every country using the same definitions – investment style factors, sector definitions and industry definitions. This will allow us to show the aggregate global portfolio in a single view – something we could not easily do before.

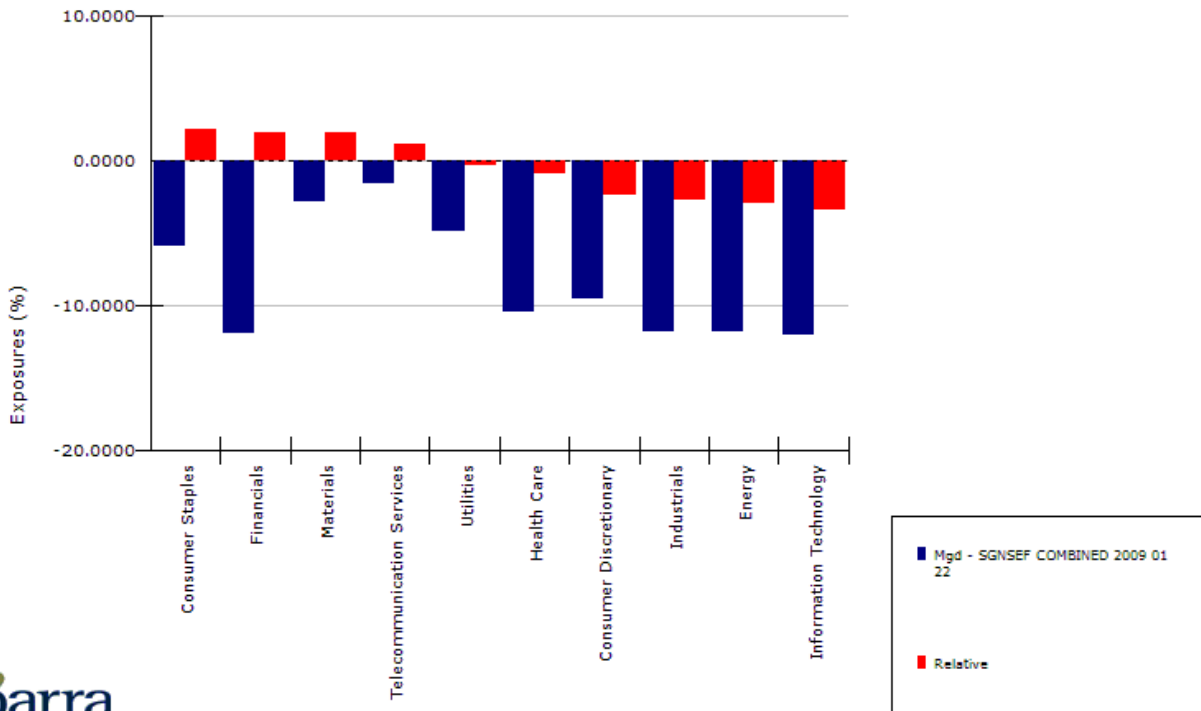
For example, below are the current net style and sector exposures of the current SciVest Global Net Short Equity Fund portfolio aggregated across the 14 countries that the Fund invests within as compared to the global index:

