

2011

Quick Review

# Long/Short Mutual Funds

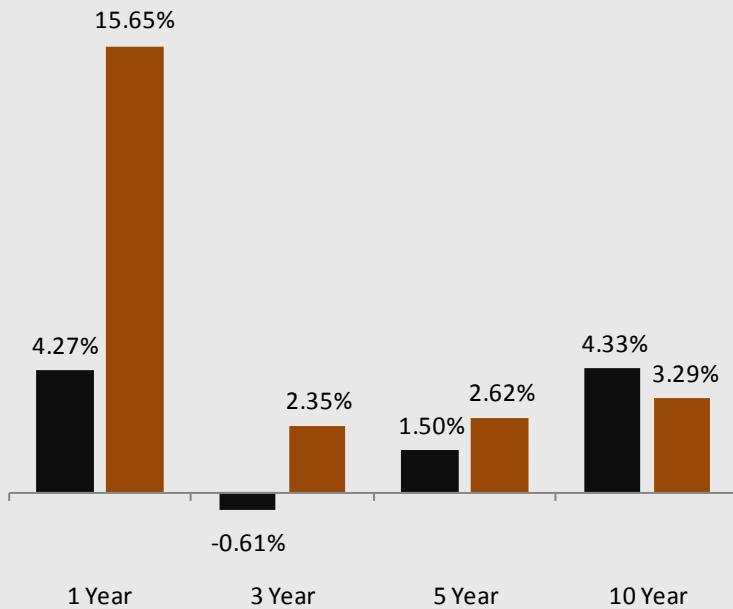
We surveyed **367** Investment Advisory firms to find out how many are currently using Alternative Mutual Funds.

Only **20%**

of those who responded stated they currently use Alternative Mutual Funds for their clients.



## Annualized Performance History | As of 03/31/2011



A. Long/Short Mutual Funds have outperformed the S&P 500 over a 10-Year period.

B. During shorter time frames, Long/Short Mutual Funds have underperformed.

What About 2008?  
(Next Slide)

Chart Legend:

Morningstar Long/Short Mutual Funds  
S&P 500 Index

Data shown is: 03/2001 to 03/2011 Source: Informa Investment Solutions, Inc. Performance figures are annualized. The Morningstar Long/Short category consists of 181 mutual funds as of 03/31/2011. Funds closed during the time period are not included in this performance figure analysis. If a mutual fund within the category does not have a return figure for a period, the category return is computed based on a rebalance of the performance figures for the remainder of the funds.

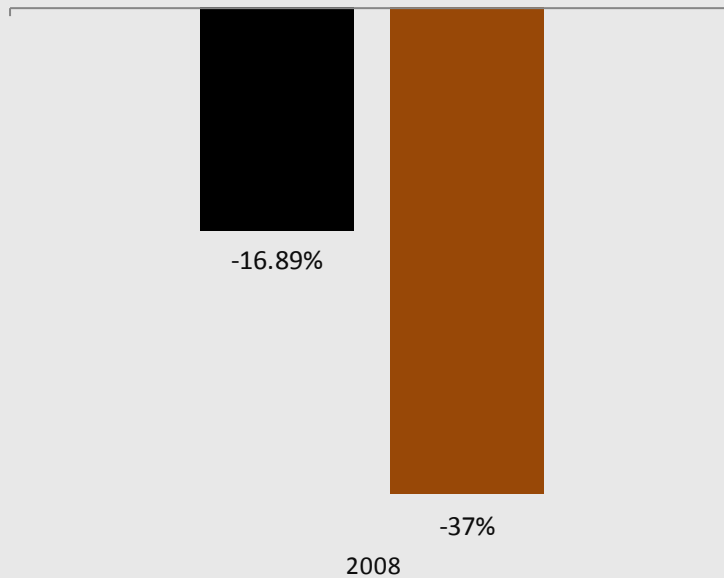
### LONG/SHORT FUNDS HAVE HISTORICALLY OUTPERFORMED

Over the past ten years, these funds have offered investors returns that have been less volatile than the broad market indices. In periods where the S&P 500 was strong, such as the 2003 to 2007 period, these strategies produced returns below that of the S&P 500 Index. During large declines in the market, the mutual fund category performed better on a relative basis. It turns out that the combination of these attributes through multiple market cycles has added alpha over the last ten years. Many of the sub-categories within the long/short space, such as 'absolute return' and 'merger arbitrage,' aim to provide returns during periods where broad equity markets may be flat. Other sub-categories, such as 'hedged equity' or 'directional long/short,' may provide similar performance to broad markets during rising markets and better performance (alpha) during market declines. Over the last ten years, most of the assets within the Long/Short category have been in 'hedged equity' oriented products. As a result, the Morningstar group's correlation to the S&P 500 has been about .96 over the last 10 years. While this correlation may be high, it is still apparent that these funds could provide important protection and potential outperformance when compared to traditional long-only mutual funds.

