

Macro-economic situation

The equity markets have been in a pronounced downward trend since the beginning of the year as a result of increasing concerns about the condition of the world banking system and the possible consequences of this on the real economy. The publication of American statistics showing a clear deterioration in the situation and the reevaluation of earlier provisions by some banks were the source of this downward trend. This accelerated, particularly in Europe, at the beginning of the week without any particularly bad news having been announced. The revelation of enormous equity market losses on Thursday 24 by Société Générale, followed by the abrupt liquidation of large positions in the markets at the beginning of the week, is perhaps the technical explanation which enables us to understand the high volatility experienced during the last few days. It also makes sense of the subsequent price rebound.

Nevertheless, besides these purely technical movements, it seems to us that in view of continuing uncertainty concerning the economic cycle, an upward trend of any significance is unlikely in the markets. On the other hand, the past week has enabled us to set resistance levels (above 3500 on Eurostoxx 50) which give us references for the weeks to come. We expect a return to normal levels of volatility accompanied by a stabilization of the indexes around the current levels.

Christian Desbois

UFG Alteram Commentary

At this time of financial and market crisis we want to provide you with the facts so that you can judge the situation of the funds managed by UFG Alteram as well as the performance of the various alternative strategies since the beginning of the year.

For the record, at the market close on Tuesday 22 January 2008, the various indices showed significant losses, ranging from -17.9% for MSCI Asia Pacific ex Japan, -14.68% for the DJ Eurostoxx 50, to -10.75% for the S&P 500! At the same time the bond rally continued in Europe as in the United States, where the 10 year rate is now 3.63%. For their part, the corporate credit indices suffered from the environment of mistrust surrounding the American pursuit of economic growth and its repercussions worldwide. High Yield spreads have already widened more than 145 basis points since 31 December and the 'yield to worse' now stands at more than 10% on average for this segment of the market.

What observations for alternative management?

At the present time we can say that there is generally good resistance among our alternative strategies. Since summer 2007 and the emergence of the American subprime crisis, it has seemed to us that the alternative industry has made two major changes in its approach to risk:

- 1) Leverage has been reduced in order to reduce gross exposure (i.e. long + short positions) to the markets.
- 2) Sensitivity to equity and credit risk has been revised much lower. Thus we estimate that:
 - Long short Equity funds started the year with a gross exposure of around 40% net long (which is therefore similar to a Long Only fund holding 60% cash)
 - Relative Value funds showed a neutral or even slightly negative bias on credit and equity risk factors.
 - Event Driven funds maintained a residual exposure to equities, but with a defensive positioning which has led them to hold for the most part 'anti-shock' protective options, such as out-of-the-money put options
 - Macro and Trading funds, which suffered heavily during the first half of 2007, were largely disengaged from the equity indexes and were generally positioned on the pursuit of the bond rally and the weakening American dollar.

What performances have our managers posted on average since the beginning of the year?

Naturally the strategy most affected is Long Short Equity, which recorded performances between -3% and -7%, depending on geographical region. The most uneven region is Europe, which has probably suffered since the beginning of the week from a very particular exogenous phenomenon... The performances are therefore in line with the average rate of exposure of the fund manager. Catching 30 to 35% of the fall in the indexes seems reasonable to us and is in line with our expectations. The question from now on is to know when and how the managers will reposition themselves to buy the market more aggressively.

The Special Situations funds (arbitrage funds linked to events in the equity markets) which benefited fully from the boom years of business balance sheet restructuring between 2004 and 2006, are suffering from residual beta from their more speculative positions.

Distressed Debt strategies are still under pressure, despite valuation levels which are judged as very attractive. The liquidity crisis and fears about growth are holding down the price of companies in difficulty. Our partial disengagement from the strategy since the end of 2006 has borne results and we think it is still too soon to reposition on this segment.

Relative Value Strategies resisted the market mini-crash well, as expected, due their low level of exposure to risk factors. The volatility strategies benefited from their 'long vega' bias and our credit arbitrage strategies were on average net short of corporate spreads. As for Equity Market Neutral funds, which represent a significant allocation of our Absolute Performance funds, they resisted the ups and downs of the market fairly well, recording a performance of -1.2% over the month.

Lastly, Global Macro and Futures Trading strategies (CTAs) are beginning 2008 remarkably well, as attested by the performance of +3.22% of our FCP Alteram Strategies Futures. As they usually do, the systematic trend following models captured the downward rate movements and in addition recorded profits on their sell positions in equity indices during the final weeks of 2007.

How do these performances translate into results for our products?

It is important to note that the returns indicated in the table above reflect as far as possible the underlying results of our managers at the market close on Tuesday 22 January, i.e. at the lowest point of the equity markets of the year. These performances therefore do not take into account the rebound recorded in the markets since Tuesday 22.

Performance as of 24 January 2008		Since 31/12/2007	12 Months
Absolute return	Alteram Trésorerie Plus Classe EUR	- 0,27 %	4,21 %
	Alteram Arbitrages	- 0,47 %	5,62 %
	Alteram Arbitrages Plus	- 0,66 %	6,81 %
	Alteram Stratégies Futures	3,22 %	5,11 %
	Alteram Event	- 1,14 %	2,13 %
	Alteram Global Alternatif	- 1,52 %	4,73 %
Directional Strategies	Alteram Stratégie Actions	- 4,63 %	1,89 %
	Alteram Asia	- 2,27 %	8,20 %
	Alter Long Short Europe	- 3,11 %	- 2,09 %

With a gain of more than 3% for our managed futures funds and losses between -0.27% and -1.52% over the rest of the Absolute Performance range, we believe that our management has confirmed its defensive character in an exceptional market situation.

Likewise, the effective beta of our directional range (Long Short Equity strategies) is completely in line with our expectations. This substantiates our objective of capturing a third of the fall in the indexes for two thirds of the rise, which enables us in the medium term, to outperform our benchmark indexes with controlled volatility.

Conclusion :

In the light of our results, there is no reason to be worried. All of our products are below their risk limits and in line with their performance objectives over 12 or 24 months. The drawdowns are weak relative to the market and strategies are, as a general rule, less sensible to this market drawdown than they were during previous falls (October 2005, Spring 2006 and Summer 2007 being the most recent).

Thus, we think that if the current turmoil persists, our funds of funds should continue to resist the shocks well. On the other hand, our managers assure us they see very good opportunities, on the equity markets (mid caps, special situations), in credit (bank loans, distressed debt etc) and in relative value strategies where the spreads are at historically wide levels. Thus, taken together, our strategies should produce attractive returns in the context of a return to calm in the markets.

I thank you again for your trust in us.

Olivier Ramé