

## Samson Multicurrency Plus Strategy

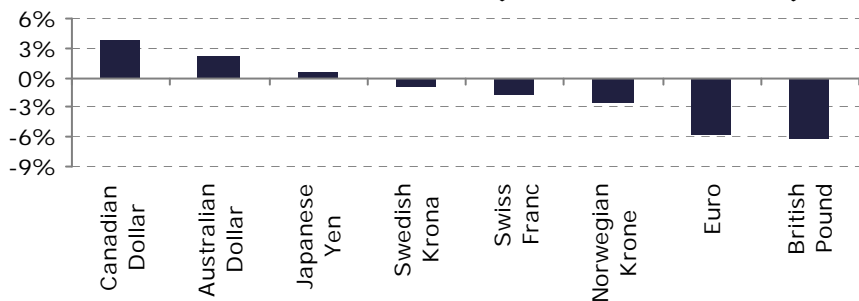
Fed Majors Index Benchmark

In our prior commentary, we highlighted the following themes:

- Economic and financial headwinds in the Eurozone
- Overpriced risk assets
- The need for a defensive position

During the first quarter we continued to maintain a defensive posture in our strategy. We further reduced our exposure to the euro. Impressed by the resilience of the Canadian economy, the recovery of its commodity export markets, and the strength of its financial system, we increased exposure to the Canadian dollar. The Canadian dollar is increasingly serving two roles in our portfolio strategy: fulfilling both its original function as a commodity beneficiary as well as evolving into a safe haven currency. Though we remain positive long-term on the Australian dollar, we felt that, given the increasing uncertainties regarding the resolution of the Eurozone debt crisis, we should limit our overall exposure to commodity currencies. As a result, we increased our Canadian exposure and reduced exposure to the Australian dollar. The Canadian and Australian dollars were the two best performing currencies in our currency solution set and the large allocations we had to each heading into the quarter contributed to our outperformance for the period.

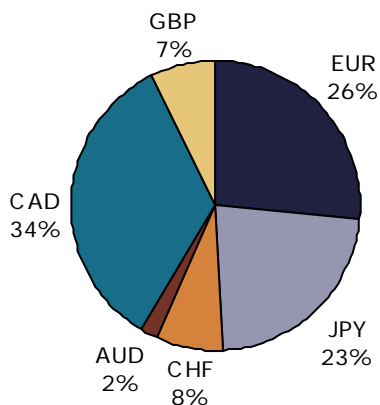
### Relative Performance of Currencies (12/31/09 – 3/31/10)



As the charts above and on the next page highlight, our healthy exposure to the yen and Swiss franc helped to stabilize the portfolio's value during the period. Our large underweight to the euro (26% vs. 36% in the benchmark) was also an important contributor to our relative return. While it might be possible to argue that a larger underweight to the euro would have produced even better results, our quantitative models suggest the euro is becoming oversold. Furthermore, as we have written in prior letters, the euro is a major world reserve currency that benefits from long term central bank diversification programs as central banks around the world reduce their overall dollar holdings to move into other currencies. Finally, though the euro may be in trouble for the time being, we do not believe the currency will fail and we remain mindful that currency markets can generate

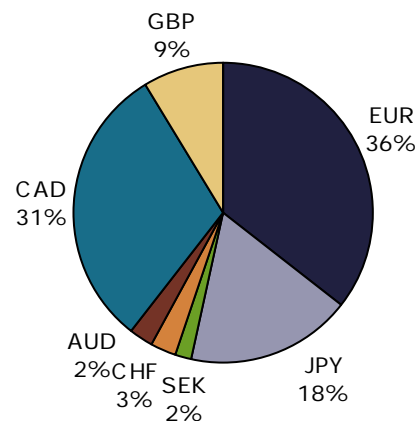
### SMP Target Currency Exposure

As of 3/31/2010



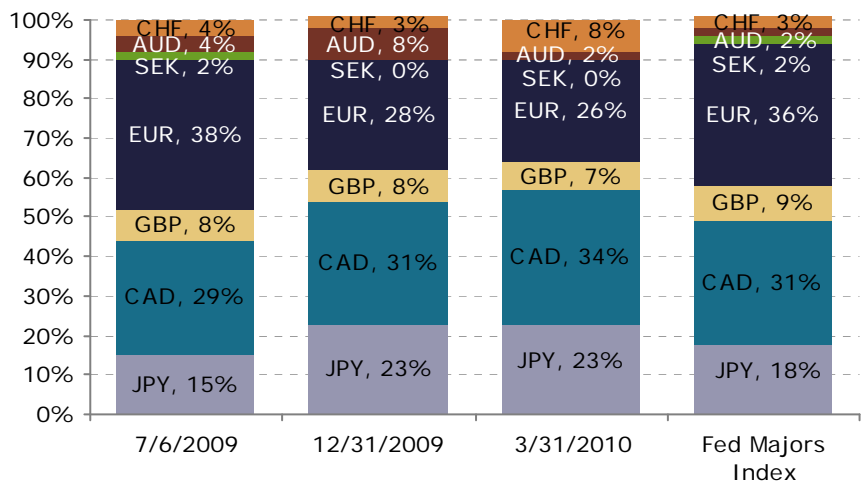
### Federal Reserve Trade Weighted Majors Index Currency Exposure

As of 3/31/2010



sharp corrections and sharp rallies in brief periods of time. We would not want to become too underweight the euro (despite the current climate) at a time when it is undervalued. Needless to say, we will look for positive news before we rebuild our euro position, but given the severe drought of positive news from Europe, we will wait.

