

HATTERAS FUNDS

Implementing an Alternative Investment Portfolio



HATTERAS
Funds

Safe Harbor and Forward-Looking Statements

The opinions expressed in this report are subject to change without notice. This material has been prepared or is distributed solely for informational purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The opinions discussed in the letter are solely those of Hatteras and may contain certain forward-looking statements about the factors that may affect the performance of the illustrative examples in the future. These statements are based on Hatteras' predictions and expectations concerning certain future events and their expected impact, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the illustrative examples. Hatteras believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed. It is intended solely for the use of the person to whom it is given and may not be reproduced or distributed to any other person. The information and statistics in this report are from sources believed to be reliable, but are not warranted by Hatteras to be accurate or complete. *Past performance does not guarantee future results.*

Hatteras Funds

Defining Alternatives

- Hatteras Funds provides unique alternative investment solutions for financial advisors and their clients
- We create investment vehicles that solve problems for financial advisors

Philosophy

- Focus only on alternative investment solutions for financial advisors
- Reduce barriers to entry
- Excel at client service

Registered Investment Partnerships

- 1933 Act and 1940 Act registered funds
- Mutual funds

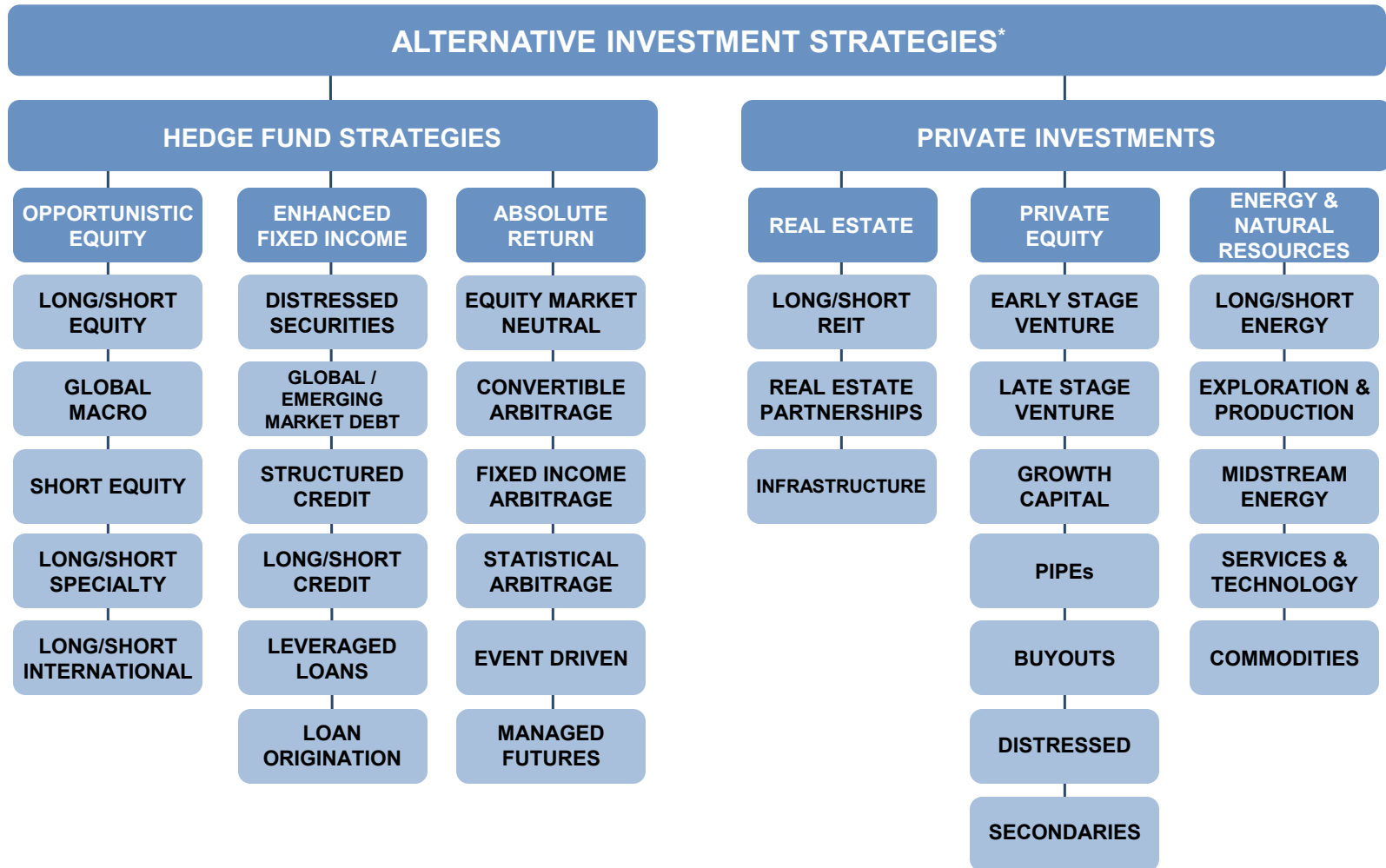
\$2 billion in AUM as of June 30, 2011

Experienced Team

- 46 employees
 - 12 alternative investment professionals
 - 18 sales, marketing and national accounts professionals

What are alternatives?

