



Portfolio Review

2<sup>nd</sup> Quarter 2009

The equity markets (and risk assets, generally) ended the second quarter of 2009 on a very upbeat note. Equities, as measured by the S&P 500, were up about +16% for the three months ending June, closing out the quarter with one of their best performances in recent memory. International stocks (MSCI EAFE) fared better at +25% for the quarter, and the credit markets showed signs of improvement (vis a vis tightening credit spreads), with the Barclay's Aggregate and Corporate High Yield index up +1.8% and +23%, respectively. The Presidio Global Opportunities Fund ("PGO") was up +7.2% for the quarter.

Table 1 below provides the monthly, year-to-date (YTD) and inception-to-date (ITD) performance of the Fund and, for comparative purposes, the returns of common indices during the same time periods.

TABLE 1:

	Performance						YTD*	ITD**
	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09		
<b>Presidio Global Opportunities Fund</b>	-0.4%	-3.8%	1.5%	3.5%	4.1%	-0.5%	4.2%	4.2%
<b>Comparative Indices</b>								
U.S. Stocks (S&P 500)	-8.4%	-10.6%	8.8%	9.6%	5.6%	0.2%	3.2%	3.2%
International Stocks (MSCI EAFE)	-9.8%	-10.3%	6.3%	12.8%	11.8%	-0.5%	8.0%	8.0%
U.S. Fixed Income (Barclays Aggregate)	-0.9%	-0.4%	1.4%	0.5%	0.7%	0.6%	1.9%	1.9%

\* Year to date  
\*\* Inception to date

Though we are modestly happy with the absolute returns of the fund year to date, what we are more excited about is the risk-adjusted returns the fund has earned. As our existing clients know, we have always stressed that the fund is focused on maximizing risk-adjusted returns, which we believe is a more appropriate measure of manager value add. Portfolio management (and in particular, performance) should be evaluated and measured in the space of **both** risk and return – never just one or the other. Focusing solely on "return" can cause one to lose sight of potential loss (just look at what has happened, over the last 20 months, to higher expected return, higher risk assets like equities), while focusing solely on risk can cause one to lose sight of a portfolio's primary investment objective.

Year-to-date, PGO's realized (ex-post) volatility of approximately 10% was less than a third (1/3) of the volatility of the S&P 500's 35%<sup>1</sup>. As expected, the hedges in the portfolio (puts and short positions), as well as our lowly correlated theta-decay strategies, were again instrumental in helping dampen portfolio volatility and producing a more consistent, less volatile return stream as compared to the S&P 500. In addition, our active rebalancing decisions over the quarter have helped to dampen volatility (as you may recall, we mentioned in our last quarterly letter that we began to increase exposure to higher risk assets in April due to improving market sentiment and valuation signals. However, since increasing our exposures, risk assets have appreciated significantly and we have actively and opportunistically took some profits off the table on several of our risk assets (e.g. equities, high yield). Of course, we will continue to look at adding risk assets where and when appropriate).

Outlook

As we are putting pen to paper on this quarterly newsletter (July 7<sup>th</sup>), equities have given back some of their momentum, with the S&P 500 and MSCI EAFE down -4% and -2.5%, respectively, for month-to-date July. And though a shorter-term pullback is not uncommon after a double digit positive quarter, we would not be too surprised if there is another protracted decline in the equity markets. Our view and conviction over the short-to-intermediate term (next 3 – 5 years) continues to be one of cautious optimism. Though the massive fiscal and monetary efforts that are being poured in to revive the global economy will likely provide a more durable and sustainable recovery for the longer term, we continue to see significant headwinds over the next few years that make a sustainable bull market less likely (e.g. lower consumer spending, deleveraging by consumers and financial institutions, falling/flat home prices, higher government intervention in critical economic sectors, etc.). Recently, June's disappointing payroll and consumer confidence figures, along with unemployment figures hovering towards double digits continue to point towards short-term weakness and thus, a likely volatile and bumpy road to a sustainable recovery.

That said, we still believe in the longer-term resiliency and growth of the economy, albeit less robust than years past (for reasons mentioned above). And as the economy begins to heal itself, we will continue to comb the capital markets for profitable, and ideally uncorrelated, investment opportunities.

As always, we thank you for your continued support. Please don't hesitate to contact me with any questions or concerns.

Matthew R. Lee, Managing Director

<sup>1</sup> Realized volatility, or standard deviation, is annualized based on daily return data of the PGO fund and S&P 500 (from January 2009 through June 2009). Annualized standard deviation is calculated based on daily standard deviation multiplied by the square root of trading days in a year (approximately 250).



## Disclosures

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