Risk Index Exposures



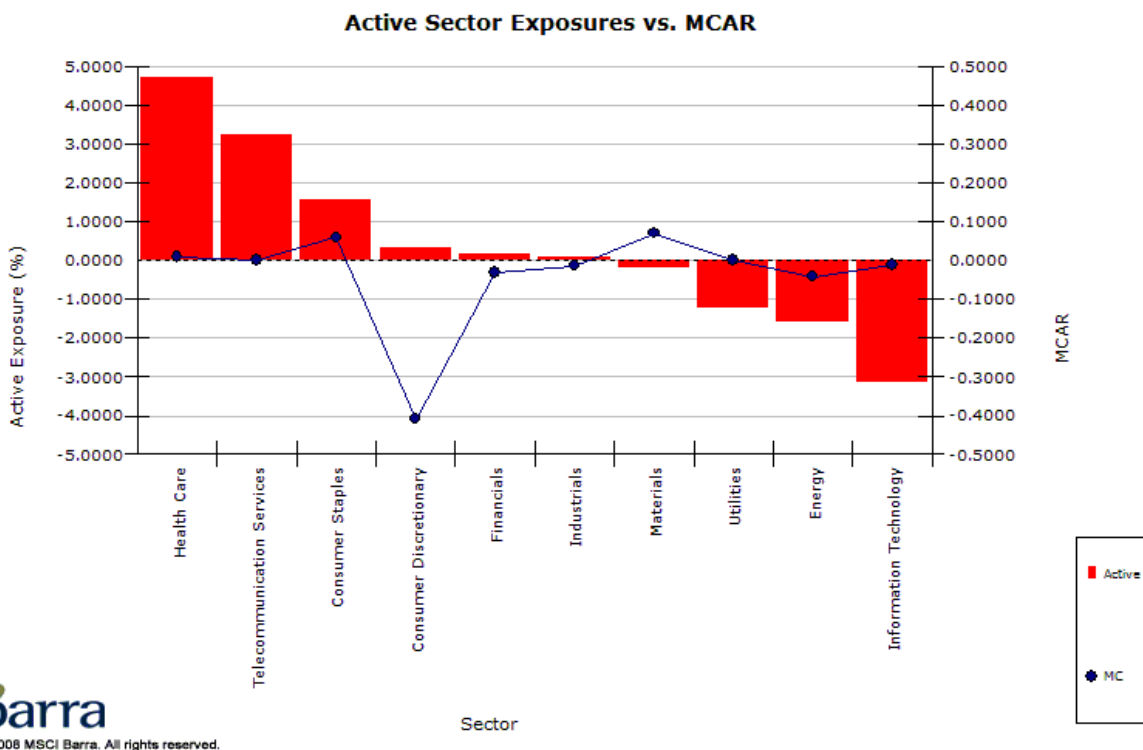
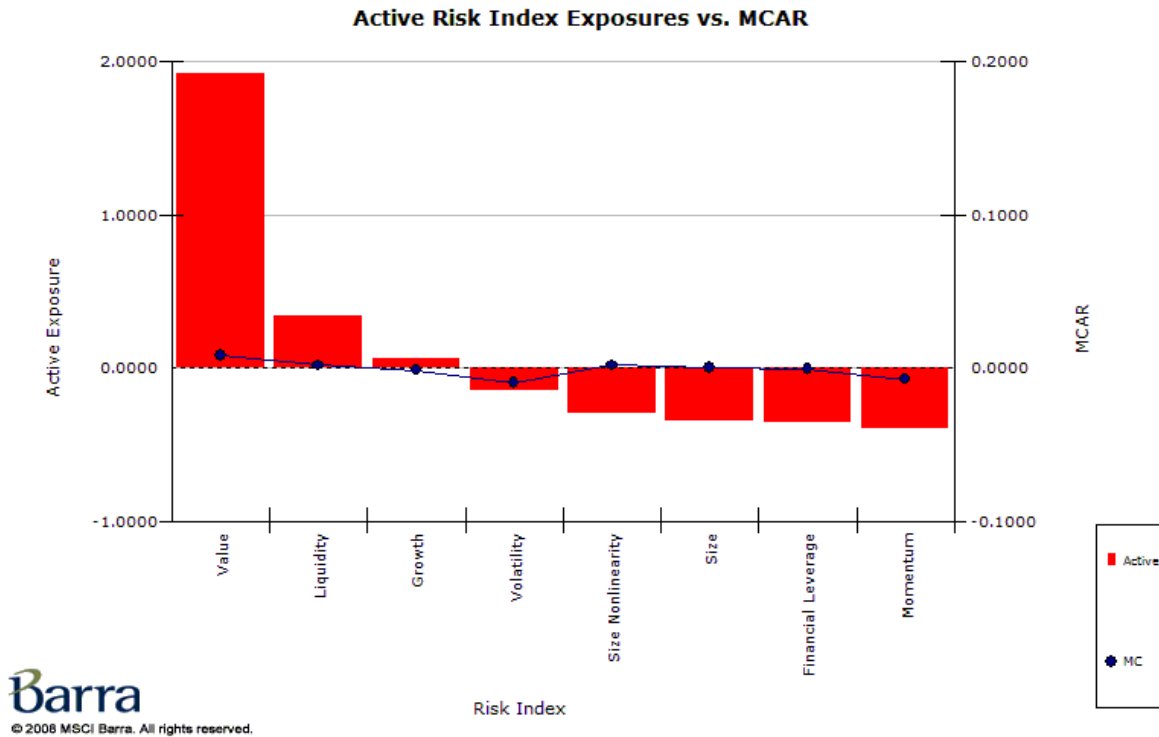
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Sector Exposures



