HATTERAS
FUNDS

ALTERNATIVE INSIGHTS

QUARTERLY NEWSLETTER AS OF FOURTH QUARTER 2014

IN THIS ISSUE

Fund Folly #1: Alternatives Are Riskier Than Stocks

Ask your average hedge fund manager the question they hear from clients the most, and it's probably: "Why aren't you beating the market?" There are two faulty premises with this kind of thinking. The first is that alternative investments are by nature riskier than stocks, and the second is that their primary function is to beat the market. Because they assume they are bringing on more risk by adding alternatives to their portfolio, these investors also assume that extra risk-taking should benefit them even more when the going is good.

Why is this so often the case? Part of the issue is the way that some investors approach alternative funds. When they think about hedge funds, their thoughts fly to excess returns. They remember reading about a hedge fund manager who doubled his clients' money at a time when the market was up 20%, and they immediately want some of that action. They end up chasing returns, putting their capital in the funds that outperformed last year. They feel great about getting access to a hot manager, until the inevitable happens: they fail to repeat.

The tendency to employ alternative funds for return enhancement is particularly troubling among Baby Boomer investors who are trying to protect their nest eggs. Used in this way, alternative investments are more likely to be avoided than employed when they may be needed most to help mitigate risk and protect hard-earned nest eggs.

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A Letter from the President

Robert Worthington oversees the investment and portfolio management teams of Hatteras Funds. Additionally, he serves on the investment committees for various investment funds including the Hatteras Alternative Mutual Funds. Prior to joining Hatteras, Mr. Worthington was a Managing Director at JPMorgan Asset Management. His previous investment management experience includes President of Undiscovered Managers, LLC, and Principal and Senior Vice President of the Burridge Group, LLC. For the first ten years of his career, Mr. Worthington held various corporate finance positions with Mellon Bank, Nikko Securities, Bankers Trust, and Westpac Banking. He received his Master of Business Administration with a concentration in finance from the University of Pittsburgh and his Bachelor of Arts degree in economics and political science from the University of Wisconsin. Mr. Worthington has also earned his designation as a Chartered Financial Analyst (CFA).

The market's recent rough patch and return of volatility surely is causing some investors concerns about their current portfolios. The kind of market decline we witnessed over three straight trading days in mid-October tends to prompt even the most seasoned long-term investors to start paying attention again, and perhaps even to contact their Financial Advisor.

For their part, Financial Advisors know they have to be especially patient during these episodes. Some clients need to be reminded of the pitfalls of making dramatic moves after such short-term market slides, while still others need some reassurance that their long-term goals are still in sight.

Rather than treat these times merely as a hand-holding exercise, we believe Advisors would be wise to take this opportunity to lead their clients to potential solutions for reducing volatility in the future. Much has been written over the past 18 months about alternative investments' inability to keep pace with the market's meteoric rise. However, most hedge funds strategies are meant to mitigate volatility and help dampen the impacts of market losses; therefore they should be coveted during higher volatility periods.

This kind of talk tends to metastasize, quickly turning out a truism without the benefit of debate. I have always believed that sunlight is the best disinfectant, and this issue could certainly stand a little more light. The fact is, there is a great misperception in some circles about the role alternative investments are meant to play in investor portfolios. To this day, some investors still believe alternative investments such as liquid alternative mutual funds are designed to provide return enhancement. When they fail to deliver on that promise, investors tend to label alternatives as "too risky."

In this issue of Alternative Insights, we are launching a five-part series meant to separate fact from folly when addressing such common perceptions. Our first installment of "Fund Follies" takes issue with the market myth that "alternatives are riskier than stocks." We go back to the historical record in making the case that alternative funds have provided a much-needed backstop against increased volatility and market corrections, particularly during the 2000 – 01 and 2008 – 09 peak-to-trough episodes. We conclude that alternative funds should be seen as a portfolio complement for reducing risk, not an isolated accelerant for stoking returns.

We believe this is a conversation Financial Advisors should be having with clients these days as volatility shows signs of returning to the market. In future issues, we will take aim at other misperceptions dealing with Long-Short Equity funds, multi-alternative funds, fund of funds and alternative fund managers. Our hope is that separating fact from fiction will help the Financial Advisors we work with advance their own conversations with clients, and put them in a better position to employ alternative funds in the right manner and with the right expectations.

From all of us at Hatteras Funds, thank you for investing with us and for your confidence in our firm.

Robert L. Worthington

Robert L. Worthington, CFA
President, Hatteras Funds

Volatility as the Target

What these investors need is a clear, consistent plan that sets reasonable expectations for performance in good markets as well as in bad. The number one objective of such a plan should be mitigating volatility, not enhancing returns. Large endowments and family offices have proven time and time again that allocations to alternative funds accomplish this objective, whether they reside within the equity portion of their portfolio, the fixed income portion, or both.

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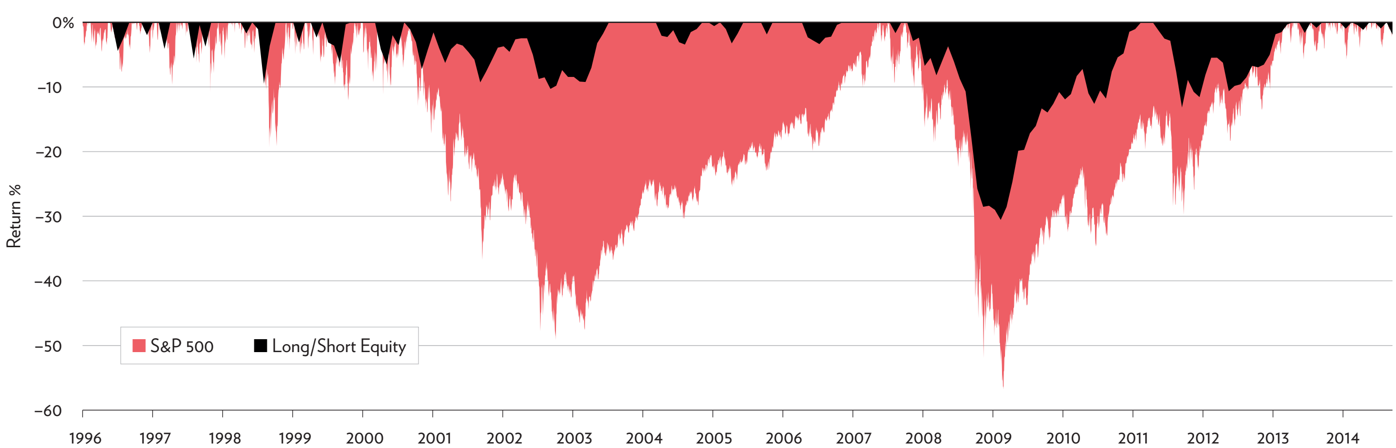
There is perhaps no better way to illustrate this point than studying drawdown trends among stock holdings during tumultuous periods. Recall that a maximum drawdown is the maximum amount of loss from an equity's apex, through to the valley drawdown.

Well, during the 16-month peak-to-trough period ending in March 2009, when the market's decline challenged even the most ardent investor's fortitude, the S&P 500 posted a maximum drawdown of 51.0%. Long/Short Equity, represented by the HFRI Equity Hedge (Total) Index, experienced a maximum drawdown of just 30.6% (see chart below). The dot-com crash at the turn of the century is just as illustrative. During the stock market's peak to trough, from August 2000 to September 2002, the S&P 500 drawdown maxed out at 44.7%, while the Long/Short Equity strategy suffered only a 10.3% maximum drawdown. In both cases, the difference in drawdowns was significant and likely spelled the difference between some investors making emotional decisions to throw in the towel and others to stay the course.

