



HATTERAS  
*Funds*

# HATTERAS Alternative Mutual Funds

*Fund of funds in a mutual fund*



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## Hatteras Alternative Mutual Funds

- ▶ Alternative investment manager
- ▶ Established in 2002
- ▶ Offers fund of funds in a mutual fund
- ▶ Assets\*
  - Firm: \$1.98 billion
  - Mutual Funds: \$357 million



# Liquid Hedge Fund Strategies

## LONG/SHORT EQUITY

- ▶ Generalist
- ▶ Sector Focus
- ▶ International
- ▶ Variable Bias

## MARKET NEUTRAL EQUITY

- ▶ Generalist
- ▶ Sector Focus
- ▶ International
- ▶ Quantitative

## RELATIVE VALUE – LONG/SHORT DEBT

- ▶ Multi-Strategy
- ▶ Long/Short Fixed Income
- ▶ Credit Arbitrage
- ▶ Hedged High Yield

## EVENT DRIVEN

- ▶ Merger Arbitrage
- ▶ Activist
- ▶ Distressed / Restructuring
- ▶ Event Equity/Debt

# Fund Structure

## Open-End Mutual Fund

- ▶ Daily liquidity
- ▶ No investor qualifications
- ▶ Complete position level transparency
- ▶ Investment team can implement allocations daily

Hatteras Alpha  
Hedged Strategies Fund

Long/  
Short  
Equity

Market  
Neutral  
Equity

Relative  
Value –  
Long/Short  
Debt

Event  
Driven

## Underlying Funds

- ▶ Strategy-specific
- ▶ Scalability for more managers/strategies
- ▶ Proprietary mutual funds

6  
Hedge Fund  
Managers

4  
Hedge Fund  
Managers

4  
Hedge Fund  
Managers

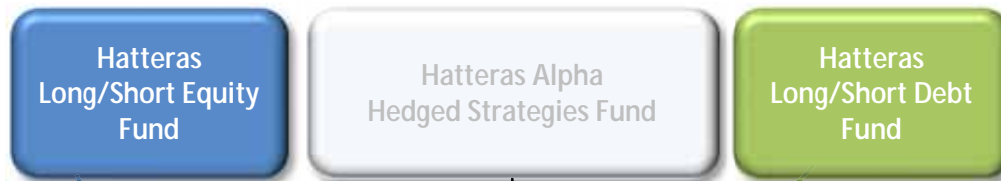
5  
Hedge Fund  
Managers

## Sub-Advisors

- ▶ Managers are given trading authority of managed trading accounts
- ▶ Primebroker: JP Morgan & Jeffries
- ▶ Custodians: JP Morgan/CTC & US Bank
- ▶ Administrator: US Bancorp Fund Services

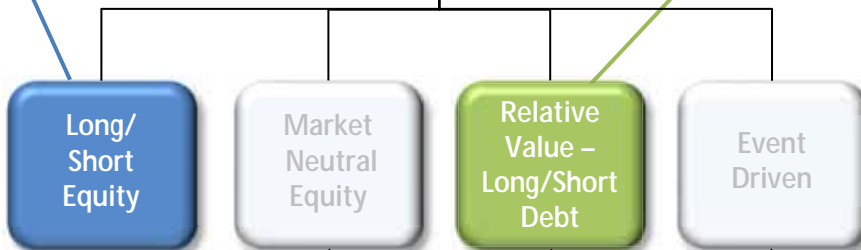


# Fund Structure



## Single Strategy

- ▶ Open-end mutual funds
- ▶ Inception: May 2011



## Strategy Assets Under Management as of 3/31/11

- ▶ Long/Short Equity: \$112,862,275
- ▶ Relative Value - Long/Short Debt: \$95,363,133



## Multi-Manager



## Hatteras Alternative Mutual Funds – Fund Offerings

- ▶ Hatteras Alpha Hedged Strategies Fund – fund inception September 2002
  - ALPHX (no load)
  - APHAX (A-share)
  - APHCX (C-share)
  
- ▶ Hatteras Long/Short Equity Fund – fund inception May 2011
  - HLSAX (A-share)
  - HLSIX (I-share)
  