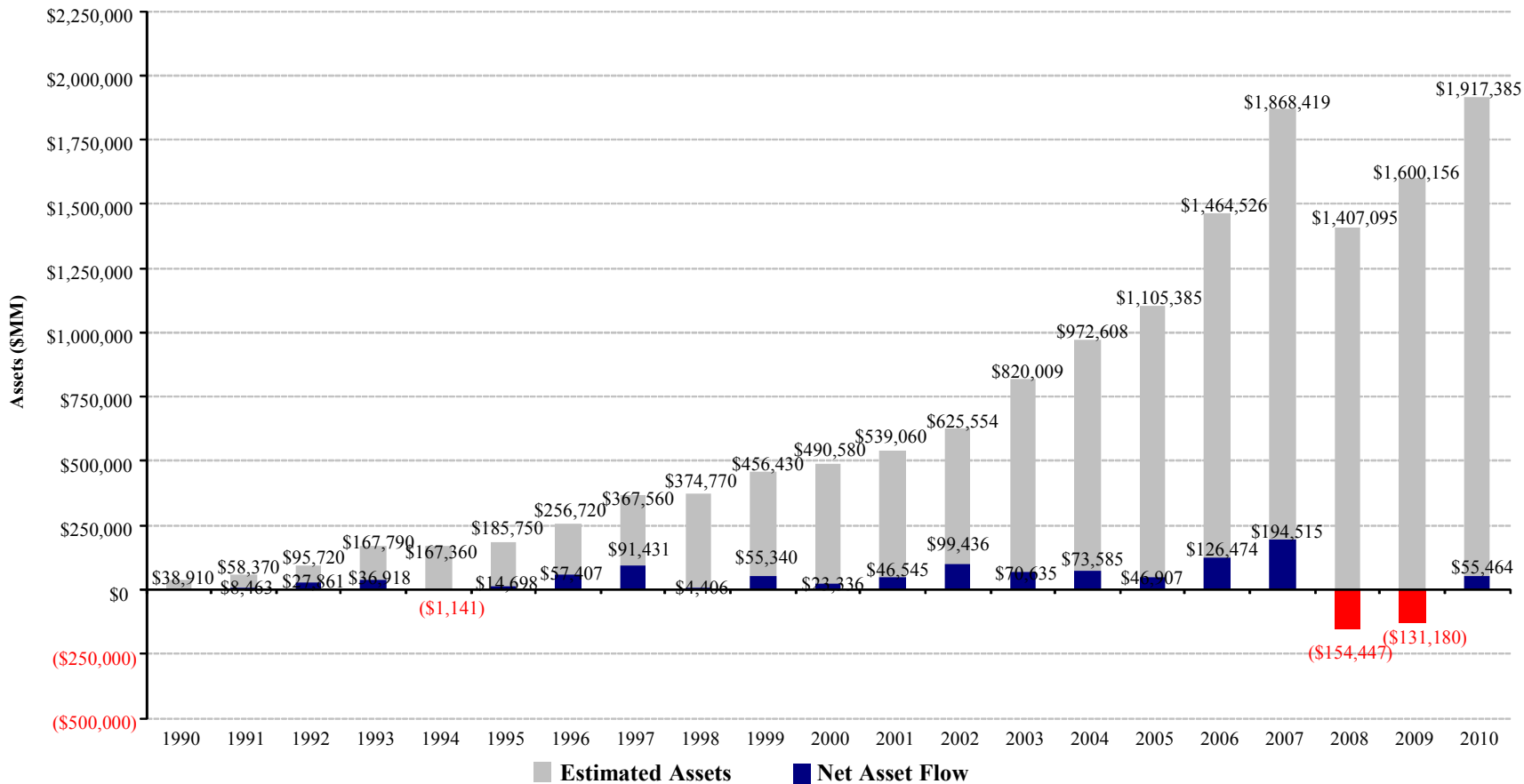
- ▶ **Hedge Funds:** typically non-regulated investment vehicles, designed to generate returns regardless of market conditions. Managers may utilize long and short investment techniques, as well as leverage.
- ▶ **Private investments:** often illiquid, privately negotiated investments in private companies. Investments can include leveraged buyouts and venture capital, as well as private equity partnerships in real estate, energy, and hard assets.
- ▶ Historically, alternative investments have shown little to no correlation to traditional investments such as stocks, bonds, or cash.
- ▶ Investment strategies that are typically offered only to ***sophisticated, institutional and private investors.***