Equity Diversifier Drawdown



Source: Yahoo Finance, PerTrac. From January 1, 1996 – September 30, 2014. Long/Short Equity represented by HFRI Equity Hedge (Total) Index (monthly values) returned 437.3% cumulatively during period show; S&P 500 represented by S&P 500 TR Index (daily values) returned 353.6% cumulatively during period shown. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indexes of securities. ***Past performance is not indicative of future results.*** The past performance figures do not represent performance of any Hatteras Funds security and there can be no assurance that any Hatteras Funds security will achieve the past returns of the illustrative examples. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment.

Long/Short strategies may limit upside potential.

A Complement, Not a Replacement

Too often, investors look to alternative funds in isolation, employed as a mechanism for replacing something else in the portfolio when we believe they should be looking to them as a complement. You don't go to a restaurant for a bottle of salt, but it's a great complement to a meal. If you use salt properly and judiciously, you are able to enhance flavors rather than if you consume it on its own. It's as true for investors who employ alternative funds as a means for mitigating volatility and keeping their emotions in check.

Just as chefs are the most judicious when it comes to using salt, alternative fund managers are able to adjust allocations as conditions warrant. The biggest reason for this is their ability to manage exposure. Take a Long/Short Equity manager who believes the market is long in the tooth and bound to correct. They have the ability not only to take risk off by reducing exposure to the long side of the portfolio, but also to increase exposure on the short side. And they have the same ability to adjust these exposures when betting on a recovery.

Multi-Strategy/Multi-Manager Approach

The only question remaining is how many chefs you want in the kitchen. At Hatteras, we believe a diversity of managers using a variety of strategies is the best approach, and that's why we continue to support a multi-strategy/multi-manager investing discipline.

Our portfolio management team is responsible for making all allocation decisions—overweighting and underweighting strategies based on the opportunity as well as overweighting and underweighting individual managers. That means the team is constantly conducting manager search and selection and managing risks on the combined portfolio. The broad diversification this strategy relies on not only spreads the idiosyncratic risk of individual managers, but also uses a wide variety of alternative strategies seeking to offer a risk/return profile that stabilizes the portfolio and reduces volatility.

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Investors who employ this approach may not see their holdings go up as much in up markets but they also may not see them go down as much when prices correct. As much as we would all like to think that we can spot the next outperformer, history has proven our deficiencies in this respect to disastrous effect. Alternative funds, particularly those employed in an approach that spreads risk among multiple managers and strategies, may help protect against those gut-wrenching swings and keep investors in sight of their long-term investing goals. That's something we can all lift our glass to. ■

M&A Activity Casts Spotlight on Event-Driven Strategies

This year's flurry of deal-making across the globe is creating plenty of opportunities—for companies and investors alike.

Corporate activity is robust by just about any measure. According to Thomson Reuters, worldwide M&A volume surged to $2.7 trillion through the first nine months of the year, surpassing merger activity for all of last year and representing the strongest nine-month start to the year since 2007. The 59% year-over-year increase was the biggest percentage gain since the first nine months of 1998.

Deals are being fueled by a record-pace of corporate borrowing, with global debt capital markets activity posting the strongest nine-month start since 2009. U.S. Investment Grade debt led the charge, rising 5.9% during the first nine months. In fact, the $864.3 billion raised amounted to the most Investment Grade debt ever issued during the first three months of the year.

Despite concerns about the emergence of bubble-like conditions in the corporate credit markets, default rates are refusing to play along. Global default rates for junk bonds remain below historical averages, bucking the typical increase we usually see in default rates at this point in the economic cycle and offering at least some reassurance that risks aren't being underpriced.

What's more, other drivers behind the recent rash of deals remain firmly in place, suggesting M&A activity has yet to peak. By historical standards, cash on corporate balance sheets is still high, credit is still cheap on a relative basis, investor demand for yield is strong, and, the global expansion remains slow and unsynchronized as weakness in Europe and Asia offset strength in the U.S.

Event-Driven Strategies to the Fore

It used to be that only select investors could take advantage when M&A activity perked up to such a degree. Sure, institutional investors could count on capitalizing on deal arbitrage and other opportunistic investments through their hedge fund and private equity investments, but their money was locked up for years at a time. Mutual fund investors weren't locked up as much as they were locked out—thanks to liquidity requirements governing such investments.

In recent years, though, the emergence of liquid alternative funds that emulate hedge fund and private equity investing strategies has opened the door to individual investors. With merger activity exhibiting no signs of slowing down, one such strategy is garnering increased investor attention: Event-Driven.

Event-Driven strategies look to get involved in and take advantage of complex situations that arise from corporate activity. One way they accomplish this is by seeking to exploit pricing inefficiencies that may arise before or after a corporate event. Mergers and acquisitions create those inefficiencies due to uncertainties surrounding the proposed deal—for instance, questions related to whether regulators or shareholders will approve it. That is especially true when deals are hostile or unsolicited in nature and subject to greater volatility of outcomes—such transactions accounted for 8% of worldwide merger activity in the first nine months of the year, the highest percentage since the equivalent period of 2001.

Corporate spinoffs, restructurings, share repurchases and other so-called "special situations" are also prime opportunities for Event-Driven managers in that they impact the value of a company's stock and may benefit those that get ahead of such developments. In recent years, companies have also come under intense pressure from activist investors. Such investors take large positions in a company, then exert pressure on the board to take corporate actions that benefit shareholders. Sometimes they are successful and sometimes they aren't, but Event-Driven managers can take positions to benefit from a range of potential outcomes.

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Low Correlation Provides Diversification

Given their unique nature and timing, these kinds of corporate events—sometimes called “hard catalysts”—tend to cause the prices of assets involved to buck market trends and move more independently. Their moderate-to-weak correlation to asset classes such as equities enables Event-Driven strategies to provide portfolio diversification benefits.

Because of their catalyst-oriented nature, most Event-Driven strategies, have a timing element that makes daily cash flows in and out of the strategy more disruptive. This is why they are more difficult to find on a standalone basis, but can be executed in a more diversified fund. When Event-Driven fund managers use public equities or bonds as investment vehicles—rather than private equity or deeply distressed bonds—such funds can offer more liquidity than they would otherwise, giving investors quicker access to their cash than traditional alternatives investments such as hedge funds.

For investors looking for greater diversification and liquidity these days, alternative funds that employ Event-Driven strategies stand to have plenty of opportunities in the months ahead for generating returns.

For investors looking for greater diversification and liquidity these days, alternative funds that employ Event-Driven strategies stand to have plenty of opportunities in the months ahead for generating returns. Companies the world over are on the hunt for deals and boards are under increasing pressure to boost shareholder returns in other ways, creating a landscape for Event-Driven managers to apply their trade. Those concerned about the idiosyncratic risk involved in betting on any one manager would be wise to consider Event-Driven strategies in a multi-strategy/multi-manager fund that uses a wide variety of alternative strategies to spread such risk and reduce volatility. ■

Event Driven strategies are subject to market risk, loss of principal is possible.