- ▶ Hatteras Long/Short Debt Fund – fund inception May 2011
  - HFIAX (A-share)
  - HFINX (I-share)

# Hatteras Alpha Hedged Strategies Fund

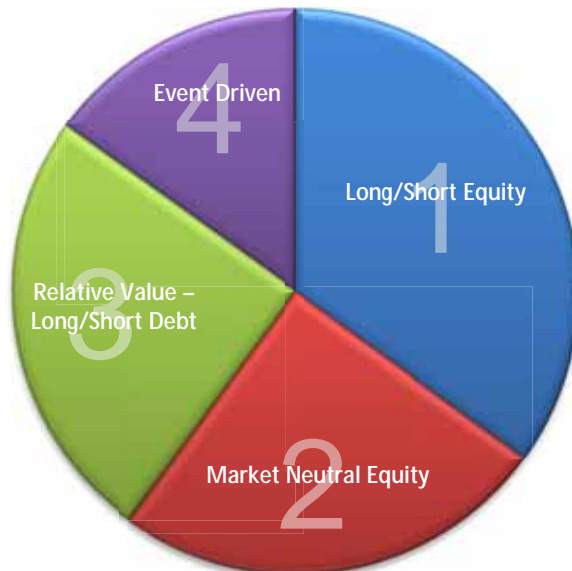
- ▶ Core allocation to fund of funds
- ▶ Multiple hedge fund strategies
- ▶ Multiple hedge fund managers

## BENCHMARK

HFRI Fund of Funds Composite Index

- ▶ Target: Returns of the HFRI Fund of Funds Composite Index with a correlation of 0.9

TARGET STRATEGY ALLOCATION	SUB-STRATEGIES	ALLOCATION RANGE*
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<b>1</b>	Generalist, Sector Focus, International, Variable Bias	25% - 45%
<b>2</b>	Generalist, Sector Focus, International, Quantitative	15% - 35%
<b>3</b>	Multi-Strategy, Long/Short Fixed Income, Credit Arbitrage, Hedged High Yield	15% - 35%
<b>4</b>	Merger Arbitrage, Activist, Distressed/Restructuring, Event Equity/Debt	5% - 25%

\* Ranges provided are as a percent of total investments and are provided as a guideline

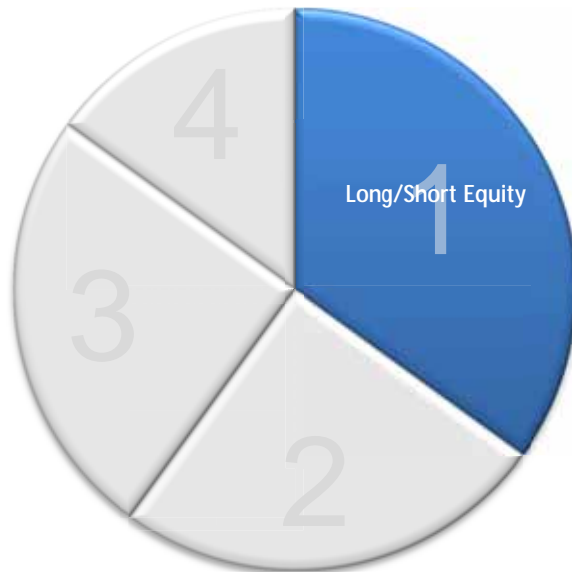




# Hatteras Long/Short Equity Fund

- ▶ Single hedge fund strategy: Long/Short Equity
- ▶ Multiple hedge fund managers
- ▶ Target: Long-term equity returns with 50%-60% volatility of the S&P 500 Index