* Alternative investment universe as defined by Hatteras Funds

Estimated Growth of Assets / Net Asset Flow

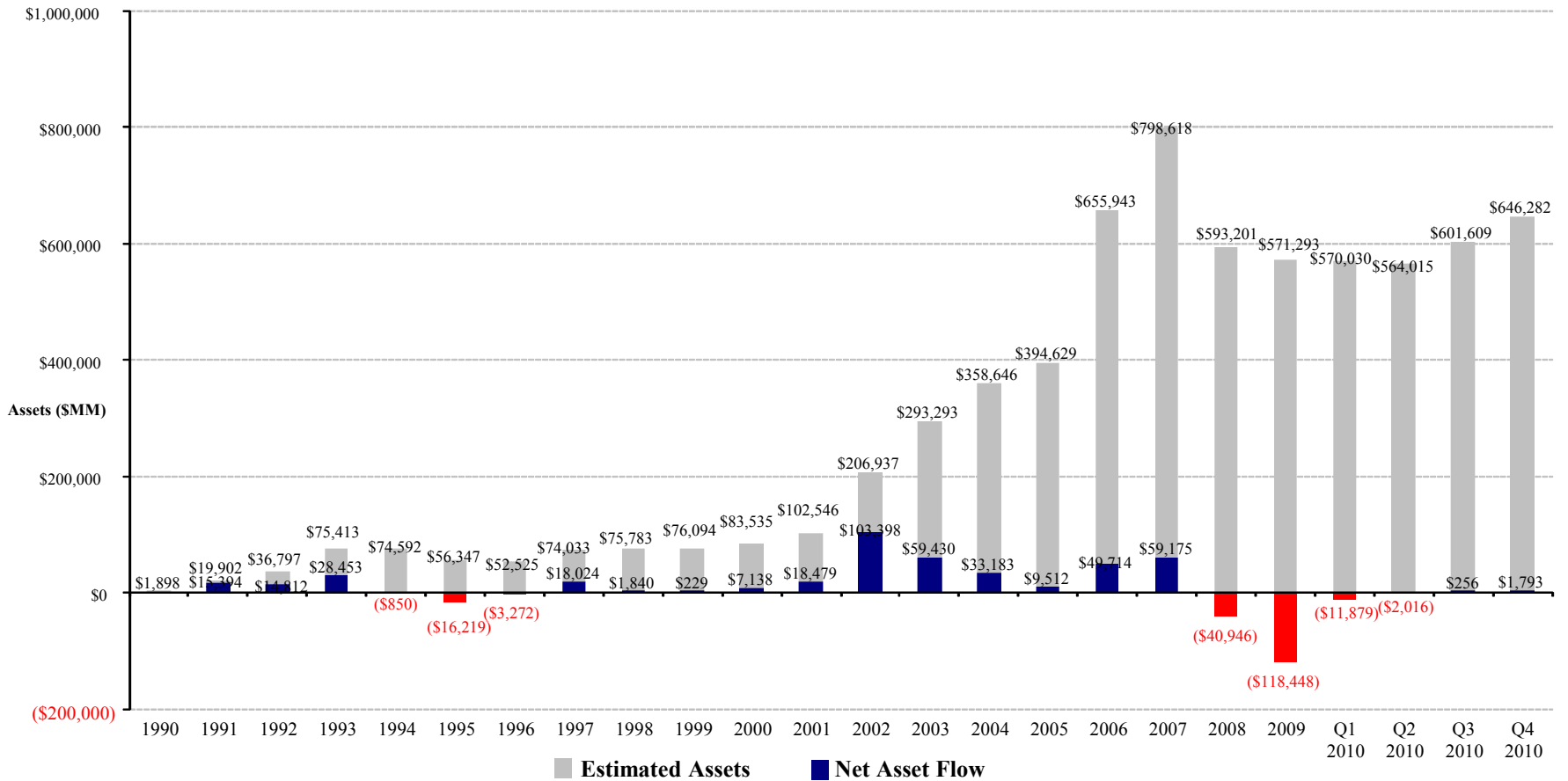
Hedge Fund Industry 1990 – Q4 2010



Source: HFR Industry Reports, © HFR, Inc. 4Q 2010, www.hedgefundresearch.com

Estimated Growth of Assets / Net Asset Flow

Fund of Funds 1990 – Q4 2010