Global Market Index Total Returns as of September 30, 2014

	1-MON RTN	3-MON RTN	YTD RTN	1-YEAR RTN	3-YEAR ANN RTN	3-YEAR STD DEV	3-YEAR SHARPE	5-YEAR ANN RTN	5-YEAR STD DEV	5-YEAR SHARPE	10-YEAR ANN RTN
DOMESTIC EQUITY											
S&P 500 Index	−1.40%	1.13%	8.34%	19.73%	22.99%	10.57%	2.17	15.70%	13.20%	1.18	8.11%
S&P 500 Consumer Discretionary	−2.76	0.26	0.86	11.77	26.27	12.54	2.09	21.45	15.37	1.39	9.56
S&P 500 Consumer Staples	0.63	1.95	7.23	16.52	18.21	9.71	1.87	15.40	10.03	1.53	10.70
S&P 500 Energy	−7.55	−8.62	3.24	11.86	16.88	16.35	1.03	12.46	18.64	0.66	11.24
S&P 500 Financials	−0.39	2.33	7.42	18.52	27.64	14.79	1.86	11.03	17.76	0.62	0.19
S&P 500 Health Care	0.43	5.46	16.62	28.43	28.84	9.67	2.98	19.74	11.77	1.67	10.40
S&P 500 Industrials	−1.08	−1.09	2.87	16.78	24.83	12.62	1.96	17.25	16.95	1.01	8.12
S&P 500 Information Technology	−0.68	4.77	14.13	29.27	22.31	13.08	1.70	16.02	15.75	1.01	9.71
S&P 500 Materials	−1.54	0.22	8.87	20.47	21.96	15.47	1.42	13.23	19.65	0.67	8.71
S&P 500 Telecom Services	0.41	3.07	7.47	13.35	15.21	12.28	1.23	13.99	13.63	1.02	7.82
S&P 500 Utilities	−1.86	−3.96	13.95	17.13	12.26	12.46	0.98	12.13	11.78	1.02	9.54
Dow Jones Industrial Average	−0.23	1.87	4.60	15.29	19.02	10.29	1.84	14.85	12.20	1.21	8.15
Nasdaq Composite	−1.82	2.24	8.58	20.67	24.70	12.83	1.92	17.62	15.57	1.13	10.30
Russell 1000	−1.75	0.65	7.97	19.01	23.23	10.78	2.15	15.90	13.49	1.17	8.46
Russell 1000 Growth	−1.45	1.49	7.89	19.15	22.45	11.09	2.02	16.50	13.66	1.20	8.94
Russell 1000 Value	−2.06	−0.19	8.07	18.89	23.93	10.98	2.17	15.26	13.71	1.11	7.84
Russell Mid-Cap	−3.34	−1.66	6.87	15.83	23.79	12.27	1.93	17.19	15.27	1.12	10.34
Russell 2500	−5.14	−5.35	0.28	8.97	22.80	14.04	1.62	15.99	17.14	0.93	9.45
Russell 2000	−6.05	−7.36	−4.41	3.93	21.26	15.22	1.39	14.29	18.44	0.77	8.19
Russell 2000 Growth	−5.35	−6.13	−4.05	3.79	21.91	16.14	1.35	15.51	19.05	0.81	9.03
Russell 2000 Value	−6.75	−8.58	−4.74	4.13	20.61	14.63	1.40	13.02	18.10	0.72	7.25
Russell Micro Cap	−5.85	−8.21	−6.78	2.78	22.77	15.70	1.45	13.60	19.56	0.69	6.36
Russell 3000	−2.08	0.01	6.95	17.76	23.08	11.04	2.09	15.78	13.79	1.14	8.44
Russell 3000 Growth	−1.75	0.88	6.91	17.87	22.41	11.35	1.97	16.43	13.96	1.17	8.95
Russell 3000 Value	−2.43	−0.87	7.01	17.66	23.67	11.19	2.11	15.08	13.97	1.07	7.79
INTERNATIONAL EQUITY (USD)											
MSCI All Country World ex U.S. ND	−4.84%	−5.27%	0.00%	4.77%	11.79%	14.35%	0.82	6.03%	16.45%	0.36	7.06%
MSCI EAFE ND	−3.84	−5.88	−1.38	4.25	13.65	14.28	0.95	6.56	16.64	0.39	6.32
MSCI Emerging Markets ND	−7.41	−3.49	2.43	4.30	7.19	17.19	0.41	4.42	18.55	0.23	10.68
FTSE 100 (London)	−4.93	−5.94	−0.89	6.69	14.72	14.39	1.02	9.69	16.63	0.58	6.82
DAX (Germany)	−3.88	−11.12	−9.23	2.89	17.37	19.67	0.88	7.56	23.13	0.32	9.48
Nikkei 225 (Japan)	−0.04	−0.92	−3.47	1.79	11.36	12.97	0.87	7.44	14.17	0.52	5.82
Shanghai Composite (China)	6.90	18.44	13.80	12.01	4.42	18.56	0.23	1.37	19.30	0.07	10.87
Hang Seng (Hong Kong)	−7.10	−0.13	1.89	4.15	13.47	18.33	0.73	5.36	17.84	0.30	9.47
BSE Sensex 30 (India)	−2.12	2.19	27.52	41.33	10.38	25.98	0.40	5.49	25.45	0.21	15.14
BM&F Bovespa (Brazil)	−19.49	−8.35	1.07	−6.20	−7.81	31.44	−0.25	−8.72	29.38	−0.30	10.50

Source: Morningstar Direct, Bloomberg, hedgefundresearch.com, barclayhedge.com. ***Past performance is no guarantee of future results.*** Index returns are provided for illustrative purposes only. Returns do not represent any actual investment. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment. For performance of the Hatteras Funds, visit hatterasfunds.com.

Global Market Index Total Returns as of September 30, 2014 *continued*

	1-MON RTN	3-MON RTN	YTD RTN	1-YEAR RTN	3-YEAR ANN RTN	3-YEAR STD DEV	3-YEAR SHARPE	5-YEAR ANN RTN	5-YEAR STD DEV	5-YEAR SHARPE	10-YEAR ANN RTN
FIXED INCOME (USD)											
Barclays U.S. Aggregate	−0.68%	0.17%	4.10%	3.96%	2.43%	2.67%	0.89	4.12%	2.83%	1.43	4.62%
BofAML U.S. High Yield Master II	−2.10	−1.92	3.61	7.23	10.95	5.56	1.96	10.40	6.25	1.65	8.20
S&P/LSTA U.S. Leveraged Loan 100	−0.96	−0.98	1.47	3.33	6.88	3.59	1.90	6.15	5.01	1.21	5.07
Barclays Global Aggregate	−2.79	−3.14	1.64	1.19	1.16	4.17	0.26	2.69	5.19	0.50	4.38
Barclays Global High Yield	−2.55	−3.27	2.59	6.51	11.57	7.02	1.64	10.39	7.76	1.33	8.88
BofA ML European High Yield	−4.86	−8.06	−3.04	2.69	13.84	13.77	1.00	9.24	16.46	0.56	9.32
JPM Emerging Mkts Bond Plus	−2.60	−2.11	7.16	7.84	6.87	8.40	0.81	7.50	7.58	0.98	8.34
Barclays Long Term U.S. Treasury	−1.86	2.69	15.15	11.60	1.99	10.22	0.19	6.98	11.69	0.59	6.80
Barclays Municipal	0.10	1.49	7.58	7.93	4.56	3.84	1.17	4.67	3.95	1.16	4.72
REAL ASSETS											
Bloomberg Commodity TR	−6.23%	−11.83%	−5.59%	−6.58%	−5.34%	12.70%	−0.43	−1.37%	15.39%	−0.09	−1.04%
Wilshire U.S. REIT TR	−5.83	−3.07	14.46	13.51	16.53	14.91	1.10	16.02	16.88	0.94	8.34
HFRX INDEXES											
HFRX Global Hedge Fund	−0.77%	−0.57%	1.19%	3.54%	3.61%	3.04%	1.17	1.83%	4.06%	0.43	1.21%
HFRX Equity Hedge	−0.12	−0.04	1.23	5.46	5.35	4.76	1.11	1.05	6.79	0.14	0.48
HFRX Absolute Return	−0.19	−0.02	1.80	3.54	2.12	1.57	1.31	0.50	2.08	0.20	0.05
HFRX EH Equity Market Neutral	0.35	1.43	2.64	4.90	0.05	2.63	−0.01	−0.01	3.94	−0.02	0.14
HFRX Event Driven	−3.15	−2.82	1.47	4.22	7.18	4.89	1.46	3.88	5.10	0.75	3.19
HFRX Systematic Diversified	0.24	1.43	−1.32	1.48	−4.26	5.65	−0.76	−1.75	7.52	−0.24	—
HFRX Relative Value Arbitrage	−0.70	−1.62	−0.05	1.15	2.20	2.74	0.78	3.16	3.95	0.78	1.23
HFRX Fixed Income–Corporate	−1.29	−1.28	4.29	7.27	6.97	2.40	2.87	8.58	3.97	2.14	4.69
HFRX Fixed Income–Credit	−1.22	−1.73	1.61	2.74	5.42	2.89	1.85	5.36	4.18	1.26	—
HFRI INDEXES											
HFRI Fund of Funds Composite	−0.22%	0.26%	2.38%	6.14%	5.17%	3.27%	1.57	3.40%	3.99%	0.83	3.43%
HFRI Fund Weighted Composite	−0.75	−0.09	3.07	6.66	6.46	4.22	1.52	5.10	5.21	0.96	5.67
HFRI Equity Hedge Total	−1.90	−1.28	1.92	6.70	8.41	6.53	1.28	5.44	7.62	0.70	5.25
HFRI EH Equity Market Neutral	−0.05	0.38	2.05	4.66	4.50	1.83	2.42	2.43	2.61	0.90	2.76
HFRI Event Driven Total	−1.28	−1.48	2.81	6.69	8.56	3.98	2.13	7.26	5.13	1.40	6.67
HFRI Macro Systematic Diversified	2.19	4.62	4.81	7.89	−0.79	6.15	−0.14	1.16	7.29	0.15	7.03
HFRI Relative Value Total	−0.41	0.13	4.94	7.42	7.88	2.44	3.21	7.59	3.07	2.44	6.60
HFRI RV Fixed Income Corporate	−1.08	−1.11	3.55	6.19	7.37	3.09	2.37	7.35	3.75	1.94	5.06
CTA INDEXES											
Barclay CTA	2.13%	3.80%	4.42%	6.34%	−0.26%	4.22%	−0.08	0.92%	4.90%	0.17	3.64%
Newedge CTA	1.92	4.91	6.03	9.74	0.22	6.21	0.03	1.11	7.03	0.15	4.01
Newedge CTA Trend Sub–Index	3.33	7.86	7.11	13.54	0.89	9.69	0.09	1.80	11.05	0.16	5.41
Newedge Short–Term Traders	1.27	2.24	4.25	7.76	−0.21	4.53	−0.06	−1.03	4.02	−0.27	—