## TARGET STRATEGY ALLOCATION



## SUB-STRATEGIES

1 Generalist, Sector Focus, International, Variable Bias

## BENCHMARK

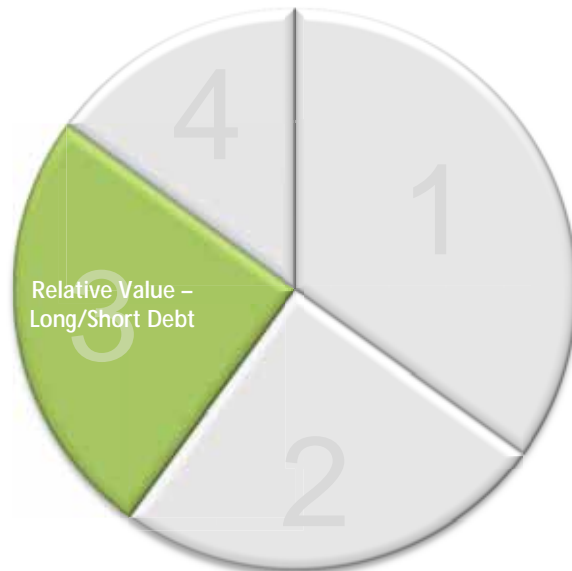
HFRX Equity Hedge Index



# Hatteras Long/Short Debt Fund

- ▶ Single hedge fund strategy: Long/Short Debt
- ▶ Multiple hedge fund managers
- ▶ Target: T-Bills + 5% over a full market cycle with low correlation to the Barclays Capital U.S. Aggregate Bond Index
- ▶ Long/Short debt strategies have historically performed well in rising interest rate environments

## TARGET STRATEGY ALLOCATION



## SUB-STRATEGIES

- 3 Multi-Strategy, Long/Short Fixed Income, Credit Arbitrage, Hedged High Yield

## BENCHMARK

HFRX Fixed Income – Corporate Index



# Institutionalized Investment Process

## Repeatable process

- ▶ Define investment mandates
- ▶ Determine strategic allocation at Fund level
- ▶ Manager sourcing: search, due diligence, and selection
- ▶ Portfolio construction
- ▶ Risk management and manager monitoring



## Fund Investment Mandates

- ▶ Hatteras Alpha Hedged Strategies Fund
  - Broad-based exposure across hedge fund strategies
  - Target: Returns of the HFRI Fund of Funds Composite Index with a correlation of 0.9
  
- ▶ Hatteras Long/Short Equity Fund
  - Target: Long-term equity returns with 50%-60% volatility of the S&P 500 Index
  
- ▶ Hatteras Long/Short Debt Fund
  - Target: T-Bills + 5% over a full market cycle with low correlation to the Barclays Capital U.S. Aggregate Bond Index



# Manager Search, Due Diligence, and Selection

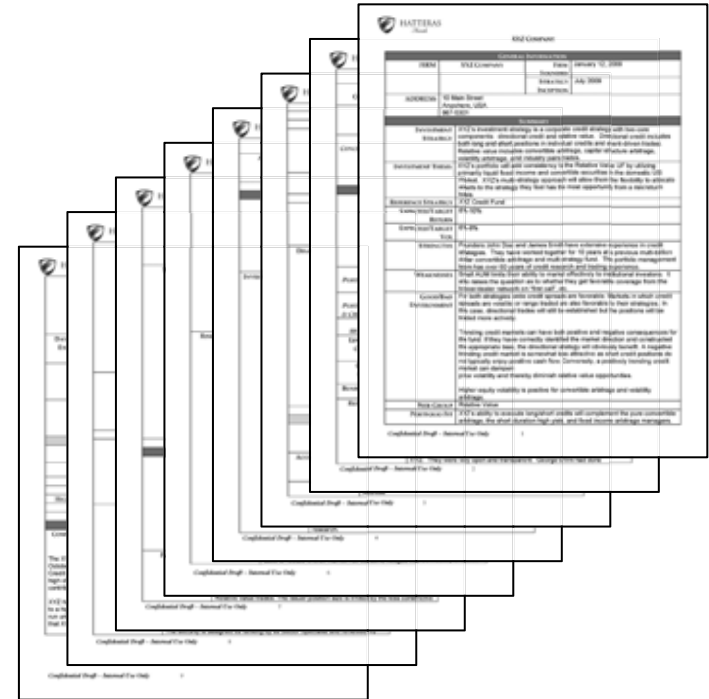
## ► Sourcing

- Industry contacts from experienced portfolio team
- Prime brokers, capital introduction firms
- Industry-oriented databases
- Seek liquid strategies that limit use of leverage

## ► Initial screening

- Quantitative, including peer review
- Initial meetings
  - Experience in managing hedged portfolios
  - Ability to generate alpha through security selection (long and short)