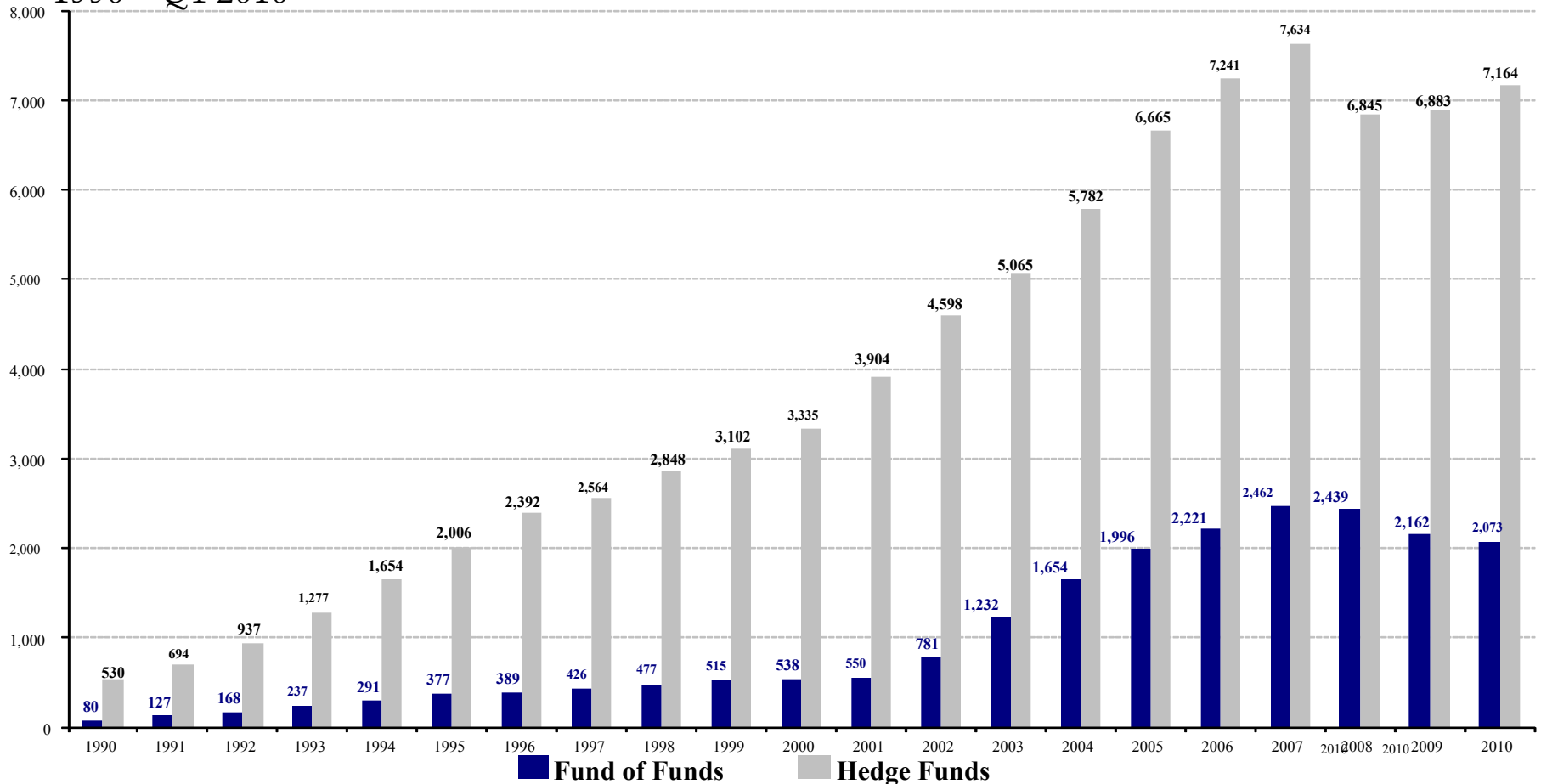


Source: HFR Industry Reports, © HFR, Inc. 4Q 2010, www.hedgefundresearch.com



Estimated Number of Funds: Hedge Funds vs. Fund of Funds

1990 – Q4 2010



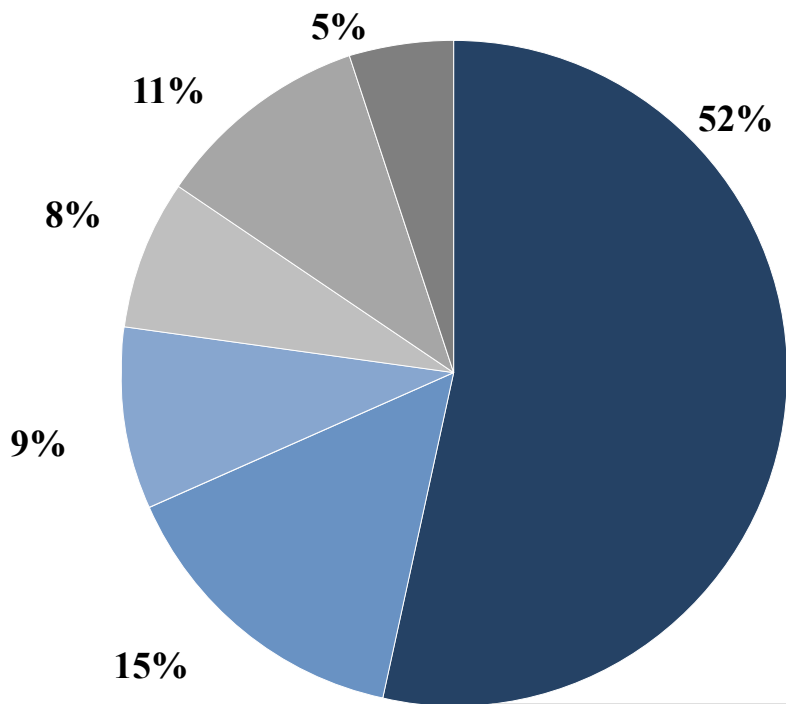
Source: HFR Industry Reports, © HFR, Inc. 4Q 2010, www.hedgefundresearch.com