Source: Morningstar Direct, Bloomberg, hedgefundresearch.com, barclayhedge.com. ***Past performance is no guarantee of future results.*** Index returns are provided for illustrative purposes only. Returns do not represent any actual investment. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment. For performance of the Hatteras Funds, visit hatterasfunds.com.

Periodic Table of Investment Returns

Annual Returns for Indexes Ranked in Order of Performance, 2000 – 2013

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
19.09%	13.37%	10.27%	39.36%	25.87%	28.33%	28.73%	24.92%	5.24%	60.17%	21.01%	13.16%	16.00%	32.39%
18.02	13.28	9.05	29.56	18.89	21.04	24.26	19.72	4.83	40.25	15.06	10.53	13.81	27.23
14.56	12.18	7.44	28.68	18.42	10.60	17.42	15.31	−5.37	28.14	13.77	7.86	10.59	20.63
14.50	10.36	5.44	25.33	15.07	9.30	15.94	11.11	−5.92	26.46	13.35	2.11	10.37	14.60
13.41	8.92	5.28	22.32	15.01	8.27	15.79	10.48	−16.20	25.81	12.12	1.50	10.12	13.62
11.63	8.42	3.70	21.42	10.88	7.49	15.33	10.25	−18.04	25.04	11.86	0.15	8.89	12.51
9.09	6.87	1.02	20.54	9.03	7.29	14.24	9.96	−19.03	24.57	11.44	−1.79	8.58	9.33
6.74	6.71	0.98	19.55	7.68	6.84	12.89	8.94	−21.37	19.98	11.43	−2.13	7.41	8.74
4.98	4.62	−0.87	11.61	6.86	6.79	12.37	7.05	−21.82	13.41	10.45	−3.30	7.10	7.80
5.64	2.80	−1.45	9.93	5.58	6.25	12.17	6.96	−22.37	11.65	10.25	−4.16	6.36	7.22
4.07	2.76	−4.30	9.72	4.63	6.22	11.71	6.61	−25.20	11.47	8.06	−5.16	4.79	7.12
2.78	0.40	−4.71	7.47	4.34	6.02	10.39	5.49	−26.65	5.93	6.56	−5.25	4.23	5.22
1.97	−12.00	−7.77	4.11	4.15	4.91	8.15	5.33	−33.73	4.34	5.70	−5.72	2.98	4.80
−9.11	−11.88	−22.10	2.44	4.08	2.43	7.32	5.29	−37.00	3.04	4.60	−8.38	2.76	−0.27
−10.71	−39.77	−33.68	−4.18	1.18	−1.86	4.33	5.08	−37.26	1.43	2.85	−14.01	−0.06	−2.02

- Barclays Capital U.S. Aggregate Bond Index
- Cambridge Associates LLC U.S. Private Equity Index
- Cambridge Associates LLC U.S. Venture Capital Index
- HFRI ED—Distressed/Restructuring Index
- HFRI ED—Merger Arbitrage Index
- HFRI EH—Equity Market Neutral Index
- HFRI Emerging Markets Index
- HFRI Equity Hedge Index
- HFRI Event Driven Index
- HFRI Fund of Funds Composite Index
- HFRI Fund Weighted Composite Index
- HFRI Macro Index
- HFRI Relative Value Index
- HFRI RV Fixed Income—Convertible Arbitrage Index
- S&P 500 TR Index

Diversification does not assure a profit or protect against loss in a declining market. **Source:** PerTrac. ***Past performance is not an indication of future results.*** Index returns are provided for illustrative purposes only, to demonstrate a hypothetical investment vehicle using broad-based indexes of securities. Returns do not represent any actual investment. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment. The past performance figures do not represent performance of any Hatteras security and there can be no assurance that any Hatteras security will achieve the past returns of the illustrative examples. For the performance of the Hatteras Funds visit hatterasfunds.com.

Alternative Investment Strategies Performance Review

Long/Short Equity

3Q MARKET PERFORMANCE

	3Q 2014	YTD 2014
HFRX Equity Hedge Index	–0.04%	1.23%
HFRI Equity Hedge Index	–1.28	1.92

- Despite the highly successful IPO of Chinese technology company Alibaba, equity markets struggled for the quarter, with U.S. declines led by small cap, Energy, and Commodity sensitive sectors
- Mid-cap equities experienced large drawdowns over the quarter, with the Russell 2000 reporting losses of –7.36% for the quarter dictated by negative returns in September and July deluding positive performance in August

Market Neutral

3Q MARKET PERFORMANCE

	3Q 2014	YTD 2014
HFRX EH Equity Market Neutral Index	1.43%	2.64%
HFRI EH Equity Market Neutral Index	0.38	2.05

- The HFRX Market Neutral Index reported positive returns for the quarter, with gains in quantitative, trading oriented strategies and Fundamental, factor-based models
- HFRX Market Neutral reported its 2nd largest gain in over 3 years in August, returning +0.86%
- Systematic Diversified and Equity Market Neutral were leading performers in the third quarter among Hedge Fund strategies

Long/Short Debt

3Q MARKET PERFORMANCE

	3Q 2014	YTD 2014
HFRX Relative Value Arbitrage Index	–1.62%	–0.05%
HFRI RV Fixed Income Corp. Index	–1.11	3.55