## ► Initial Investment Committee review





## Manager Search, Due Diligence, and Selection (continued)

- ▶ Individual manager additional due diligence
  - Assess commitment to research and portfolio management
  - Risk systems analysis
- ▶ Portfolio fit analysis
  - Assess manager effect on overall portfolio
- ▶ Operational due diligence
  - Background and reference checks
  - Legal/Regulatory review
- ▶ Final Investment Committee review and approval
- ▶ Board of Trustees approval
- ▶ Custodial review and approval



# Portfolio Construction

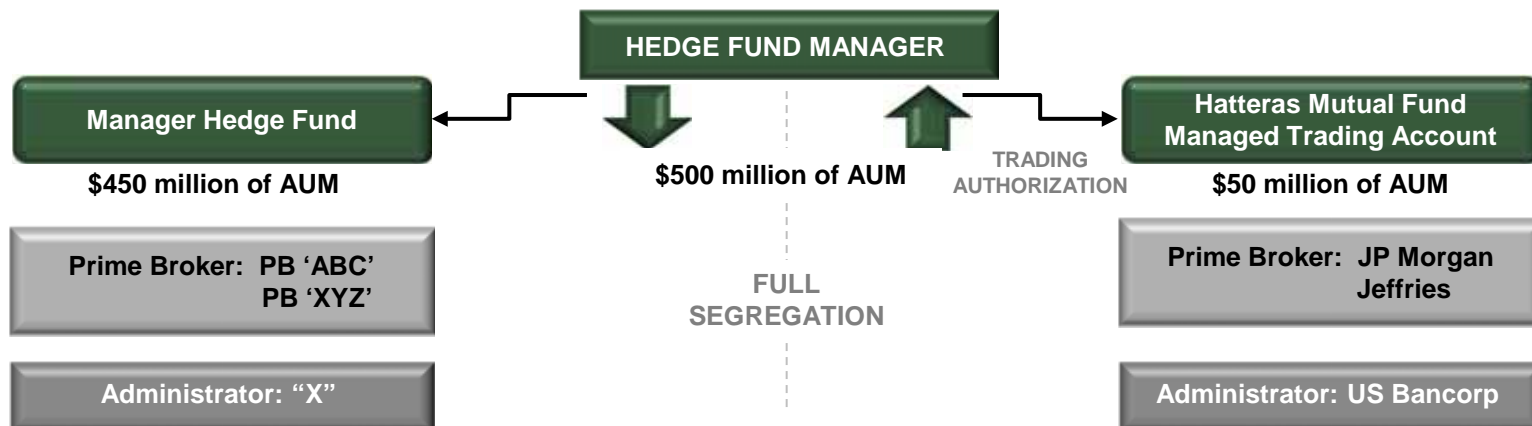
- ▶ Tactical allocations based on
  - Bottom-up view: opportunities from discussions with hedge fund managers
  - Top-down view: market environment and opportunities
  - Bi-monthly Investment Committee meetings
  - Allocation to new managers starts at underweighted position



# Risk Management and Manager Monitoring

## ► Advantages of managed trading accounts

- 100% position-level transparency on a daily basis
- Mitigates operational and business risk associated with investing in hedge fund manager LPs
- Ability to defund managers daily
- Eliminates gating and sidepocket risk
- Assets are fully segregated from hedge fund managers
- Assets are custodied/deposited with top-tier financial institutions
- Maintenance of each trading account pursuant to a specific Investment Management Agreement and Investment Mandate







## Risk Management and Manager Monitoring (continued)

- ▶ Improved understanding of risk exposures by security, sector, etc.
  - Daily portfolio transparency
  - Daily cash flow reports
  - Risk exposure reports and exceptions
  - Monthly calls with managers to review positions, trends, performance, and outlook

## Portfolio Managers

### **MICHAEL P. HENNEN, CFA**



- ▶ A decade of alternative investment experience focused on single manager and fund of funds research, as well as manager search and selection
  - Graystone Research Group, Morgan Stanley
  - Morningstar

