αφ AlphaFinance Advisors

αpollo™ liquidity:

2011 Performance Analysis

Introduction

The global financial community is facing serious economic headwinds. Countries are close to defaulting, Eurozone is in crisis, US has been downgraded and emerging markets are not showing the kind of resilience that was expected of them. It would be tempting to say that we have been here before (Sept 2008), but the current crisis is of a far greater magnitude and complexity owing to both economic and political problems that are associated with it.

This paper analyses the performance of our portfolio Apollo Liquidity in the year 2011. We demonstrate that fundamentally, our philosophy and portfolio construction concept has helped us weather the storm and get through a tumultuous year relatively unscathed. Even though on the surface the performance is a little disappointing (-4.01%), probe a little further and one finds that our investment "Style" has shown a remarkable resilience in these tough times. Apollo Liquidity has still managed to handsomely outperform the Edhec fund of fund index and the MSCI and yield a long term return of around 7%.

We begin the paper with a brief outline of our portfolio construction concept and then provide a comprehensive analysis of performance of each of the investment buckets and the portfolio. The paper concludes that Apollo almost traces the "model portfolio" (explained later) and any difference in the performances is the price of liquidity, transparency and security one must pay with a portfolio composed of a very restricted universe of investible funds that satisfy stringent norms.(See detailed Apollo Methodology)

1. Portfolio Construction Concept

The Apollo construction concept is based on a merger of Top down and bottom up approaches.

- **Top-Down Approach:**

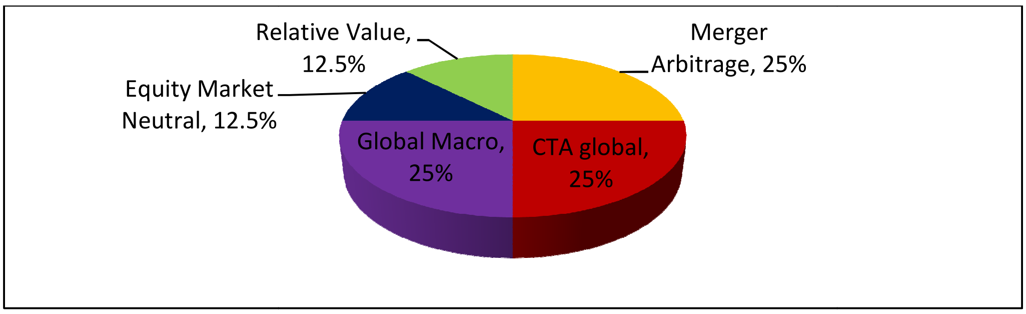
The Top down approach consists of defining an investment objective and subsequently building a model "style" portfolio that satisfies those objectives. Following are the Investment Objectives of the style portfolio:

1. De-correlated from major markets
2. Minimizing Drawdown
3. Low Downside Volatility
4. Resilience
5. Liquidity(Weekly)

Style Allocation

Apollo Style allocation has the following consists of the buckets in equal proportions:

1) Global Macro
2) CTA Global
3) Merger Arbitrage
4) Equity Market Neutral- Relative Value

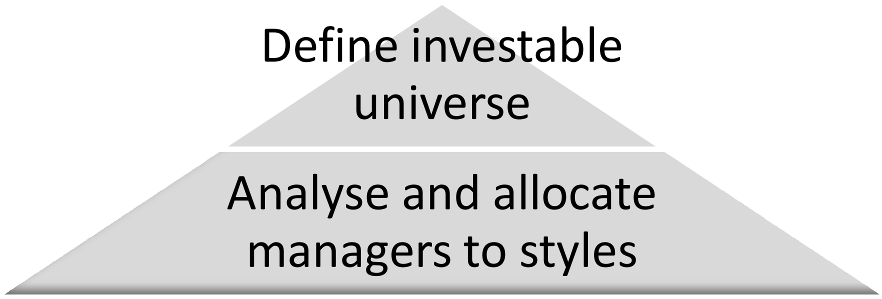


In order to build the Model Portfolio (Style Index), the following indices are used in the weightage mentioned above:

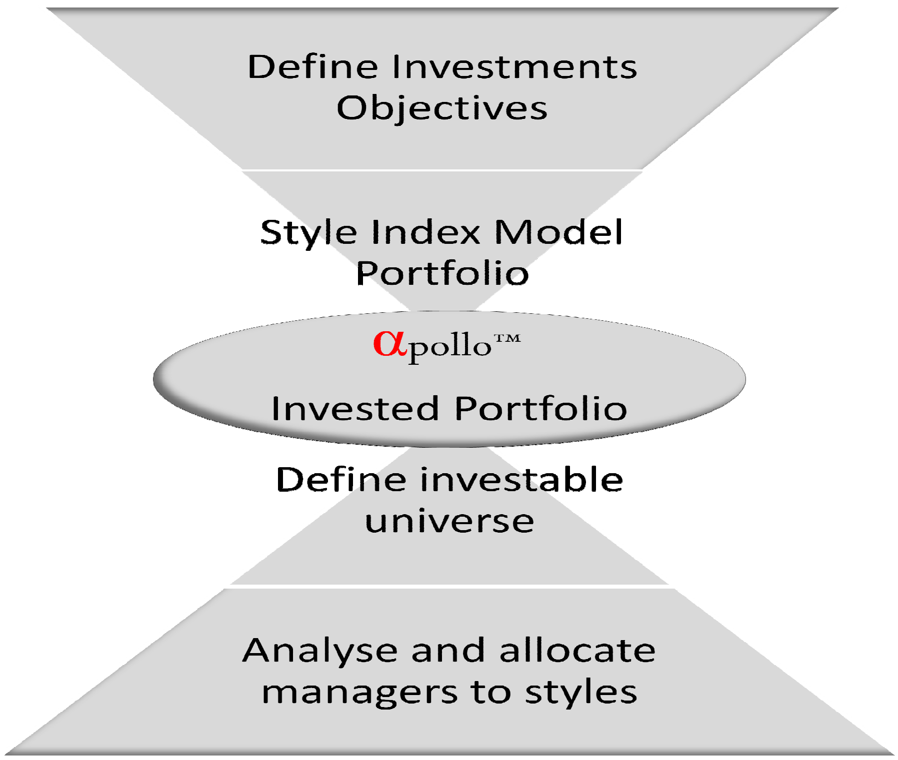
1) Edhec Global Macro
2) Edhec CTA Global
3) Edhec Merger Arbitrage
4) Edhec Equity Market Neutral
5) Edhec Relative Value

- **Bottom-Up Approach:**

The bottom-up approach consists of allocating various funds their styles and subsequently building an investible universe of funds (keeping a strict condition on weekly liquidity)



Merging the two approaches gives us Apollo Liquidity.



Apollo Liquidity has its allocation based on the style portfolio (see above) consisting of **Highly Liquid, Transparent and secure** funds.

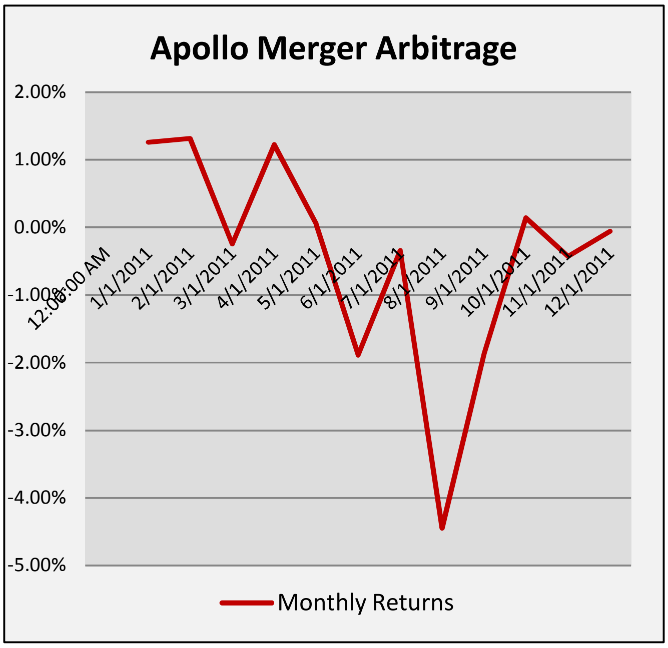
2. Performance Analysis By buckets:

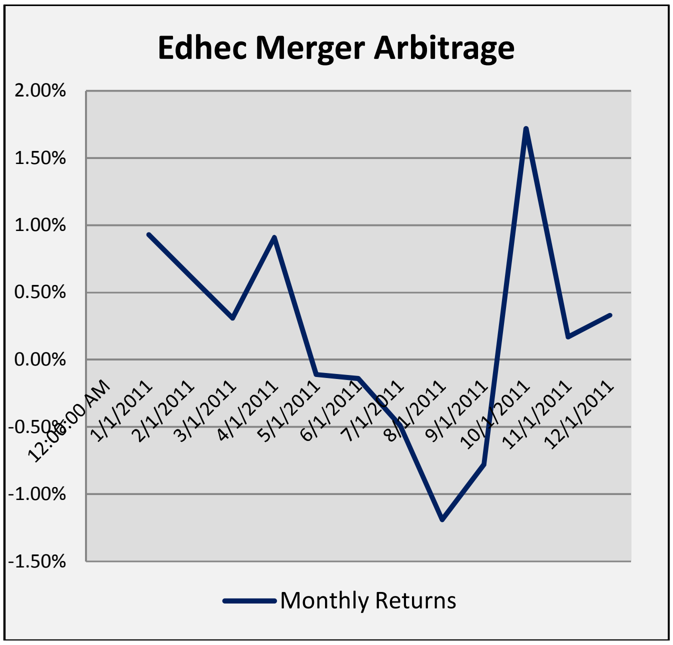
- **Merger Arbitrage:**

The funds belonging to the merger arbitrage bucket showed great resilience to the current economic situation. Despite this, the bucket was down significantly down in 2011. This was mainly due to the performance of a particular high profile fund which had its worst ever year (-14%) and dragged down the performance of the whole bucket. However, the bucket continues to show a very healthy long term return of 6% (over a 5 year period).

	Apollo Merger Arbitrage	Apollo Merger Arbitrage(Averaged Out)*	Edhec Merger Arbitrage
Annual Return	**-5.31%**	**0.26%**	**2.27%**
Max Drawdown	**8.64%**	**5.03%**	**2.68%**
Volatility	**5.69%**	**4.59%**	**2.79%**

* Apollo Merger Arbitrage reconstructed by substituting the worst performing fund with Edhec Merger Arbitrage

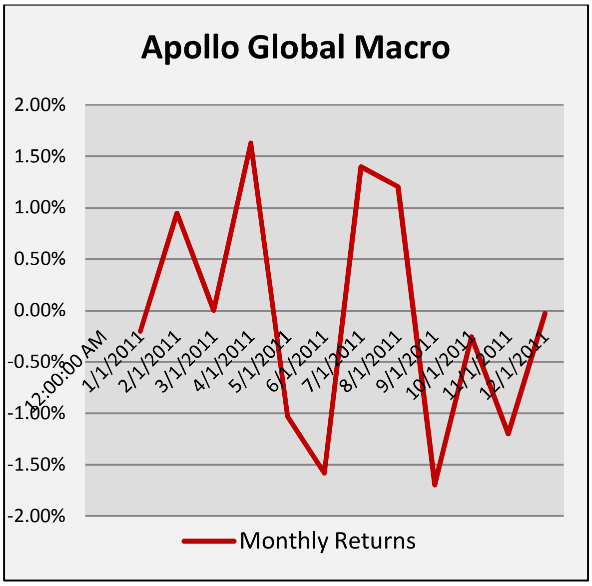


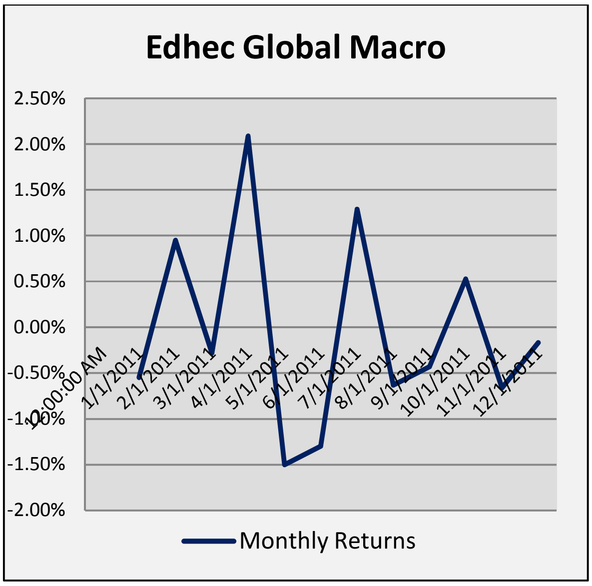


- **Global Macro:**

The Global Macro bucket is one of the most highly diversified buckets in Apollo Portfolio. With an exposure to various markets, this bucket proved to be the perfect risk reducer with an almost flat performance in an extremely treacherous economic scenario. With a fantastic long term return of almost 10% (over a 5 year period), this bucket has a very respectable drawdown of around 3% and has done splendidly in most of our stress tests.