- HFRX Relative Value Arbitrage Index posted losses for the quarter, as credit spreads widened and equities detracted from performance
- Argentina's default on sovereign bonds coupled with the departure of PIMCO co-Founder Bill Gross also caused pressure for fixed income markets over the period
- U.S. treasury yields increased on continued expectations of QE measures ending and speculation about future rate increases

Event Driven

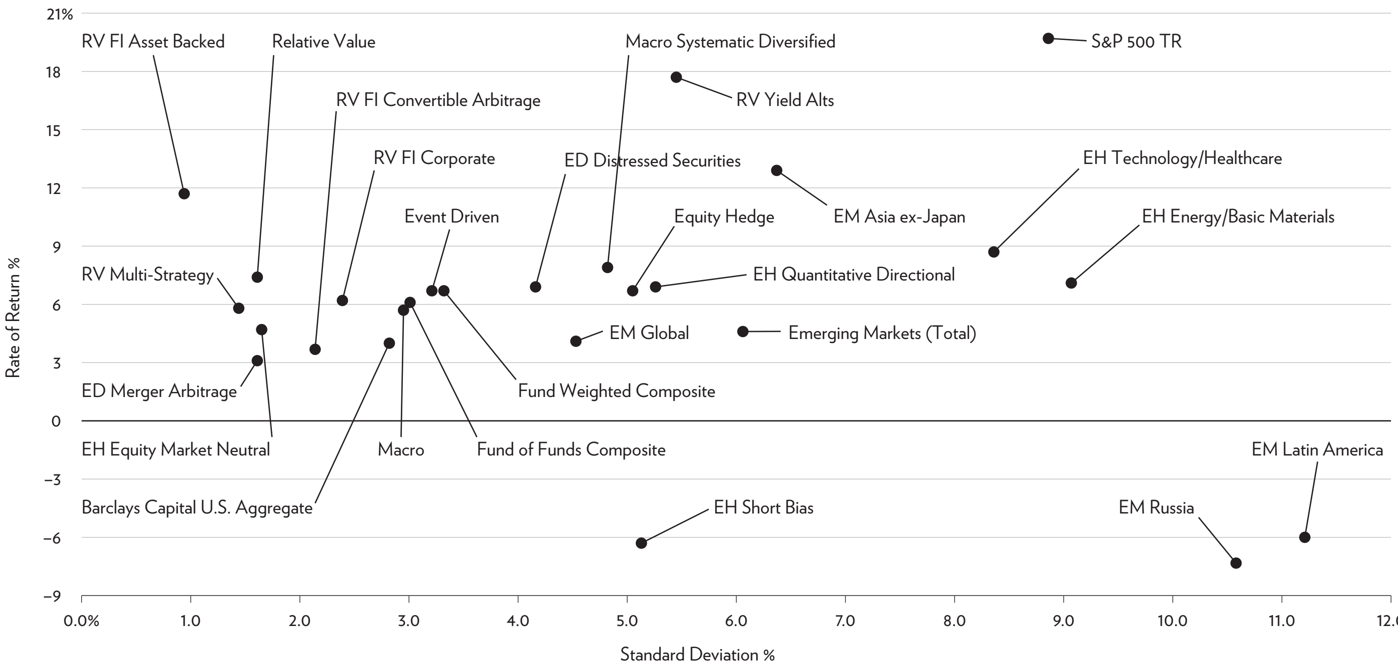
3Q MARKET PERFORMANCE

	3Q 2014	YTD 2014
HFRX Event Driven Index	–2.82%	1.47%
HFRI Event Driven Index	–1.48	2.81

- The HFRX Event Driven Index posted losses for the quarter, with negative returns in July and September driving overall returns for the period
- In July, the HFRX Event Driven Index posted a decline of –0.96%, with varied contributions from Distressed/Restructuring managers offset by losses in Equity Special Situations and Merger Arbitrage strategies
- The HFRX Event Driven Index returned –3.15% in September, with Equity Special Situations and Distressed strategies detracting as the high yield credit widened

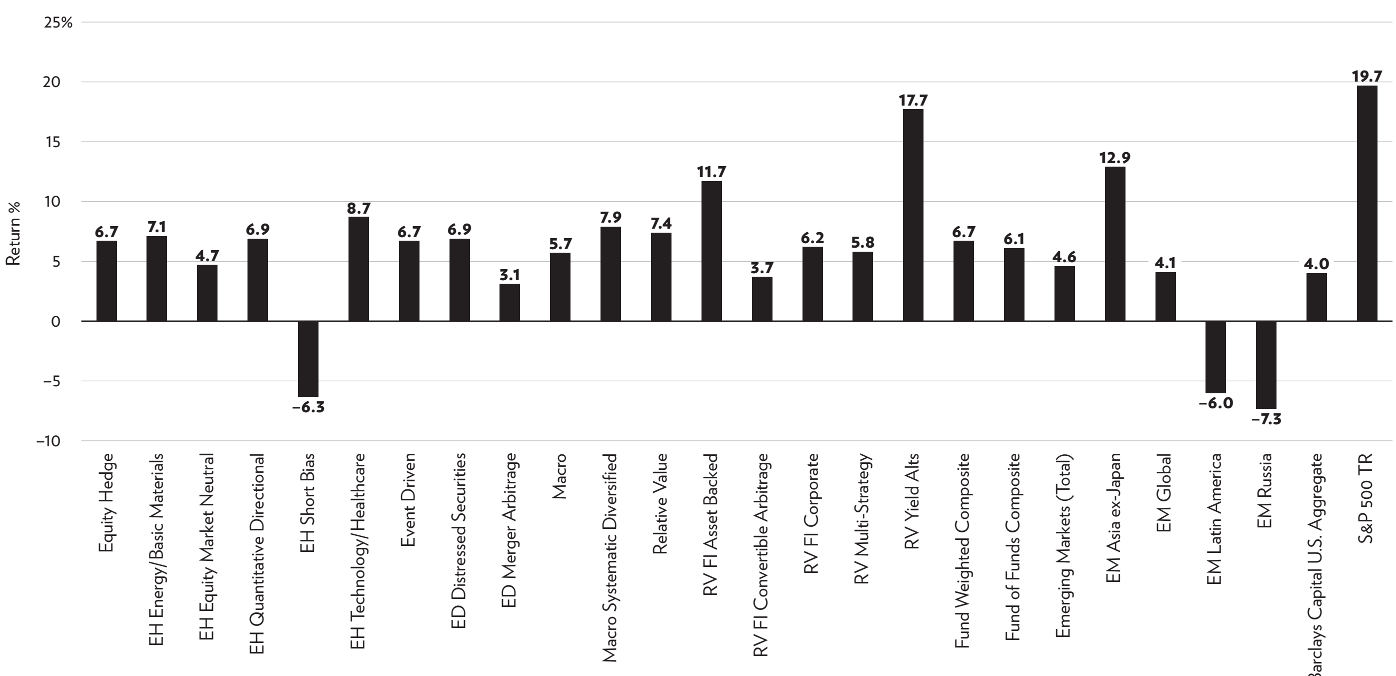
Source: PerTrac. ***Past performance is no guarantee of future results.***

HFRI Index Risk/Return Comparison 12-Month



As of September 30, 2014. **Source:** HFR.

HFRI Index Performance 12-Month



As of September 30, 2014. **Source:** HFR. HFR Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indexes of securities. The illustrations are not intended to predict the performance of any specific investment or security. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment. ***Past performance is no guarantee of future results.*** For performance of the Hatteras Funds, please visit hatterasfunds.com.