### **ROBERT J. MURPHY, CFA, FRM, CAIA**

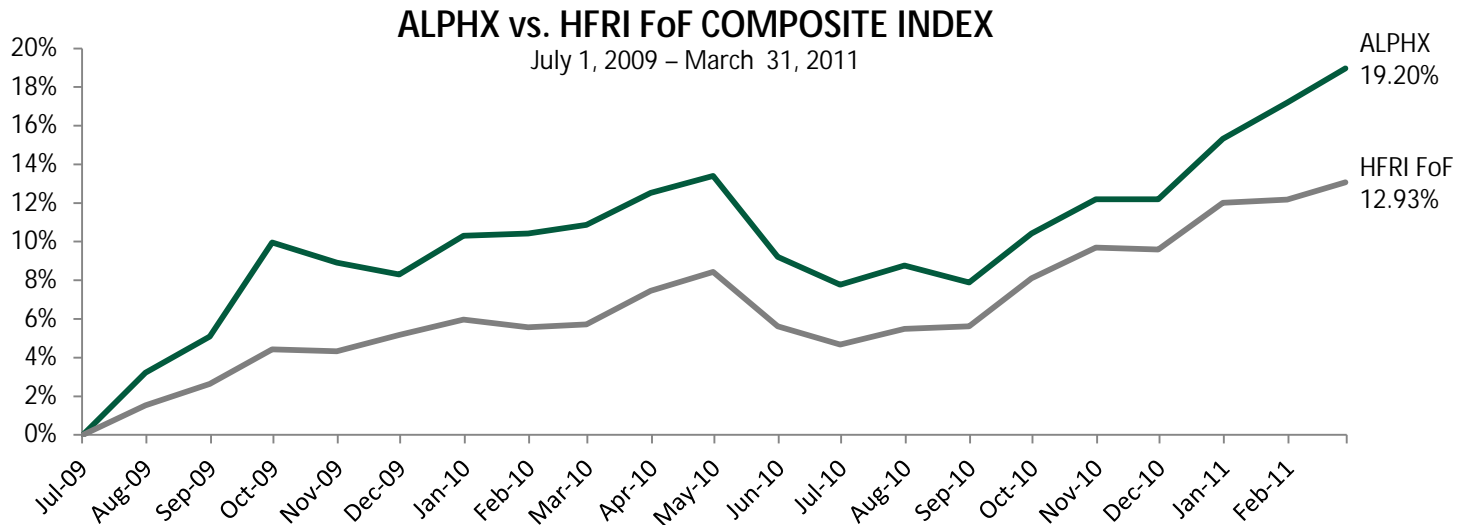


- ▶ Two decades of investment industry experience including manager research, product development, and risk management with two established multi-billion dollar fund of hedge fund organizations
  - Ivy Asset Management, a division of BNY Mellon Asset Management
  - Meridian Capital Partners
  - A.G. Edwards, Cowen & Company, Donaldson, Lufkin & Jenrette, Bear Stearns



## Exceeding the Performance Objective

- ▶ Current investment process and team implemented in July 2009 in preparation for Hatteras' acquisition of ALPHX
- ▶ ALPHX Benchmark: HFRI Fund of Funds Composite Index ("HFRI FoF")
  - ALPHX outperformed its benchmark by 627 bps since July 2009
  - ALPHX correlation to HFRI FoF = 0.82



Sources: Hatteras Funds, Hedge Fund Research, Inc.  
Performance objective: Generate returns that are similar and highly correlated to a diversified fund of funds benchmark. Past performance is no guarantee of future results. The illustrations are not intended to predict the performance of any specific investment or security. Total Annual Fund Operating Expenses are 4.73%. Net Fund Operating Expenses are capped at 3.85% excluding dividends on short positions and interest on borrowing. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. To obtain performance information current to the most recent month-end, please call 866.388.6292.