	Apollo Global Macro	Edhec Global Macro
Annual Return	**-0.88%**	**-0.72%**
Max Drawdown	**3.20%**	**2.86%**
Volatility	**4.03%**	**3.70%**



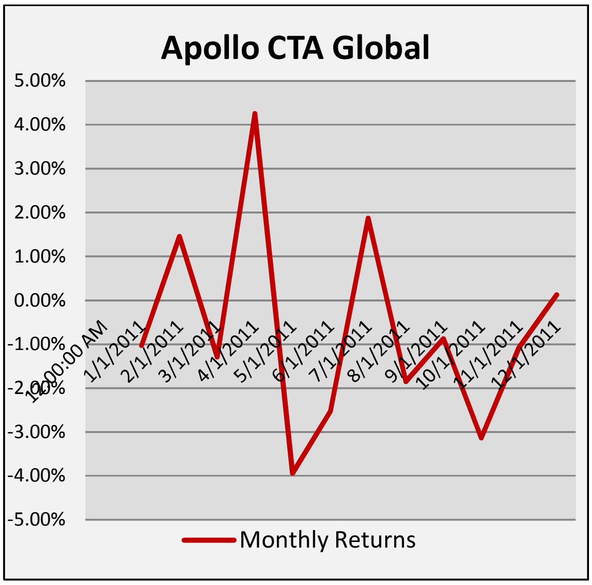


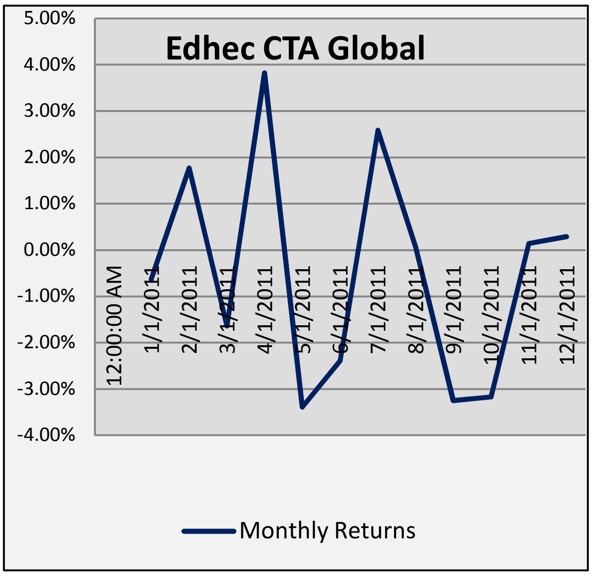
- **CTA Global**

The CTA Global bucket had a very disappointing year but this was down to the performance of a single fund which was down 20% in 2011. The other funds however performed reasonably well with one of the funds making it to the list of 100 Top Performing Hedge funds by Bloomberg. Historically showing great resilience to economic downturns, we are putting down the disappointing performance this year to a single bad apple.

	Apollo CTA Global	Apollo CTA Global(Averaged Out)*	Edhec CTA Global
Annual Return	**-7.99%**	**-2.95%**	**-5.94%**
Max Drawdown	**11.07%**	**6.00%**	**9.31%**
Volatility	**7.97%**	**6.20%**	**8.26%**

*Apollo CTA Global reconstructed by substituting the worst performing fund with Edhec CTA Global