Managed Futures

3Q 2014 MARKET PERFORMANCE

	3Q 2014	YTD 2014
Barclay CTA	3.80%	4.42%
Newedge CTA	4.91	6.03
Newedge CTA Trend Sub-Index	7.86	7.11
Newedge Short-Term Traders	2.24	4.25

- After a lackluster start to the year, CTA's provided outsized performance in the third quarter compared to other strategies
- HFRX Macro Index gains in July were attributable to Discretionary Fixed Income, FX and Emerging Markets strategies
- In September, the HFRX Macro/CTA Index posted positive returns of +1.54% as the US Dollar surged and equities fell, marking the 5th consecutive months of gains and the strongest monthly gain since 2009

Private Equity

2Q 2014 MARKET PERFORMANCE

	1-YR	3-YR	5-YR	10-YR
Cambridge Assoc. LLC U.S. Private Equity Index	22.42%	14.52%	17.72%	14.26%

QUARTERLY PRIVATE EQUITY MARKET BUYOUT ACTIVITY (IN BN)

	2Q 2014	1Q 2014	CHANGE
Fundraising	$143.0	$111.0	–$32.0
Investment Activity	80.4	83.3	–2.9
Exit Activity	146.7	96.3	50.4

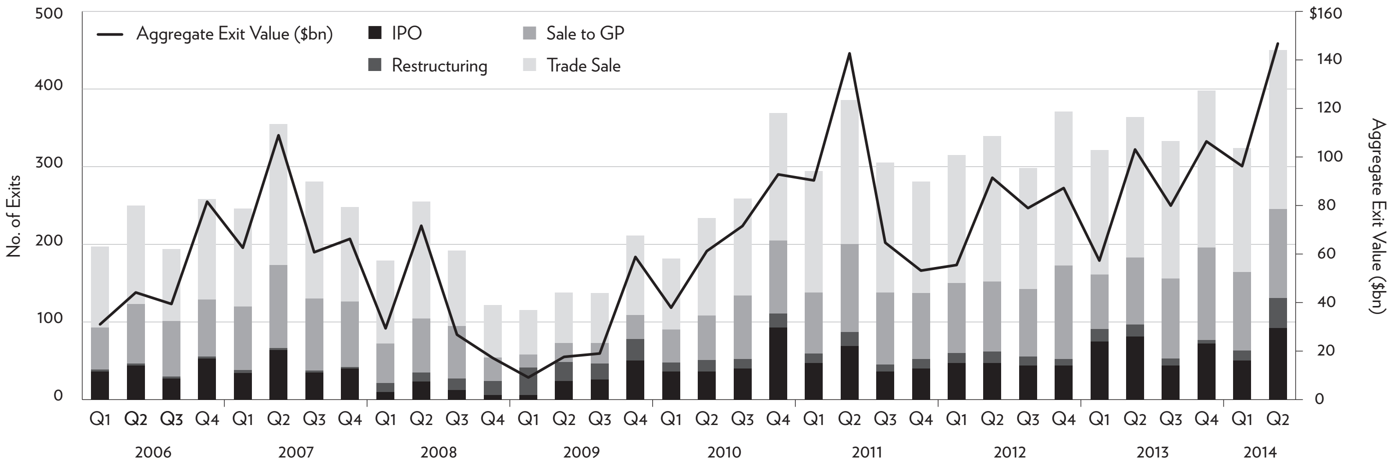
ANNUAL PRIVATE EQUITY BUYOUTS (IN BN)

	2013	2012	CHANGE
Fundraising	$524.0	$389.0	$135.0
Investment Activity	296.3	265.5	30.8
Exit Activity	343.5	305.6	37.9

- Private Equity managers continued to deliver alpha to investors in the second quarter, outperforming many other asset classes for the quarter and YTD
- Helping to drive returns for the quarter has been the robust exit environment, whereby attractive valuations have presented managers opportunities to realize gains from investments
- Compared to the first quarter, deal volumes increased ~8% while aggregate deal values decreased slightly by 3%. Although the aggregate value of deals has not changed materially, the players participating have shifted, with larger funds driving a bigger portion of deal activity
- Fundraising for the second quarter increased ~29% from the prior quarter, with larger funds driving much of the activity, illustrating the inclination of investors to commit to larger, more established players in the market
- As new funds are launched and capital flows into the space, dry powder continues to grow causing extra pressure for many private equity mangers to put capital to work
- Over the quarter, private equity managers exited 450 deals with aggregate values of $147B, approximately 52% higher than aggregate values reported last quarter. Among private equity managers, strategic sales continue to dominate as the exit avenue of choice, with strategic sales representing 47% of realizations in Q2

Source: Morningstar Direct, Bloomberg, Hedge Fund Research, Barclay Hedge, Camrbidge and Prequin. ***Past performance is no guarantee of future results.***

Global Number of Private Equity-Backed Exits by Type and Aggregate Exit Value, Q1 2006 – Q2 2014



As of June 30, 2014. **Source:** Preqin. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indexes of securities. The illustrations are not intended to predict the performance of any specific investment or security. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment. ***Past performance is no guarantee of future results.*** For performance of the Hatteras Funds, please visit hatterasfunds.com. No investment is risk-free; loss of principal is possible. **Stock** values fluctuate in price so that the value of your investment can go down depending on market conditions. **Private Equity** involves specific risks that may be greater than those associated with traditional investments including limited liquidity, tax considerations, incentive-fee structures, potentially speculative investment strategies and different regulatory requirements. An **IPO** is an Initial Public Offering, which allows a private company to become public. In a **restructuring**, a company exchanges one form of financing for another. **Sale to GP (General Partner)** means a sale from one private equity firm to another. In a **trade sale**, the firm is sold via merger or acquisition to a strategic buyer.

Manager Profile

MOAB PARTNERS

MOAB
PARTNERS

Moab's value-oriented event driven strategy will invest long and short across the capital structure. The portfolio will generally consist of small and mid cap North American companies. Moab seeks to create a portfolio of "off the radar" investments by avoiding positions broadly held by other hedge funds.

Moab will often invest in companies with complicated capital structures. Investment opportunities in such companies are evaluated tranche by tranche throughout the capital structure, comparing the upside and downside characteristics of each tranche of debt and equity as well as identifying possible pair-trade or arbitrage opportunities. Moab will allocate a varying percentage of the Funds' assets between event driven investments in different asset classes and industries with capital appreciation and/or current income opportunities, and corporate credit opportunities which offer current income and reduce performance volatility.

The Moab team seeks to identify investments with attractive valuation and cash flow profiles as well as identifiable events that will lead to a substantial change in market valuation and/or attractive current income. The goal of isolating event driven opportunities is to diminish market or macroeconomic risks. The investment process centers around valuation focused investment criteria based on free cash flow yields, asset values and internally built forecasts. In the evaluation of potential investments, Moab will meet with company management teams, competitors, industry experts, shareholders and advisors. Occasionally, the team may take and an activist role in an investment company to create or accelerate a catalyst.

Michael Rothenberg is the co-founder and portfolio manager of Moab Partners. Mr. Rothenberg has 16 years of experience investing in event driven, distressed, value equity and secured bank debt securities.

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UPCOMING EVENTS

Barron's Alternative Summit | November 4, 2014 | New York, NY

Schwab IMPACT | November 4 – 7, 2014 | Denver, CO

These events are for investment professionals only.

Definitions

Barclays Capital U.S. Aggregate Bond Index
An unmanaged index of investment-grade, U.S. dollar-denominated fixed income securities of domestic issuers having a maturity greater than one year.

Barclays Capital U.S. Municipal
An unmanaged index considered representative of the tax-exempt bond market.

Barclay CTA
A leading industry benchmark of representative performance of commodity trading advisors. There are currently 602 programs included in the calculation for the year 2012, which are unweighted and rebalanced at the beginning of each year.

Barclays Global Aggregate
The index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the U.S.

Barclays Global High Yield
An unmanaged index considered representative of fixed rate, noninvestment-grade debt of companies in the U.S., developed markets, and emerging markets.