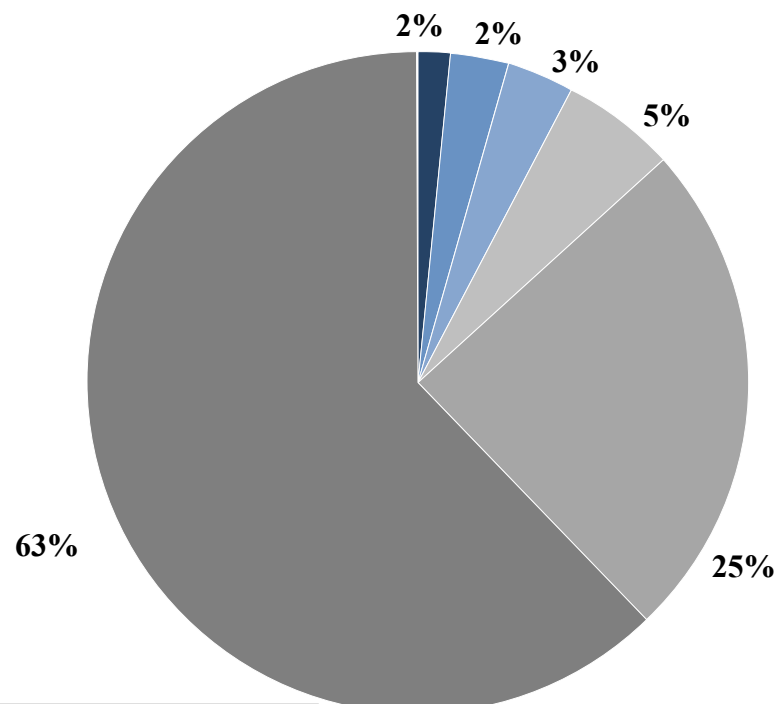
Distribution of Industry Assets by Firm AUM Tier

Q4 2010

By # Firms



By Firm AUM Size



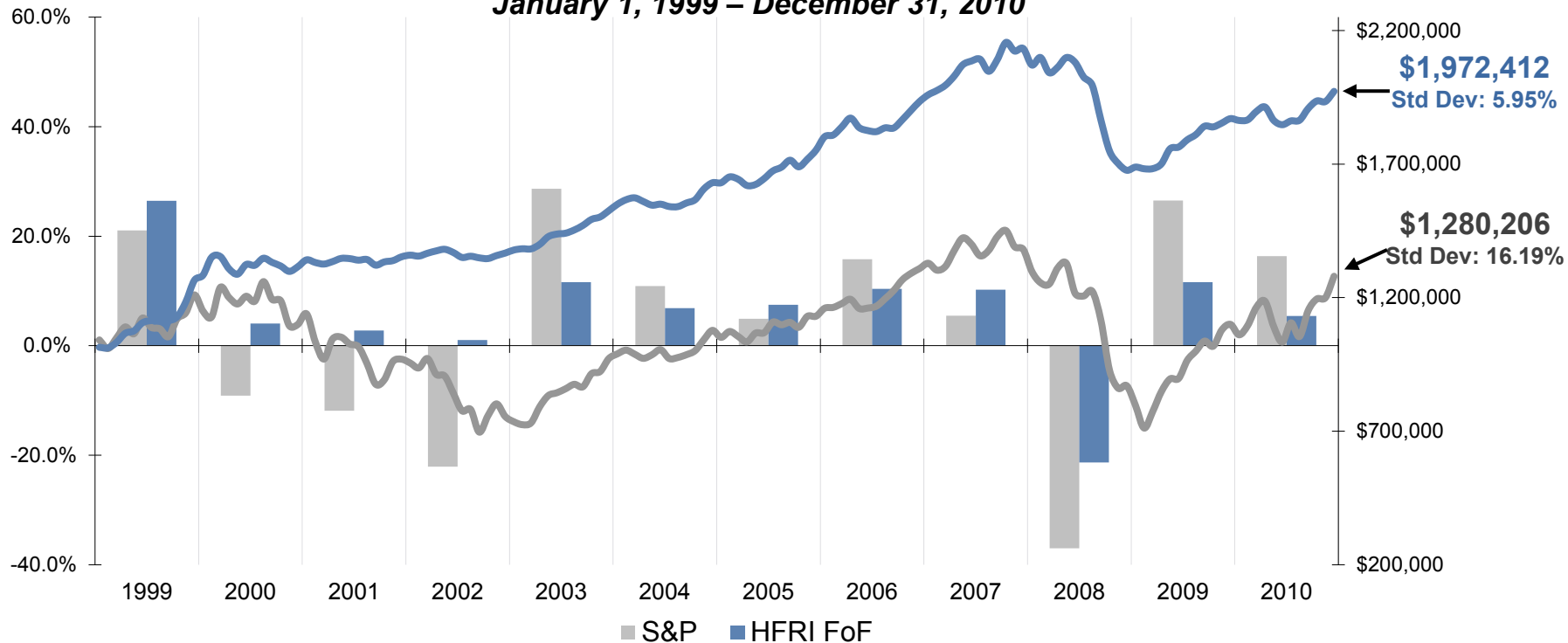
■ < \$100 Million	■ \$100 to \$250 Million	■ \$250 to \$500 Million
■ \$500M to \$1 Billion	■ \$1 to \$5 Billion	■ > \$5 Billion