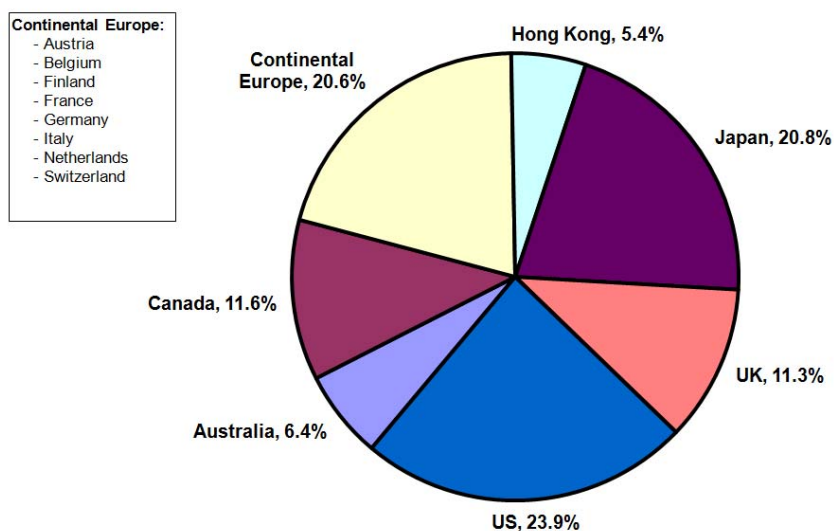
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Although the SciVest Market Neutral Equity Fund's active exposures are very similar to the SciVest Global Net Short Equity Fund's active exposures, they are also shown below for completeness:



As you can see in the top charts on each page, our only material style exposure right now is to “value” (where value is now defined more broadly and interpreted as valuation – an aggregate of EPS/P, forward EPS/P, P/sales, Div/P and P/book). All other style exposures are small in comparison – although it is interesting that we are marginally short momentum and financial leverage, and neutral on growth (from being short growth previously). In addition, in the bottom charts, you can see that we have no material active (i.e., relative to the World Index in the case of the SciVest Global Net Short Equity Fund) net sector exposures. In fact all net active sector exposures are less than 5%, as we continue to run very conservative with regards to sector/industry rotation and overall sector/industry bets. In sum, we are simply relying on within sector/industry stock selection for virtually all of our returns, with a strong tilt towards a within sector/industry net long exposure to stock valuations. To a large degree, if we make money it is because within sector valuations are working with our good valuation longs outperforming our poor valuation shorts (again within each sector), and if we lose money it is because within sector valuations are working perversely.

As shown below, our gross global allocations have not changed materially – slight increases in the larger countries and slight decreases in the smaller countries, because as the stock market capitalizations have shrunk in every market, so do our investment universes (because of our risk management driven market cap and liquidity constraints). Investment universe contraction implies that our exposure to the smaller countries goes down because good diversification and liquidity are harder to maintain, and thus exposure to the larger countries goes up because they had much bigger, more liquid, universes to begin with.