Barclays Long Term U.S. Treasury
The index measures the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world. Using market capitalization weighting and a standard rule-based inclusion methodology; the index accurately reflects the performance and characteristics of the Treasury market and provides a basis for customized indexes.

Barclays Municipal Bond Index
An unmanaged index of municipal bonds with varying maturities.

Bear Market
Funds in this category dedicate a majority of fund assets to equities; most of the portfolio is dedicated to short stock positions in an attempt to take advantage of anticipated market or stock declines, producing a net exposure to equities of less than or equal to negative 20%. Short positions typically account for 60 – 80% of fund active exposure.

BM&F Bovespa (Brazil)
The Bovespa Index tracks around 50 stocks traded on the São Paulo Stock, Mercantile & Futures Exchange.

BofA ML European High Yield Index
The index is a commonly used benchmark for European high-yield corporate bonds.

BofA ML U.S. High Yield Master II
The index is a commonly used benchmark for high-yield corporate bonds. It measures the broad high-yield market.

BSE Sensex 30 (India)
The index is cap-weighted and represents the composite value of shares of 30 selected companies traded on India's Bombay Stock Exchange. The selection of members has been made on the basis of liquidity, depth and floating-stock-adjustment depth, and industry representation.

CAC 40 (France)
Tracks the 40 largest French stocks based on market capitalization on the Paris Bourse (stock exchange).

Cambridge Associates LLC U.S. Private Equity Index® is an end-to-end calculation based on data compiled from 899 U.S. private equity funds, including fully liquidated partnerships, formed between 1986 and 2011.

Cambridge Associates LLC U.S. Venture Capital Index® is an end-to-end calculation based on data compiled from 1,319 U.S. venture capital funds, including fully liquidated partnerships, formed between 1981 and 2011.

CBOE S&P 500 Implied Correlation Index (KCJ Index)
The KCJ Index is a measure of the implied correlation of the relative cost of SPX options compared to the price of options on the 50 largest individual stocks that comprise the S&P 500. The Index is calculated using January 2015 equity options and Dec 2014 SPX options.

DAX (Germany)
The German Stock Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The equities use free float shares in the index calculation. It has a base value of 1,000 as of December 31, 1987. As of June 18, 1999, only XETRA equity prices are used to calculate all DAX indexes.

DJ UBS Commodity TR
An unmanaged index designed to be a highly liquid and diversified benchmark for the commodity futures market.

Dry Powder
A slang term referring to marketable securities that are highly liquid and considered cash-like. Dry powder may also refer to cash reserves kept on hand to cover future obligations or purchase assets, if conditions are favorable.

Dow Jones Industrial Average
A price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

FTSE 100 (London)
A capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

Hang Seng (Hong Kong)
A market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The Hang Seng Index is maintained by a subsidiary of Hang Seng Bank, and has been published since 1969. The index aims to capture the leadership of the Hong Kong exchange, and covers approximately 65% of its total market capitalization.

HFRI ED Distressed/Restructuring
These strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near-term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities.

HFRI ED Merger Arbitrage
These strategies employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies which are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations which pre-, post-date or situations in which no formal announcement is expected to occur.

HFRI EH Energy/Basic Materials
Strategies that employ investment processes designed to identify opportunities in securities in specific niche areas of the market in which the manager maintains a level of expertise which exceeds that of a market generalist. The managers seek to identify companies engaged in the production and procurement of inputs to industrial processes, and implicitly sensitive to the direction of price trends as determined by shifts in supply and demand factors, and implicitly sensitive to the direction of broader economic trends.

HFRI EH Equity Market Neutral
Managers who use this strategy employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both factor-based and statistical arbitrage/trading strategies.

HFRI EH Quantitative Directional Index
Strategies that employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both Factor-based and Statistical Arbitrage/Trading strategies.

HFRI EH Short Bias
Strategies that employ analytical techniques in which the investment thesis is predicated on assessment of the valuation characteristics of the underlying companies with the goal of identifying overvalued companies. Short biased strategies may vary the investment level or the level of short exposure over market cycles, but the primary distinguishing characteristic is that the manager maintains consistent short exposure and expects to outperform traditional equity managers in declining equity markets.

HFRI EH Technology/Healthcare
Strategies that employ investment processes designed to identify opportunities in securities in specific niche areas of the market in which the manager maintains a level of expertise which exceeds that of a market generalist in identifying opportunities in companies engaged in all development, production and application of technology, biotechnology and as related to production of pharmaceuticals and healthcare industry.

HFRI Emerging Markets
Emerging Markets funds invest, primarily long, in securities of companies or the sovereign debt of developing or so-called emerging countries. These regions include Africa, Asia ex-Japan, Latin America, the Middle East and Russia/Eastern Europe. The fund will shift their weightings among these regions according to market conditions and manager perspectives.

HFRI EM Asia ex-Japan
Emerging Markets: Asia ex-Japan funds focus greater than 50% of their investments in the Asia ex-Japan region, which includes China, Korea, Australia, India, Hong Kong and Singapore.

HFRI EM Global
Emerging Markets—Global funds will shift their weightings among a variety of emerging markets regions according to market conditions and manager perspectives.

HFRI EM Latin America
Emerging Markets—Latin America funds focus greater than 50% of their investments in the Latin American region, which includes Mexico, Central and South America, as well as the nations of the Caribbean.

HFRI EM Russia/Eastern Europe
Emerging Markets—Russia/Eastern Europe funds focus greater than 50% of their investments in the Russian/Eastern European region, including Turkey.

HFRI Equity Hedge Total
These strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50% in equities, and may in some cases be substantially entirely invested in equities, both long and short.

HFRI Event Driven Total
Managers included in the Index maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities.

HFRI Fund of Funds Composite
An equal weighted index of over 650 constituent hedge funds of funds that invest over a broad range of strategies.

HFRI Fund-Weighted Composite
This index is a global, equal-weighted index of over 2,000 single-manager funds. Constituent funds report monthly net of all fees performance in U.S. dollars and have a minimum of $50 million under management or a 12-month track record of active performance. The index does not include funds of hedge funds.

HFRI Macro
Using these strategies means trading a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

HFRI Macro Systematic Diversified
Systematic Diversified strategies have investment processes typically as functions of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning. Strategies typically employ quantitative processes which focus on statistically robust or technical patterns in the return series of the asset, and typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies.

HFRI Relative Value Total
In this strategy, investment managers maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

HFRI RV Fixed Income—Asset Backed
Strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a fixed income instrument backed by physical collateral or other financial obligations (loans, credit cards) other than those of a specific corporation.

HFRI RV Fixed Income—Convertible Arbitrage
This index includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument.

HFRI RV Fixed Income—Corporate

The index includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument. Fixed Income—Corporate strategies differ from Event Driven—Credit Arbitrage in that the former more typically involve more general market hedges which may vary in the degree to which they limit fixed income market exposure, while the latter typically involve arbitrage positions with little or no net credit market exposure, but are predicated on specific, anticipated, idiosyncratic developments.

HFRI RV Multi-Strategy

Strategies that employ an investment thesis predicated on realization of a spread between related yield instruments in which one or multiple components of the spread contains a fixed income, derivative, equity, real estate, MLP or combination of these or other instruments. Strategies are typically quantitatively driven.

HFRI RV Yield Alternatives

Strategies that employ an investment thesis predicated on realization of a spread between related instruments in which one or multiple components of the spread contains a derivative, equity, real estate, MLP or combination of these or other instruments. Strategies are typically quantitatively driven.

HFRX Absolute Return

The index is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies. As a component of the optimization process, the index selects constituents which characteristically exhibit lower volatilities and lower correlations to standard directional benchmarks of equity market and hedge fund industry performance.