# Multiple Hedge Fund Managers

19 Managers as of March 31, 2011

## LONG/SHORT EQUITY

- ▶ Chartwell Investment Partners, LP (*generalist*)
- ▶ ISF Management (*generalist*)
- ▶ OMT Capital Management, LLC (*generalist*)
- ▶ Phineus Partners, LP (*variable bias*)
- ▶ Sunnymeach Asset Management, Inc. (*generalist*)
- ▶ Tamarack Capital Management, LLC (*sector focus*)

## MARKET NEUTRAL EQUITY

- ▶ Alpha Equity Management, LLC (*international*)
- ▶ Battenkill Capital Management (*sector focus*)
- ▶ Inflection Partners, LLC (*sector focus*)
- ▶ Twin Capital Management, Inc. (*quantitative*)

## RELATIVE VALUE – LONG/SHORT DEBT

- ▶ Concise Capital Management (*hedged high yield*)
- ▶ Nicholas Investment Partners, L.P. (*convertible arbitrage*)
- ▶ Raven Rock Capital Management (*multi-strategy*)
- ▶ Smith Breeden Associates, Inc. (*multi-strategy*)

## EVENT DRIVEN

- ▶ FrontFour Capital Group, LLC (*activist*)
- ▶ Gabelli Asset Management Company (*merger arbitrage*)
- ▶ Kellner DiLeo & Company (*distressed/restructuring*)
- ▶ Simran Capital Management (*distressed/restructuring*)
- ▶ Tiburon Capital Management, LLC (*event equity/debt*)



## Featured Manager

### Battenkill Capital Management, Inc.

**Manager:**

Rick Franzen

**Firm Founded:**

2007

**Firm AUM** as of December 31, 2010:

\$32 million

**Location:**

Allentown, NJ

**Named as Sub-Advisor:**

June 2010

**Strategy:**

Market Neutral Equity

**Sub-Strategy:**

Sector Focus

### Firm Investment Philosophy

- ▶ Fundamental-based investing (primarily in Energy, Industrials, and Basic Materials)
- ▶ Portfolio consists primarily of pair trades (matched longs and shorts) with overlay directional trades; pair trades typically have catalysts and are not solely based on valuation

### Investment Merits

- ▶ Rick Franzen
  - Has more than a decade of experience as both an analyst and portfolio manager
  - Emphasized risk-adjusted returns; consistent repeatable process
- ▶ Deep and narrow focus allows for potential exploitation of mis-pricings in an area of expertise without taking significant broad market risk



## Featured Manager

### FrontFour Capital Group, LLC

**Manager:**

David Lorber & Zach George

**Firm Founded:**

2006

**Firm AUM** as of December 31, 2010:

\$77 million

**Location:**

Stamford, CT

**Named as Sub-Advisor:**

January 2008

**Strategy:**

Event Driven

**Sub-Strategy:**

Activist

### Firm Investment Philosophy

- ▶ Event-driven value-investing across the capital structure
- ▶ Fundamental analysis paired with the identification of specific catalysts

### Investment Merits

- ▶ The firm's two principals
  - Were lead analysts at Pirate Capital, LLC, a prominent activist fund with \$1.8 billion under management at the time of their departure
  - Have strong security selection and analytical skills rooted in value-based investing
  - Have shown keen ability to manage companies in which they have activist roles



## Hatteras Alpha Hedged Strategies Fund as of 3/31/2011

YEAR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YEAR
2011	1.63%	1.51%	0.19%										3.53%
2010	0.10%	0.40%	1.49%	0.78%	-3.69%	-1.31%	0.92%	-0.81%	2.35%	1.60%	0.00%	2.79%	4.54%
2009	0.00%	-3.69%	1.74%	4.68%	5.23%	-0.10%	3.22%	1.81%	4.64%	-0.94%	-0.57%	1.86%	18.95%
2008	-4.59%	0.55%	-1.49%	1.83%	1.56%	-1.62%	-2.50%	-2.01%	-8.52%	-12.35%	-6.54%	-0.69%	-31.63%
2007	1.55%	0.61%	1.37%	1.20%	2.08%	0.15%	-1.02%	-0.07%	2.42%	2.08%	-2.18%	-0.13%	8.25%
2006	4.29%	0.39%	1.81%	1.70%	-1.06%	-0.31%	-0.77%	0.62%	-0.77%	1.09%	0.69%	1.92%	9.32%
2005	-0.25%	0.25%	-0.17	-1.44%	1.72%	0.59%	1.51%	-0.83%	1.67%	-0.98%	0.74%	0.01%	2.80%
2004	0.99%	0.10%	1.47%	-0.87%	1.07%	5.01%	-1.56%	2.52%	0.82%	0.72%	5.37%	0.60%	17.23%
2003	2.04%	0.00%	0.60%	-0.20%	-0.40%	-0.40%	-1.41%	-0.41%	1.02%	2.23%	0.10%	0.04%	3.21%
2002										-0.90%	-1.31%	0.10%	-2.10%