In terms of environment for the strategy, we continue to be very optimistic. I have written about the valuation-based returns that I expect (and Morgan Stanley expects) in the near-term, and how that should drive very strong returns for at least 1 to 1.5 years once it starts. We actually do not believe that this wave has even started yet (and in fact valuations continue to behave perversely) – we continue to

be in a extreme-greed-to-extreme-fear environment, with sentiment and momentum (positive or negative depending upon the day) driving returns – not valuations as I foresee starting sometime soon, which will drive what I expect to be out-sized returns for our strategies. Essentially, I am still waiting for this valuation wave, and as you can see from the style charts above, we are well positioned to ride this wave when it comes. It is important to note that “quality” and “risk” factors have been somewhat working the past several months, and that is what has driven our positive returns as we are well exposed to quality - but quality is not quite the same thing as valuation, nor part of the valuation return wave I expect. In sum, we remain very optimistic for the medium term prospects for the strategy, although we are still waiting for the overdue valuation wave that should strongly drive future returns.

In terms of economic and market forecasts for 2009, I remain quite bearish. I maintain my call for a S&P 500 Index level of 650 for a low this year. That would represent another 30% fall from the December 31 level. I expect some more violent up and down swings – e.g. the Russell 2000 small-cap index bounced almost 35% from November 21 to January 2 – quite a bounce, which went almost unnoticed by market participants. I am now seeing “bear case” scenarios being written about for the S&P 500 as low as 400 this year (Morgan Stanley’s bear case scenario) which would represent a 55% fall from where we finished 2008 – I am not this bearish, although it is important to note that my forecast assumes no major bearish geo-political events such as a major terrorist attack, war in the mid-east, Russia collapse, default of a major nation on their debt, etc. – all of which become more likely as the World sinks further into the worst recession since the depression. In terms of justifying 650 as a target, it is simple math – assume S&P 500 EPS this year of \$45-\$60 with a P/E of 10x to 13x – you get a S&P 500 level of 450 to 780. Of course this is this year – next year, 2010, may see further compression in EPS and if so probably P/E – meaning that the S&P may start out next year painfully as well.

US house prices should fall another 15%-25%, and should not bottom until well in 2010 – although this also assumes that the US government does not mess with house prices, which now looks like a real possibility. The fall in house prices “has to happen” to restore equilibrium, and thus will happen – if the US government gets involved, that will simply pro-long the fall in house prices (in terms of time, not magnitude) and thus pro-long the recession. And note that house prices and unemployment are highly correlated - US unemployment will likely continue to increase well into next year as well, reinforcing weakness in the housing market and credit markets. This will also increase the rate at which US consumers decrease their consumption – not out of willingness, but because they have no choice – no jobs, no pay increases, no credit, and shrinking asset prices.

All this will begin a long multi-year process that has to change the consumption culture within North America and most of developed Europe, and cultural changes take many years to happen. Throw in the fact that the largest population group, the baby boomers, are now retiring, with only a fraction of their net worth intact – and whom have or will leave the stock markets and housing markets forever, you get a pretty bleak multi-year scenario.

While I think we are now more than 50% of the way towards our ultimate stock market bottom from the top (which was 1565 for the S&P 500), it is likely to be a difficult year ahead, and 2010 is still a coin flip at best. Even beyond that, I think that only moderate returns will be available to being long equities, as it will take a long time to unwind the consumption culture of the past 30 years within North America and most of developed Europe – where they have to move from excess consumption to excess saving, and from excess debtors to excess lenders. And, with the baby boomers leaving the risky asset markets for good, the 3 to 7 year forecast beyond my forecast for the next year, while not dire, is not going to be what we experienced since the early 1980’s and thus the market losses that were sustained last year and that will be sustained this and next year will not be earned back any time soon. This is not a Japan

scenario (yet) – but it will require many years of adjustment, with many years of relatively weak stock market performance.

I finish where I began... Frustrated, because investors do have an alternative to going down with the ship. “Real” hedge funds that actually hedge and provide a hedge do exist, and the SciVest Global Net Short Equity Fund and SciVest Market Neutral Equity Fund are among the best of these. What are you waiting for? The time for action is now, not after you have lost another 35%.

John J. Schmitz

Commissions, trailing commissions, management fees and expenses all may be associated with pooled fund investments. Please read the offering memorandum before investing. The indicated rates of return are the historical annual total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemptions, distributions or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return are net of all fees and expenses and are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the pooled fund or returns on investment in the pooled fund. Pooled funds are not guaranteed, their values change frequently and past performance may not be repeated.