HFRX Equity Hedge

Equity hedge strategies maintain both long and short positions in primarily equity and equity derivative securities. Equity hedge managers would typically maintain at least 50% in equities, and may in some cases be substantially entirely invested in equities, both long and short.

HFRX EH Equity Market Neutral

These strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale.

HFRX Event Driven

This strategy maintains positions in companies currently or prospectively involved in corporate transactions of a wide variety, including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.

HFRX Fixed Income—Corporate

This index includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument.

HFRX Fixed Income—Credit

Strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk-free government bond.

HFRX Global Hedge Fund

Index data is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies, including but not limited to, convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.

HFRX Relative Value Arbitrage

Relative value managers maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types.

HFRX Systematic Diversified

This index includes strategies with investment processes typically as functions of mathematical, algorithmic and technical models, with little or no influence of individuals over the portfolio positioning.

JPM Emerging Markets Bond Plus

Tracks total returns for traded external debt instruments in the emerging markets. Comprises a set of broker-traded debt instruments widely followed and quoted by several market makers.

Long/Short Equity
Funds in this category hold sizable stakes in both long and short positions in equities and related derivatives. Some funds may shift exposure to long and short depending on their macro outlook; others may simply hedge long stock positions through exchange-traded funds or derivatives.

Managed Futures
Funds in this category primarily trade liquid global futures, options, swaps and foreign exchange contracts, and a majority of these funds follow trend-following, price-momentum strategies. These funds obtain exposure primarily through derivatives; holdings are largely cash instruments.

Morningstar Multialternative Category
The Morningstar Multialternative Category consists of mutual funds that may use a combination of alternative strategies such as taking long and short positions in equity and debt, trading futures, or using convertible arbitrage, among others. Funds in this category have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. The Morningstar Multialternative Category return is composed of the average return for the funds in the Morningstar category.

Market Neutral
The funds in this category attempt to reduce systematic risk created by factors such as exposures to sectors, market-cap ranges, investment styles, currencies and/or countries. They try to achieve this by matching short positions within each area against long positions. In attempting to reduce systematic risk, these funds put the emphasis on issue selection, with profits dependent on ability to sell short and buy long the correct securities.

MSCI All Country World ex U.S. ND
The Morgan Stanley Capital International World Ex-U.S. Index comprises the entire developed world excluding the United States. The designation of a country as developed arises primarily as a measurement of GDP per capita; 21 countries are included in this index.

MSCI All Country World ND
The Morgan Stanley Capital International World Ex-U.S. Index comprises the entire developed world including the United States. The designation of a country as developed arises primarily as a measurement of GDP per capita; 22 countries are included in this index.

MSCI EAFE ND
An unmanaged index considered representative of stocks of Europe, Australasia, and the Far East. The index is a float-adjusted market capitalization index.

MSCI Emerging Markets ND
The Morgan Stanley Capital International Emerging Markets Index is designed to measure equity market performance in global emerging markets. The Index is a float-adjusted market capitalization index.

Multi-Alternative
Funds in this category offer investors exposure to several different alternative investment tactics and have a majority of their assets exposed to alternative strategies. Such funds include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. The gross short exposure is greater than 20%.

Nasdaq Composite
A market-capitalization-weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs), and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs), or debentures.

Newedge CTA
Calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment. Selection of the pool of qualified CTAs used in construction of index will be conducted annually, with re-balancing on January 1 of each year.

Newedge CTA Trend Sub-Index
A subset of the Newedge CTA Index, and follows traders of trend-following methodologies. The Newedge CTA Index is equal weighted, calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment.

Newedge Short-Term Traders
Designed to track the performance of short-term, diversified CTA and Global Macro managers.

Nikkei 225 (Japan)
The average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. It was first published on May 16, 1949, when the average price was ¥176.21 with a divisor of 225.

Nontraditional Bond
Funds in this category pursue strategies that diverge in some way from conventional practice in the bond fund universe. Most of these relatively new offerings have been designed to try to protect investors from rising bond yields while attempting to generate positive returns without the typical downside volatility that comes with taking market risks. Unconstrained strategies and absolute return strategies are two of the most prominent types of these funds.

Preqin
Preqin is a research and consultancy firm focusing on alternative asset classes. The company covers private equity, real estate, infrastructure, and hedge funds and is headquartered in London, UK, with additional offices in New York, USA; Singapore and San Francisco, California, USA.

Russell Microcap
An unmanaged index considered representative of microcap stocks.

Russell Mid-Cap
The index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

Russell 1000
An unmanaged index considered representative of large-cap stocks.

Russell 1000 Growth
An unmanaged index considered representative of large-cap growth stocks.

Russell 1000 Value
An unmanaged index considered representative of large-cap value stocks.

Russell 2000
The Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market capitalization and current index membership.

Russell 2000 Growth
An unmanaged index considered representative of small-cap growth stocks.

Russell 2000 Health Care
Comprised of the smallest health care companies in the Russell 3000 Index.

Russell 2000 Value
An unmanaged index considered representative of small-cap value stocks.

Russell 2500
The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

Russell 3000
A market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S.

Russell 3000 Growth
A market capitalization weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above-average growth. The index is used to provide a gauge of the performance of growth stocks in the U.S.

Russell 3000 Value
A market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates.

Shanghai Composite (China)
A market composite made up of all the A-shares and B-shares that trade on the Shanghai Stock Exchange. The index is calculated by using a base period of 100; the first day of reporting was July 15, 1991.

Sharpe Ratio
Measures risk-adjusted performance. Calculated by subtracting the risk-free rate (90-day U.S. T-bill yield as of the previous year-end) from the rate of return and dividing the result by the standard deviation of returns.

Standard Deviation
A measurement of the investment's volatility. Grouping, among other factors.

S&P Case-Shiller Home Price Index
This index is a composite of the home price index for 10 major Metropolitan Statistical Areas in the United States. Published monthly by Standard & Poor's, it uses the Karl Case and Robert Shiller method of a house price index using a modified version of the weighted-repeat sales methodology which is able to adjust for the quality of the homes sold, unlike simple indexes based on averages.

S&P/LSTA U.S. Leveraged Loan 100
A partnership between Standard & Poor's and the Loan Syndications and Trading Association, the index tracks returns in the leveraged loan market, capturing a broad cross-section of the U.S. leveraged loan market including dollar-denominated, U.S.-syndicated loans to overseas issuers.

S&P 500 Consumer Discretionary
Comprises those companies included in the S&P 500 that are classified as members of the GICS consumer discretionary sector.

S&P 500 Consumer Staples
Comprises those companies included in the S&P 500 that are classified as members of the GICS consumer staples sector.

S&P 500 Energy
Comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector.

S&P 500 Financials
Comprises those companies included in the S&P 500 that are classified as members of the GICS financials sector.

S&P 500 Health Care
Comprises those companies included in the S&P 500 that are classified as members of the GICS health care sector.

S&P 500 TR Index
An index of 500 stocks chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe.

S&P 500 Industrials
Comprises those companies included in the S&P 500 that are classified as members of the GICS industrials sector.

S&P 500 Information Technology
Comprises those companies included in the S&P 500 that are classified as members of the GICS information technology sector.

S&P 500 Materials
Comprises those companies included in the S&P 500 that are classified as members of the GICS materials sector.

S&P 500 Telecom Services
Comprises those companies included in the S&P 500 that are classified as members of the GICS telecom services sector.

S&P 500 Utilities
Comprises those companies included in the S&P 500 that are classified as members of the GICS utilities sector.

Wilshire U.S. REIT TR
Measures U.S. publicly traded Real Estate Investment Trusts.

VIX
Shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

Safe Harbor and Forward-looking Statements Disclosure

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