### Historical Target Currency Allocation



### Focus on Major Currencies

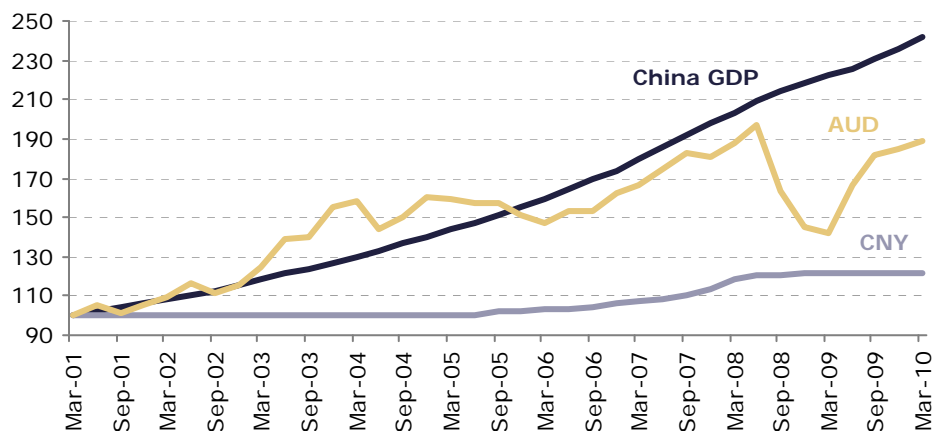
Clients frequently ask us why we focus on the world's major currencies in our investment strategy. After all, many offer, China's currency is likely to appreciate against the dollar at some point. Considering that China is an important trade partner, we are frequently asked, would it make sense to have a large position in the yuan for purchasing power concerned investors?

Our response is no for the following reasons: We believe that currencies are an important diversification tool and our strategy is structured to serve as an asset allocation building block. The benefits of diversification can only be realized when assets move based on market forces and, simply put, the yuan does not move based on market forces. As many investors know, the government of the Peoples Republic of China determines the value of the yuan against the dollar. The yuan will revalue when a political decision is made to allow it to appreciate. Investing in the yuan and waiting for this political decision to be made is speculative investment. What investor can truly claim to know what the leadership of China is thinking on this subject? Furthermore, U.S. citizens cannot buy yuan. Just about the only way to achieve exposure to the currency is through an investment vehicle called a Non Deliverable Forward (NDF). NDFs are like futures contracts on the yuan and move based on the view of speculative investors, largely institutions. The NDF can be pushed higher in value by speculators, but at the end of the day the contract will settle based on the spot value of the yuan (essentially fixed by the Chinese government). If the government does not revalue the yuan, there is no gain on the NDF. We have pointed out in the past that the Australian dollar, a free floating currency, can be a better way to benefit from China's growth as Australia is a major exporter of commodities to China.

The Federal Reserve Trade Weighted Major Currency Index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that circulate widely outside the country of issue. The weights are derived from those in the broad index. The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares.

The U.S. Dollar Index® is composed of a basket of the world's major currencies. The currencies that make up the U.S. Dollar Index are representative of America's major trading partners and currently include euros, Japanese yen, British pound, Canadian dollars, Swedish kronas, and Swiss francs. The relative weighting of a particular currency in the index reflects the amount of trade the U.S. does with that country. U.S. Dollar Index® and USDIX® are trademarks and service marks of the New York Board of Trade®.

### Correlation of AUD and CNY with China's GDP: Growth of \$100



As the chart above shows, China's GDP has more than doubled over the last decade, but the yuan (CNY) has barely appreciated. The Australian dollar, a free float currency, has had a rate of appreciation that mirrors the growth in China far better than the yuan itself. Admittedly, the AUD can be volatile, but that is to be expected from any currency that floats. We will take a closer look at the yuan when it becomes more of a free float currency.

### Looking Forward

The dollar rally that occurred in the first quarter was largely a two stage process, starting with the first weeks of the quarter, when concerns about equity markets drove rallies in safe haven beneficiaries. The yen and the dollar both recovered. As equity markets stabilized and rallied and optimism about US growth materialized, the market began to build in the possibility that the Fed would raise interest rates.

Thus, we are presented with the likelihood that currency markets will be pulled in 2 directions:

- When the market focuses on the likelihood that the Fed will remain accommodative for the foreseeable future, the dollar will face renewed pressure.
- When the market focuses attention on the Eurozone debt crisis and related equity market turbulence, safe haven moves will likely support the dollar (and the yen for that matter).

We will seek to manage the strategy carefully through these cross currents and deliver the currency diversification our investors seek.

Jonathan E. Lewis  
Principal

May 4, 2010

For questions, please contact Radiance S. Chapman at 212-300-1600, or [chapman@samsonca.com](mailto:chapman@samsonca.com).

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