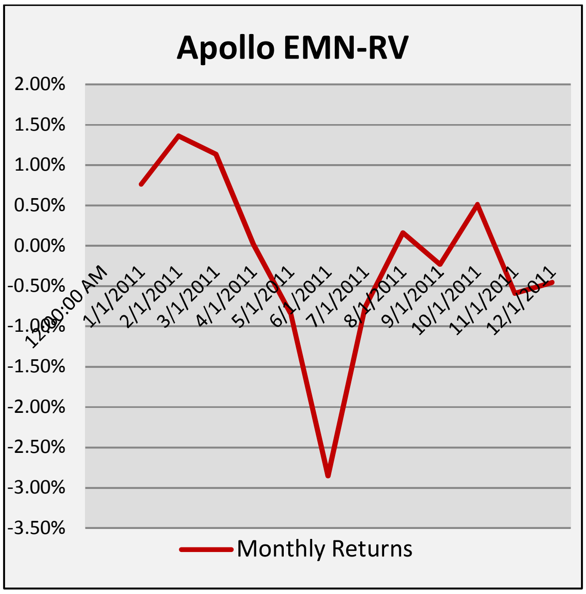


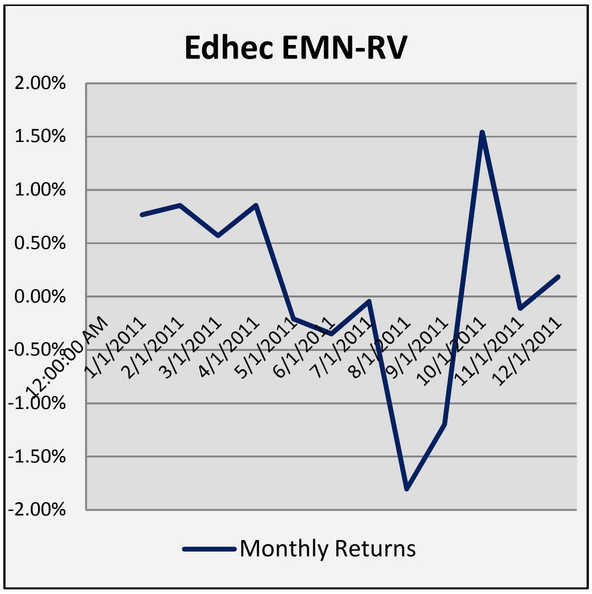


- **Equity Market Neutral-Relative Value (EMN-RV)**

The EMN-RV bucket is an extremely well diversified bucket and as a result showed a certain amount of resilience to the year. Although the performance is slightly disappointing, the bucket did a very good job of absorbing the pressure in some of the months with the most economic uncertainty (Aug 2011-Dec 2011), as can be seen from the graphs

	Apollo EMN-RV	Edhec EMN-RV*
Annual Return	**-1.82%**	**1.01%**
Max Drawdown	**4.97%**	**3.57%**
Volatility	**3.88%**	**3.23%**





***Synthetically Constructed Index**

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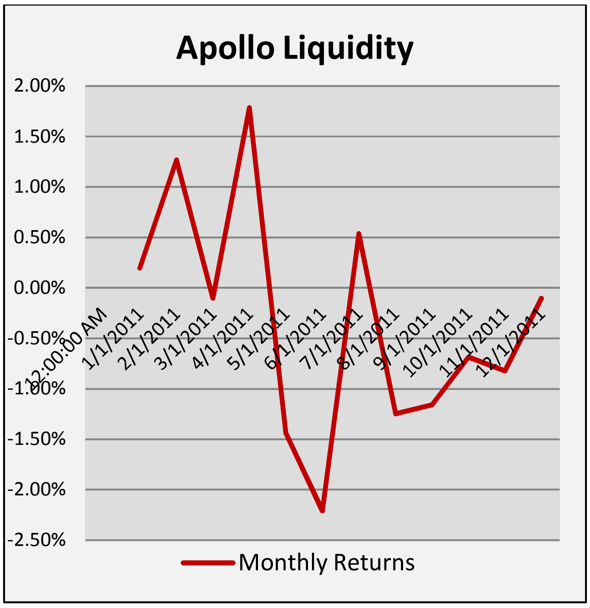
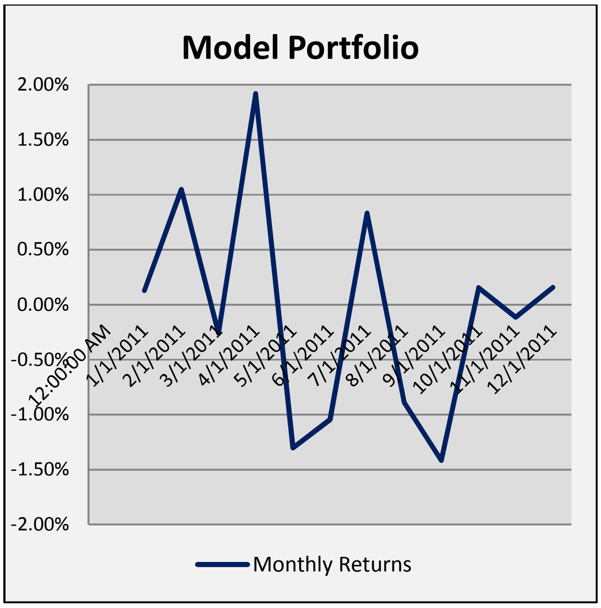
3. Apollo Liquidity