We believe that the use of Long/Short Mutual Funds complements a well diversified portfolio of domestic equity, real estate equities, and international equities. Furthermore, Long/Short funds are less correlated to other major stock indices such as the Dow Jones Average and the NASDAQ when compared to the S&P 500.



## Performance in 2008 | Bear Market



A. Long/Short Mutual Funds offered good relative performance in 2008.

B. The inherent diversification of long/short programs, helped the group's performance.

What About Risk?  
(Next Slide)

Chart Legend:  
Morningstar Long/Short Mutual Funds  
S&P 500 Index

Data shown is: 12/2007 to 12/2008 Source: Informa Investment Solutions, Inc. Performance figures are annualized. The Morningstar Long/Short category consists of 181 mutual funds as of 03/31/2011. Funds closed during the time period are not included in this performance figure analysis. If a mutual fund within the category does not have a return figure for a period, the category return is computed based on a rebalance of the performance figures for the remainder of the funds.

### LONG/SHORT FUNDS, GOOD RELATIVE RETURNS IN 2008?

The year of 2008 was a period where many asset classes, that were believed to be uncorrelated, revealed significant correlation to the S&P 500 Index in the downturn.

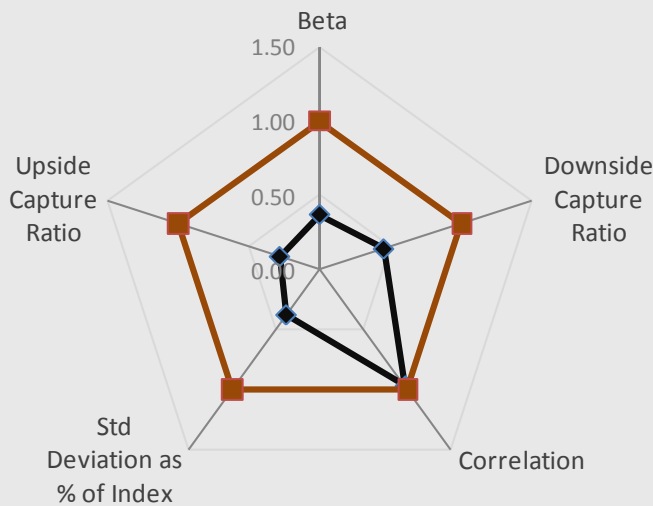
Consider this; the S&P 500 was down 37% yet many long-only growth oriented investment programs were down even more. After such a loss in the S&P 500 Index, a 59% gain would be needed to recoup the losses of this single year decline. Long/Short Mutual Funds, as advertised exhibited far less drawdown, falling just 17% during the same time period. This single year loss would require a subsequent return of about 20% to recoup the losses of 2008. Since many of the mutual funds within the category are exposed to a variety of asset classes, both on the long and short side, they offered an excellent representation of what could happen during a period of steep market declines. This period showed that diversification of strategy is just as important (if not more) as diversification of asset classes.

### PERFORMANCE OF VARIOUS INDICES DURING 2008

Index	% Return
Dow Jones Industrial Avg.	-32.00
NASDAQ 100 Index	-41.88
Russell 2000 Index	33.79
MSCI EAFE Index	-43.38
NAREIT (Real Estate) Index	-37.74
Barclays Aggregate Bond Index	5.24
Barclay CTA Index	14.09
Barclay Currency Index	3.50



## 3-Year Radar Map of Risk Statistics | As of 03/31/2011



A. Across the spectrum of Risk Management, long/short mutual funds offer reduced risk.

B. While most of the risk characteristics are positive, these funds are still highly correlated to the S&P 500.

Chart Legend:

**Morningstar Long/Short Mutual Funds**  
**S&P 500 Index**

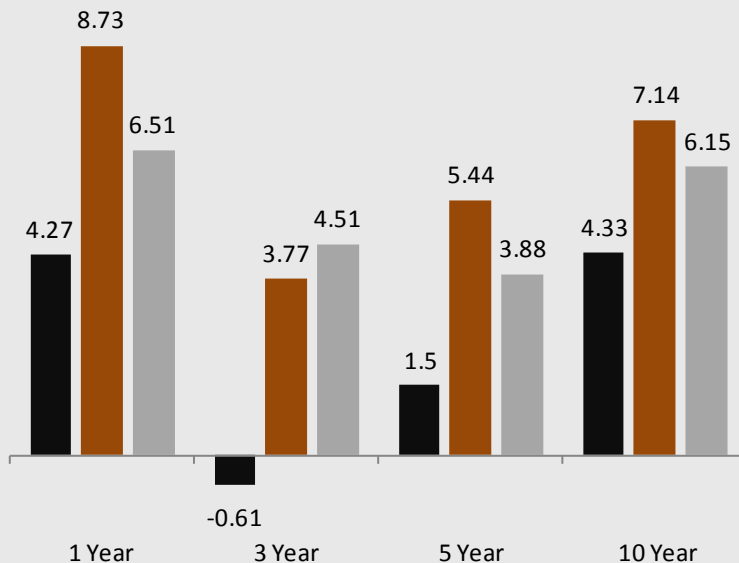
Data shown is: 03/2008 to 03/2011 Source: Informa Investment Solutions, Inc. Performance figures are annualized. The Morningstar Long/Short category consists of 181 mutual funds as of 03/31/2011. Funds closed during the time period are not included in this performance figure analysis. If a mutual fund within the category does not have a return figure for a period, the category return is computed based on a rebalance of the performance figures for the remainder of the funds.

### FOCUSING ON RISK

The Radar-Graph shown above illustrates the risk characteristics of the Long/Short Mutual Fund group relative to the S&P 500 Index. With the exception of Correlation, the graph above illustrates the markedly different risk characteristics of Long/Short Mutual Funds. To start, Beta of the group is a small figure, just .37 for the mutual fund category. The Up-Side and Down-Side capture ratios are a representation of how much of the S&P 500's advance or decline the category captures on a percentage basis. These figures illustrated on the chart above are small, just 44% of the downside is captured and 27% of the upside. While the upside capture may draw concern, its important to remember that it is the timing and compounding of returns that is important, rather than overall up-capture. Besides, there is a cost to the reduced volatility of these alternative products, and the absolute return nature in general reflects their low beta figures and limited performance relationship to the S&P 500. Standard Deviation of the mutual fund category is about one third of the S&P 500 index at 8.83 versus 23.32. This significantly less volatile group certainly provides good alternative access to capture returns with less risk then long-only based programs that reflect performance and risk characteristics of the S&P 500.



## Returns vs. Hedge Fund Counterparts | As of 03/31/2011



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What About 2008?  
(Next Slide)

Chart Legend:

Morningstar Long/Short Mutual Funds  
Dow Jones Long/Short Hedge Funds  
Global HedgeSource Equity Long/Short

Data shown is: 03/2001 to 03/2011 Source: Informa Investment Solutions, Inc. Performance figures are annualized. The Morningstar Long/Short category consists of 181 mutual funds as of 03/31/2011. Funds closed during the time period are not included in this performance figure analysis. If a mutual fund within the category does not have a return figure for a period, the category return is computed based on a rebalance of the performance figures for the remainder of the funds.

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## Consider the Sherwood Forest Long/Short Program

### What Are Our Advantages?

1. **Our Passionate** execution of risk management, designed to limit large losses and drawdown in our portfolio.
2. **Our Commitment** to unbiased and opportunistic investing, we are committed to find opportunities in both bull or bear markets, unlike many long/short funds that have long-biased strategies.
3. **Our Flexibility**, the fund's portfolio can be fully in cash or fully invested depending on the market environment.
4. **Our Attention** to detail, we continuously monitor each holding to diligently manage risk and assess return the profiles of our positions.
5. **Our Focus** is on a single strategy, the Sherwood Forest Long/Short program, so our expertise and undivided attention are dedicated to your long/short allocation with us.

For More Information on Sherwood Forest Capital Management

Visit: [SherwoodAdvisor.com](http://SherwoodAdvisor.com)

Call: 1.800.718.0556



<sup>1</sup> Actual number of Morningstar Long/Short funds: 206 before adjusting for the additional share classes, 76 funds as of 12/31/2009 after adjusting for additional share classes.

#### Index Definitions:

**The S&P 500:** An unmanaged index of 500 large-cap domestic stocks that is commonly used as a proxy for the large-cap stock market. Historically, the index has targeted a composition of 400 industrial companies, 40 financial companies, 40 utility companies, and 20 transportation companies. The index does not contain real estate investment trusts. Changes in the index composition may be made at any time. Performance numbers for the index are a size-weighted average of the performance numbers for each index constituent.

**Dow Jones Industrial Average:** Price weighted average of 30 actively traded shares of the blue chip US industrial corporations listed on the New York Stock Exchange. The trend in the movement of the market value of these shares is considered to be an indicator of the movement of the entire US stock market. The corporations included in DJIA change from time to time and generally represent about 20 percent of the market value of all shares traded on NYSE.