Source: HFR Industry Reports, © HFR, Inc. 4Q 2010, www.hedgefundresearch.com

Funds of hedge funds have outperformed

Value of \$1,000,000 and Annual Returns

January 1, 1999 – December 31, 2010



Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indices of securities. Returns do not represent any actual investment. Source: S&P 500: S&P 500 Total Return Index. HFRI Fund of Funds Composite Index: Hedge Fund Research Index.

Past performance is no guarantee of future results. The illustrations are not intended to predict the performance of any specific investment or security. 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. The unmanaged indices do not reflect fees and expenses and are not available for direct investment.

HFRI Indices Annual Investment Returns

1998 - 4Q 2010

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
S&P 500 28.59%	HFRI Emerging Markets 55.86%	HFRI ED: Merger Arb 18.02%	HFRI RV: ConvertArb 13.37%	Barclays Gov't/Credit 12.10%	HFRI Emerging Markets 39.36%	HFRI ED: Distressed 18.89%	HFRI Emerging Markets 21.04%	HFRI Emerging Markets 24.26%	HFRI Emerging Markets 24.92%	Barclays Gov't/Credit 6.09%	HFRI RV: ConvertArb 60.17%	S&P 500 15.08%
HFRI Equity Hedge 15.98%	HFRI Equity Hedge 44.22%	HFRI EH: Eq Mrkt Ntrl 14.56%	HFRI ED: Distressed 13.28%	HFRI RV: ConvertArb 9.05%	HFRI ED: Distressed 29.56%	HFRI Emerging Markets 18.42%	HFRI Equity Hedge 10.60%	HFRI ED: Distressed 15.94%	HFRI Macro 11.11%	HFRI Macro 4.83%	HFRI Emerging Markets 40.24%	HFRI RV: ConvertArb 13.07%
Barclays Gov't/Credit 12.00%	HFRI Fund Wghtd Comp 31.29%	HFRI RV: ConvertArb 14.50%	HFRI Event-Driven 12.18%	HFRI Macro 7.44%	S&P 500 28.67%	HFRI Event-Driven 15.01%	HFRI Fund Wghtd Comp 9.30%	S&P 500 15.78%	HFRI Equity Hedge 10.48%	HFRI ED: Merger Arb -5.36%	HFRI ED: Distressed 28.13%	HFRI Emerging Markets 11.96%
HFRI EH: Eq Mrkt Ntrl 8.30%	HFRI FOF Composite 26.47%	HFRI Relative Value 13.41%	HFRI Emerging Markets 10.36%	HFRI Relative Value 5.44%	HFRI Event-Driven 25.33%	S&P 500 10.86%	HFRI ED: Distressed 8.27%	HFRI Event-Driven 15.33%	HFRI FOF Composite 10.25%	HFRI EH: Eq Mrkt Ntrl -5.93%	S&P 500 26.47%	HFRI Relative Value 11.73%
HFRI RV: ConvertArb 7.77%	HFRI Event-Driven 24.33%	Barclays Gov't/Credit 9.40%	Barclays Gov't/Credit 9.40%	HFRI ED: Distressed 5.28%	HFRI Macro 21.42%	HFRI Fund Wghtd Comp 9.03%	HFRI FOF Composite 7.49%	HFRI ED: Merger Arb 14.24%	HFRI Fund Wghtd Comp 9.96%	HFRI Relative Value -18.04%	HFRI Relative Value 25.80%	HFRI Event-Driven 11.53%
