

# HENNESSEE HEDGE FUND

## Style Definitions<sup>TM</sup>

<b>STYLE</b>	<b>DEFINITION</b>	<b>Typical Holding Period of Manager's Position</b>	<b>Expected Volatility</b>
<b>CONVERTIBLE ARBITRAGE</b>	<i>This type of arbitrage involves the simultaneous purchase of a convertible bond and the short sale of shares of the underlying stock. Interest rate risk may or may not be hedged.</i>	<i>Medium Term</i>	<i>Low</i>
<b>DISTRESSED</b>	<i>Primary investment focus involves securities of companies that have declared bankruptcy and may be undergoing reorganization. Investment holdings range from senior secured debt (uppermost tier of a company's capital structure) to the common stock of the company (lower tier of the capital structure).</i>	<i>Medium/Long Term</i>	<i>Moderate</i>
<b>EMERGING MARKETS</b>	<i>This strategy focuses on investing in lesser-developed, non-G7 countries whose financial markets provide exploitable pricing inefficiencies. Popular geographic regions include Latin America, Eastern Europe, the Pacific Rim and Africa. Asset classes range from equities and bonds to local currencies.</i>	<i>Short/Medium Term</i>	<i>High</i>
<b>EUROPE</b>	<i>Style predominately entails investing in and shorting of European equities that may include peripheral eastern and central regions.</i>	<i>Medium Term</i>	<i>High</i>
<b>EVENT DRIVEN</b>	<i>This strategy combines merger arbitrage, distressed and high yield investing, in addition to value driven special situation equity investing. Usually dependent on an "event" as the catalyst to release the position's intrinsic value.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>FINANCIAL EQUITIES</b>	<i>Style predominately entails investing in and shorting of bank stocks and other financial institutions.</i>	<i>Medium/Long Term</i>	<i>Moderate</i>
<b>FIXED INCOME</b>	<i>Employs a variety of fixed income related strategies ranging from relative value based trades (basis, TEDs, yield curve, etc.) to directional bets on interest rate shifts. Style also includes credit related arbitrage, which typically involves the purchasing (or selling) of corporate issues and the simultaneous selling (or purchasing) of government issues.</i>	<i>Short/Medium Term</i>	<i>High</i>
<b>GROWTH</b>	<i>Style predominately entails investing in and shorting stocks of companies that exhibit an acceleration (or deceleration) of earnings growth, revenues and market share.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>HEALTHCARE/ BIOTECH</b>	<i>Style predominately entails investing in and shorting of medical related stocks, which include biotechnology, pharmaceuticals, HMO's, medical information, etc.</i>	<i>Medium Term</i>	<i>High</i>
<b>HIGH YIELD</b>	<i>Style predominately entails investing in and shorting of non-investment grade corporate bonds, which offer attractive coupon yields. Interest rate risk may or may not be hedged.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>INTERNATIONAL</b>	<i>Participants of this style tend to be bottom-up stock pickers within global regions that are undergoing economic changes. Conversely, International managers will short global equities whose underlying company fundamentals remain poor amidst a backdrop of poor economic conditions.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>LATIN AMERICA</b>	<i>Style predominately entails investing in and shorting of equity and/or debt within the various Latin American regions.</i>	<i>Medium Term</i>	<i>High</i>

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<b>STYLE</b>	<b>DEFINITION</b>	<b>Typical Holding Period of Manager's Position</b>	<b>Expected Volatility</b>
<b>MACRO</b>	<i>Dominant investment theme is to capitalize on changes in the global macroeconomic environment through participation in the various capital markets. A tops-down methodology allows managers of this strategy to utilize all asset classes (equities, bonds, currencies, derivatives) available in the global capital markets.</i>	<i>Medium Term</i>	<i>High</i>
<b>MARKET NEUTRAL</b>	<i>Long and short equity exposure with nearly no dollar net exposure. In theory, systemic market risk is greatly reduced by being dollar, beta, sector and market cap neutral. Strategies within this style range from quantitative modeling ("black box," or statistical arbitrage) to fundamental pairs trading.</i>	<i>Short/Medium Term</i>	<i>Low</i>
<b>MERGER ARBITRAGE</b>	<i>Style typically involves the simultaneous purchase of stock in a company being acquired and the sale of stock in its acquirer. Many merger arbitrage managers attempt to mitigate deal risk by engaging only in strategic takeovers after they are announced.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>MULTIPLE ARBITRAGE</b>	<i>Category includes hedge funds that employ more than one arbitrage strategy. Portfolio manager opportunistically allocates capital among the various strategies in order to create the best risk/reward profile for the overall fund. Common strategies include merger arbitrage, convertible arbitrage, fixed income arbitrage, long/short equities pairs trading and volatility arbitrage.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>OPPORTUNISTIC</b>	<i>Long/short equities managers who maintain a flexible net exposure to reflect the changing dynamics of the market on a minute-to-minute or daily trading basis. Managers typically utilize technical and/or fundamental analysis. Portfolio turnover can be high as managers implement trading disciplines such as tight stop losses and defined exit target prices.</i>	<i>Short Term</i>	<i>Low/ Moderate</i>
<b>PACIFIC RIM</b>	<i>Style predominately entails investing in and shorting of Japanese and other Asian equities. Many managers also include Australia and New Zealand as regional investment choices.</i>	<i>Medium Term</i>	<i>High</i>
<b>REGULATION D</b>	<i>The investments are fully hedged in the form of convertible securities, which are convertible into common stock of the issuers at floating prices set at a discount to the historical price of the stock. The investment is typically held until the registration of the underlying common stock is declared effective by the SEC (normally 75 to 90 days) at which time the manager can sell the registered shares in the public markets and realize the hedged spread between the market price and the discount conversion price of the stock.</i>	<i>Short Term</i>	<i>Low/ Moderate</i>
<b>SHORT BIAS</b>	<i>The entire portfolio consists of short sales, usually fundamental, technical or event driven. This style can be used as a hedge for long-only portfolios and by those who feel the market is approaching a bearish cycle.</i>	<i>Medium Term</i>	<i>High</i>
<b>TECHNOLOGY</b>	<i>Manager invests at least 50% of partnership capital in technology related sector.</i>	<i>Medium Term</i>	<i>Moderate</i>
<b>VALUE</b>	<i>Style predominately entails investing in undervalued equities which trade below "intrinsic," or "net asset value." Undervalued securities may be defined as, but not limited to, equities with low P/E ratios or low price-to-book value ratios. Managers also focus on companies that generate substantial "free cash flow" and pay special attention to the use of the cash to retire debt, institute share repurchase programs, and other methods to realize shareholder value.</i>	<i>Long Term</i>	<i>Low/ Moderate</i>