**Nasdaq 100 Index:** Consists of the 100 largest and most actively traded non-financial stocks on the Nasdaq. **Dow Jones Industrial Average:** A price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**The MSCI EAFE® Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

**The NAREIT index** is an unmanaged index of securities that meet the definition of Real Estate Investment Trust (REIT) and are traded on the NYSE, AMEX, or NASDAQ. REITs are investments in rental properties, and are required to pay out 95% of their earnings each year as dividends. Performance numbers for the index are a size-weighted average of the performance numbers for each index constituent.

**Barclays Capital Aggregate Bond Index:** Is an unmanaged index made up of the following fixed-income securities: all debt securities issues to the public by the U.S. Government or its agencies, as well as quasi-federal corporations or corporate debt guaranteed by the U.S. Government; all public obligations of the U.S. Treasury except flower bonds and foreign-targeted issues; all 15-year and 30-year fixed-rate securities backed by mortgage pools of GNMA, FHLMC, and FNMA, with the exception of graduated payment mortgages, manufactured home mortgages, and graduated equity mortgages; and all publicly-issued, fixed-rate, non-convertible, investment-grade, dollar-denominated, SEC-registered corporate debt securities with at least one year to maturity and an outstanding par value of at least \$100 million

**The Barclay CTA Index:** A leading industry benchmark of representative performance of commodity trading advisors. There are currently 488 programs included in the calculation of the Barclay CTA Index for the year 2009, which is un-weighted and re-balanced at the beginning of each year.

**The Barclay Currency Traders Index:** An equal weighted composite of managed programs that trade currency futures and/or cash forwards in the interbank market. In 2009 there are 124 currency programs included in the index.



#### Statistics Definitions:

**Cumulative Upside Market Capture Ratio** –the Cumulative Upside Market Capture Ratio measures the manager’s performance in up markets relative to the performance of the market (index) itself. An up market is defined as any period (month or quarter) where the market’s return is greater than or equal to zero.

**Standard Deviation** – Standard Deviation measures the central tendency of a probability distribution. The more a product varies from its mean, the higher the standard deviation.

**Beta** – A measurement indicating the volatility of a manager relative to a chosen market. A beta of 1 means a manager has about the same volatility as the market. Higher betas are associated with higher risk levels, while lower beats are associated with lower risk levels.

**Correlation Coefficient** – Correlation measures the strength and direction of linear association between two variables. This coefficient allows the user to determine which combination of managers/products will best complement each other. The range of values is from -1 to 1. A value of negative 1 indicates a perfectly negative linear relationship, whereas a value of positive 1 indicates a perfectly positive linear relationship. A value of 0 indicates no linear relationship at all.

**Cumulative Downside Market Capture Ratio** - measures the manager’s performance in down markets relative to the performance of the market (index) itself. A Cumulative down market is defined as any period (month or quarter) where the market’s return is less than zero.

**R-Squared** – Squared (sometimes referred to as the coefficient of determination) measures the reliability of the statistical estimates of alpha and beta as a linear function of the market. A product with a high R-Squared can generally have most of its variance explained by the variations in the benchmark index. As a consequence, the estimates of alpha and beta can be used with confidence.

**Sharpe Ratio - Population** – The Sharpe Ratio - Population is a measure of risk-adjusted return. It divides excess return by risk. Excess return is defined as the annualized return of the manager minus the annualized return of the risk free rate. Risk is defined by standard deviation. A high value for the Sharpe Ratio is generally considered to be positive since either the excess return is rather large or the level of risk is low.

**Batting Average** – is defined as the number of periods that the product outperforms the benchmark divided by the total number of periods for the entire period. It is a percentage indicating the probability of outperforming the index in a given date range.

**Calmar Ratio** - is a risk/return ratio that shows the annualized rate of return relative to the absolute value of the maximum drawdown, the higher the Calmar ratio, the better. Some funds have high annual returns, but they also have extremely high drawdown risk. Most people use data from the past 3 years in assessing results of this ratio

**Kurtosis** - is a measure of “peakedness” of a probability distribution. Higher kurtosis values indicate that more of the variance comes from infrequent extreme deviations. Lower kurtosis values indicate that the smaller and more frequent deviations are responsible for more of the variance.

**Skewness** - Skewness measures the asymmetry of a probability distribution. A negative value indicates that the left tail of the distribution is longer, where a positive value indicates that the right tail is longer. The skewness of a standard normal distribution is zero.

**Sterling Ratio** - The Sterling Ratio is another version of a risk-adjusted return. The return of the manager is divided by the average of the maximum yearly drawdowns.

**T Statistic** - The T-Statistic is used to measure a hypothesis test. In the case of PSN, it is used to see if the mean return is different from 0.