HFRI ED: Merger Arb 7.23%	S&P 500 21.03%	HFRI Equity Hedge 9.09%	HFRI Relative Value 8.92%	HFRI Emerging Markets 3.70%	HFRI Equity Hedge 20.54%	HFRI Equity Hedge 7.68%	HFRI Event-Driven 7.29%	HFRI Fund Wghtd Comp 12.89%	HFRI Relative Value 8.94%	HFRI Fund Wghtd Comp -19.02%	HFRI Event-Driven 25.04%	HFRI ED: Distressed 11.26%
HFRI Macro 6.19%	HFRI Macro 17.62%	HFRI Event-Driven 6.74%	HFRI Macro 6.87%	HFRI FOF Composite 1.02%	HFRI Fund Wghtd Comp 19.55%	HFRI FOF Composite 6.86%	HFRI Macro 6.79%	HFRI Relative Value 12.37%	Barclays Gov't/Credit 7.75%	HFRI FOF Composite -21.36%	HFRI Equity Hedge 24.55%	HFRI Equity Hedge 10.58%
HFRI Relative Value 2.81%	HFRI ED: Distressed 16.94%	HFRI Fund Wghtd Comp 4.98%	HFRI EH: Eq Mrkt Ntrl 6.71%	HFRI EH: Eq Mrkt Ntrl 0.98%	HFRI FOF Composite 11.61%	HFRI Relative Value 5.58%	HFRI ED: Merger Arb 6.25%	HFRI RV: ConvertArb 12.17%	HFRI ED: Merger Arb 7.05%	HFRI Event-Driven -21.82%	HFRI Fund Wghtd Comp 19.98%	HFRI Fund Wghtd Comp 10.49%
HFRI Fund Wghtd Comp 2.62%	HFRI Relative Value 14.73%	HFRI FOF Composite 4.07%	HFRI Fund Wghtd Comp 4.62%	HFRI ED: Merger Arb -0.87%	HFRI RV: ConvertArb 9.93%	HFRI Macro 4.63%	HFRI EH: Eq Mrkt Ntrl 6.22%	HFRI Equity Hedge 11.71%	HFRI Event-Driven 6.61%	HFRI ED: Distressed -25.20%	HFRI ED: Merger Arb 11.63%	HFRI Macro 8.61%
HFRI Event-Driven 1.70%	HFRI RV: ConvertArb 14.41%	HFRI ED: Distressed 2.78%	HFRI FOF Composite 2.80%	HFRI Fund Wghtd Comp -1.45%	HFRI Relative Value 9.72%	Barclays Gov't/Credit 4.54%	HFRI Relative Value 6.02%	HFRI FOF Composite 10.39%	S&P 500 5.49%	HFRI Equity Hedge -26.65%	HFRI FOF Composite 11.46%	Barclays Gov't/Credit 6.99%
HFRI ED: Distressed -4.23%	HFRI ED: Merger Arb 14.34%	HFRI Macro 1.97%	HFRI ED: Merger Arb 2.76%	HFRI Event-Driven -4.30%	HFRI ED: Merger Arb 7.47%	HFRI EH: Eq Mrkt Ntrl 4.15%	S&P 500 4.91%	HFRI Macro 8.15%	HFRI RV: ConvertArb 5.33%	HFRI RV: ConvertArb -33.71%	Barclays Gov't/Credit 4.81%	HFRI FOF Composite 5.60%
HFRI FOF Composite -5.11%	HFRI EH: Eq Mrkt Ntrl 7.09%	S&P 500 -9.09%	HFRI Equity Hedge 0.40%	HFRI Equity Hedge -4.71%	Barclays Gov't/Credit 5.07%	HFRI ED: Merger Arb 4.08%	Barclays Gov't/Credit 2.55%	HFRI EH: Eq Mrkt Ntrl 7.32%	HFRI EH: Eq Mrkt Ntrl 5.29%	S&P 500 -36.99%	HFRI Macro 4.37%	HFRI ED: Merger Arb 4.60%
HFRI Emerging Markets -32.96%	Barclays Gov't/Credit -2.40%	HFRI Emerging Markets -10.71%	S&P 500 -11.85%	S&P 500 -22.09%	HFRI EH: Eq Mrkt Ntrl 2.44%	HFRI RV: ConvertArb 1.18%	HFRI RV: ConvertArb -1.86%	Barclays Gov't/Credit 4.07%	HFRI ED: Distressed 5.08%	HFRI Emerging Markets -37.26%	HFRI EH: Eq Mrkt Ntrl 1.43%	HFRI EH: Eq Mrkt Ntrl 3.16%

Source: HFR Industry Reports, © HFR, Inc. 2Q 2010, www.hedgefundresearch.com



Hatteras Funds Investment Perspective Summary

In our view, there are four primary opportunities for investors in alternative investments