	1Y	2Y <sup>1</sup>	3Y <sup>1</sup>	5Y <sup>1</sup>	Since Inception <sup>1,2</sup>	Standard Deviation <sup>3</sup>
ALPHX	5.93%	14.53%	-2.40%	-0.50%	2.81%	8.48%
HFRI FoF	5.09%	8.48%	-0.82%	1.60%	4.69%	5.62%
S&P 500	15.65%	35.52%	2.35%	2.62%	7.72%	15.30%

*Total Annual Fund Operating Expenses are 4.73%. Net Fund Operating Expenses are capped at 3.85% excluding dividends on short positions and interest on borrowing. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. To obtain performance information current to the most recent month-end, please call 866.388.6292.*

1. Average annual total return 2. Fund inception date: 9/23/2002 3. Since Fund inception



## Strategy Definitions

**Long/Short Equity.** This strategy is designed to take long and short positions by trading in common stock and preferred stock of U.S. and foreign issuers in an attempt to achieve capital appreciation.

**Market Neutral Equity.** This strategy is designed to exploit equity market inefficiencies, which involves being simultaneously invested in long and short matched equity portfolios generally of the same size, usually in the same market. This strategy attempts to achieve total return through current income, capital preservation, and capital appreciation.

**Relative Value – Long/Short Debt.** This strategy is designed to take advantage of perceived discrepancies in the market prices of certain fixed income securities, certain convertible bond, common stock, and derivative securities, and attempts to achieve total return through current income, capital preservation, and capital appreciation.

**Event Driven.** This strategy is designed to invest in securities with prices that are or will be impacted by a corporate event. This strategy attempts to achieve capital appreciation.

## Index Definitions

**HFRI Fund of Funds Composite Index:** Funds included in the Index invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The fund of funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The minimum investment in a fund of funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers.

**S&P 500 Total Return 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. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index with each stock's weight in the index is proportionate to its market value.





## Disclosures

The Funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment companies, and it may be obtained by calling 1.877.569.2382, or visiting [www.hatterasmutualfunds.com](http://www.hatterasmutualfunds.com). Read it carefully before investing.

### About Risk

Certain hedging techniques and leverage employed in the management of the Funds may accelerate the velocity of possible losses. Short selling involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the Funds. Derivatives involve investment exposure that may exceed the original cost and a small investment in derivatives could have a large potential impact on the performance of the Funds. Options held in the Funds may be illiquid and the fund manager may have difficulty closing out a position. The Funds may also invest in: smaller capitalized companies - subject to more abrupt or erratic market movements than larger, more established companies; foreign securities, which involve currency risk, different accounting standards and are subject to political instability; securities limited to resale to qualified institutional investors, which can affect their degree of liquidity; shares of other investment companies that invest in securities and styles similar to the Fund, resulting in a generally higher investment cost than from investing directly in the underlying shares of these funds.

The Funds intend to utilize these individual securities and hedging techniques in matched combinations that are designed to neutralize or offset the individual risks of employing these techniques separately. Some of these matched strategies include: merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. There is no assurance that these strategies will protect against losses. The Funds are non-diversified and therefore may invest in the securities of fewer issuers than diversified funds at any one time; as a result, the gains and losses of a single security may have a greater impact on each Funds' share price.

**Because the Funds are funds-of-funds, your cost of investing in the Funds will generally be higher than the cost of investing directly in the shares of the mutual funds in which it invests. By investing in the Funds, you will indirectly bear your share of any fees and expenses charged by the underlying funds, in addition to indirectly bearing the principal risks of the Funds. Please refer to the prospectus for more information about the Funds, including risks, fees and expenses.**

Mutual fund investing involves risk; loss of principal is possible. Please consult an investment professional for advice regarding your particular circumstances. An investment in the Funds may not be suitable for all investors.

These securities have not been approved or disapproved by the Securities and Exchange Commission.

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HATTERAS  
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