Overall, Apollo Liquidity had a disappointing year. However, the sound investment logic Apollo Liquidity can be seen from the performance of the model portfolio. The model portfolio has the same constitution as Apollo Liquidity but instead of individual funds, it consists of the corresponding EDHEC Indices. The model portfolio shows resilience that is desired from it by yielding an almost flat return in a difficult economic period. Indeed, as can be from the graphs, Apollo liquidity almost traces the performance of the Model portfolio, month by month, but to greater amplitude. This is the price of liquidity and transparency that must be paid by the investor for a highly liquid portfolio. The portfolio continues to show a very healthy return of around 7% over a long term period (5 years).

	Apollo Liquidity	Model Portfolio*	EDHEC Fund of Funds
Annual Return	**-4.01%**	**-0.83%**	**-6.46%**
Max Drawdown	**6.96%**	**3.78%**	**8.56%**
Volatility	**4.03%**	**3.49%**	**5.01%**

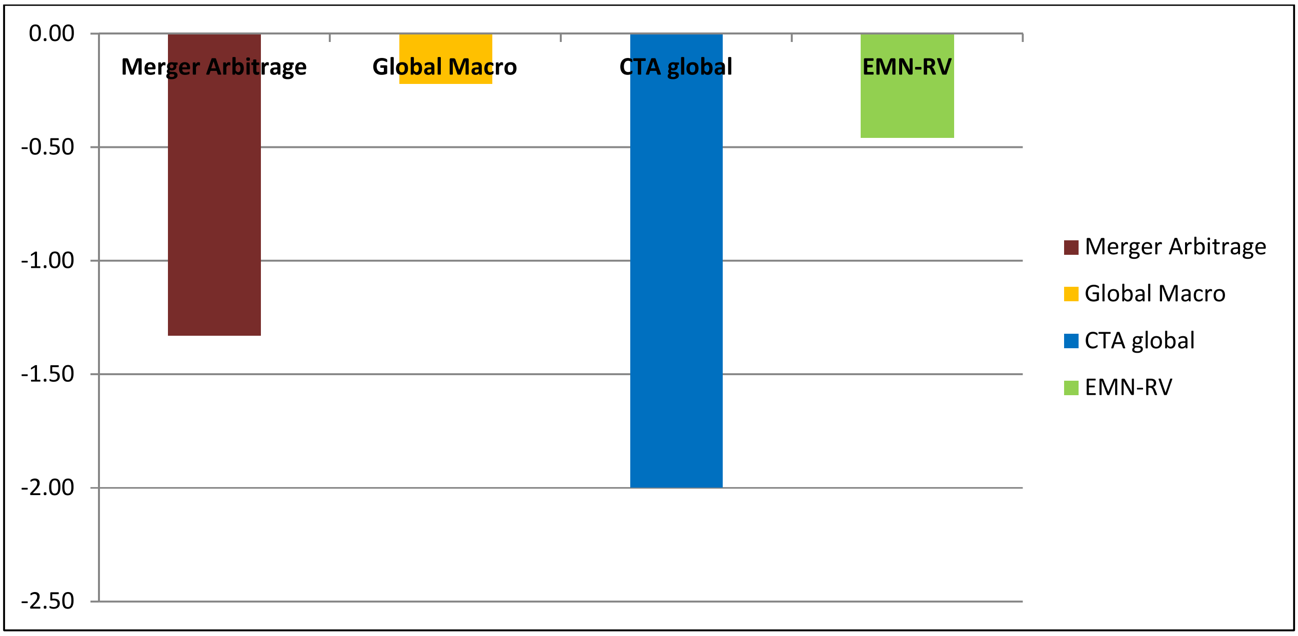
***Built using corresponding Edhec Indices with the same weightings**





- **<u>Performance Attributed to Individual Styles</u>**

As mentioned in the previous section, Global Macro and EMN-RV buckets showed very good resilience while Merger Arbitrage and CTA global buckets were a victim of respective "Bad Apples"



- **<u>Apollo Liquidity- Historical Drawdowns</u>**

Historically Apollo Liquidity has been remarkable in controlling its downside risks until this year when unprecedented global economic headwinds have taken their toll. We consider this to be a "one-off" year and expect the portfolio to return to its previous resilient ways.