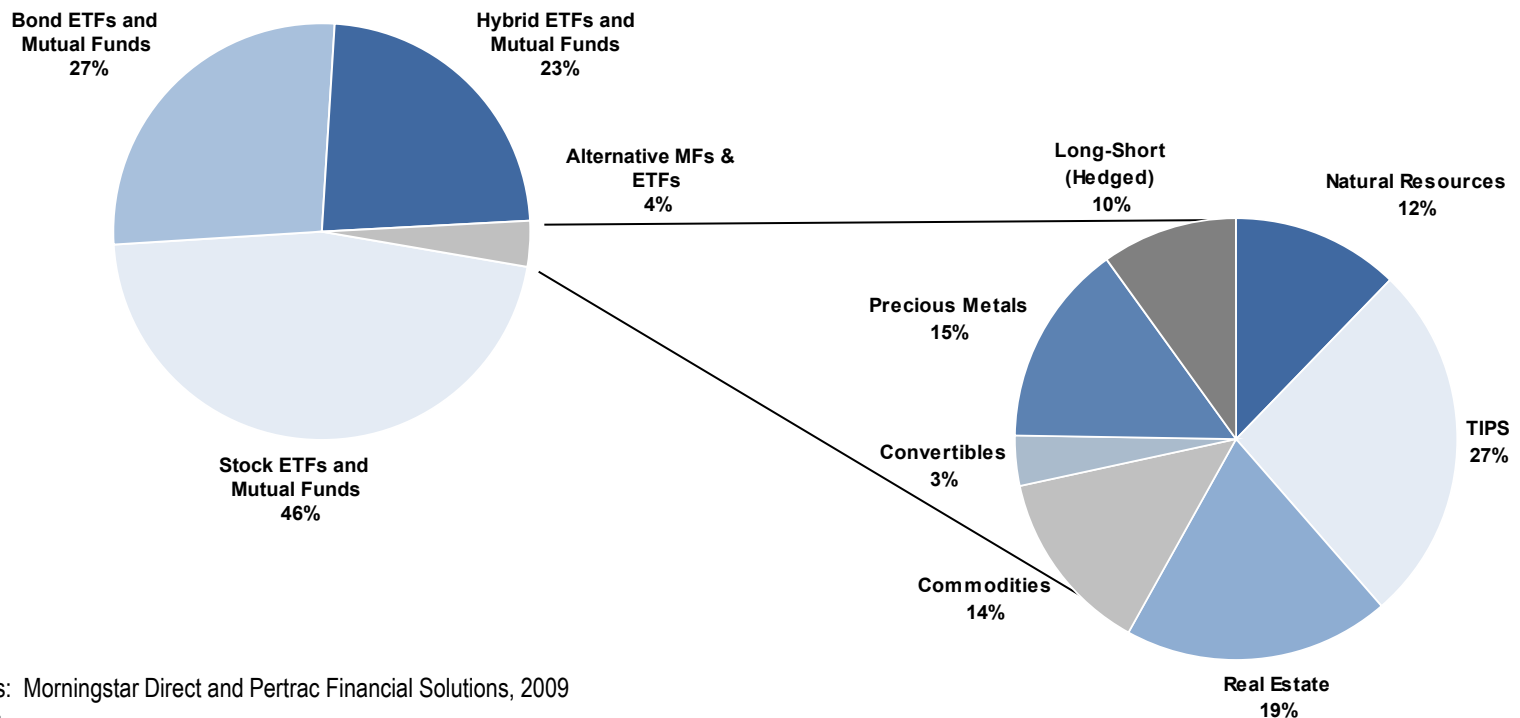
- ▶ Hedged investments
- ▶ Private equity
- ▶ Emerging markets
- ▶ Liquid alternatives

Why liquid alternatives now

- ▶ Investors are re-evaluating risk tolerance
 - Becoming more risk aware
 - Shortened time horizons
- ▶ Post-2008
 - Uncertainty remains in equity and credit markets despite broad rally
 - Long-only investment approaches face headwinds
 - Lower future return forecasts
 - Increased expected market volatility
- ▶ Investor needs in new environment
 - Balanced exposure within alternatives allocation
 - Multi-strategy alternative mutual fund as a core alternatives position
 - Ability to rebalance entire portfolio
 - Daily liquidity provides flexibility and control
 - Better access and shareholder friendly features

The mutual fund and ETF landscape

- ▶ The U.S. mutual fund and ETF universe accounts for almost \$8 trillion in net assets
- ▶ Only 4% are “alternative” funds



Sources: Morningstar Direct and Pertrac Financial Solutions, 2009



Alternative mutual fund category

- ▶ Of the 10% of alternatives listed as long-short (the catch-all category for hedged strategies per Morningstar), the category is dominated by few players
- ▶ The top ten funds in the long-short category account for almost 70% of the AUM

Alternative Mutual Fund Long-Short Category



Sources: Morningstar Direct and Pertrac Financial Solutions, 2009



HATTERAS
Funds

8540 Colonnade Center Drive, Suite 401
Raleigh, NC 27615

Tel 866.388.6292
Fax 919.846.3433