http://www.polygonim.com

Polygon
Investment Process

Our investment process is top down and uses a *core satellite* approach. We believe that asset allocation is the primary determinant of performance, particularly for a global manager; accordingly, we focus our intellectual capital on analyzing the right asset class, and geographic orientation, to make the most money per unit of risk for our investors. We do not place a great deal of emphasis on individual equity selection in efficient markets, which has a significant impact on performance only if the portfolio is very concentrated, and therefore, riskier.

Polygon seeks to bring an institutional methodology to smaller investors by offering a more sophisticated and intellectually rigorous framework. All of our portfolios are individually tailored and we spend a great deal of time trying to understand and define our clients' objectives, appetite for risk, investment time horizon and future liabilities.

Polygon takes a hybrid approach to investment management, seeking to combine the most productive elements of internal and external management, as well as active and passive methodologies, in a disciplined process. The bulk of our positions are managed internally in a long term, strategic core. However, smaller satellite portions are managed externally via specialist, active managers in inefficient segments of the market like US small cap or Asian equities, where we believe stock picking strategies can generate long term out performance.

Basically, this is the theory of comparative advantage -- we focus on what we believe is the source of greatest value creation and where we have the greatest expertise – asset allocation, and picking securities in the developed markets -- and use specialist, best of breed managers to invest in niche markets. Generally, 70-80% of our assets are internally managed in a core designed to provide exposure to major segments of the markets with minimal transaction costs (low cost Beta). We seek to generate additional out performance (Alpha) by investing tactically in smaller, higher return environments, for example, India and Eastern Europe, but control the risk by limiting exposure to 3-5% of the portfolio in these satellite positions.

External equity managers are selected based on a number of criteria including: philosophy and investment process; the pedigree of the people and the firm; and, lastly, long term performance. We also look closely at total expense ratios and favor smaller, boutique firms which specialize in the geographic area or asset class in which we are investing. In efficient markets like the US large cap segment and Europe, we sometimes utilize ETFs to generate low cost exposure.

In the satellite portion of our portfolios we also make use of closed end funds, particularly in emerging markets, which allows us to control asset allocation down to the single country level. As such securities often trade at a discount, we try to acquire them at prices below NAV. For example, in 2004 we began accumulating shares of the Brazil Fund (BZF) when it was trading at a substantial discount to NAV. In late 2005, the manager, Scudder, proposed converting the shares into an open ended fund, causing the discount to narrow dramatically, and in the interim Brazil appreciated substantially. We have enjoyed similar benefits from investing in a number of closed end funds which were purchased at a discount and are currently trading at a premium, including the Morgan Stanley India Fund (IIF), the Russia and Central Europe Fund (CEE), and the UK-listed Standard Life European Private Equity Trust.

Bonds and alternatives. Fixed income securities form an important part of our core holdings and, as with equities we seek to maximize the diversification benefit by investing in markets which do not correlate closely with each other. We prefer higher quality, deeper issues such as government and agency debt, and are biased towards shorter duration bonds which we believe represent a better trade-off between risk and reward.

Depending on client preferences, the conservative, risk averse component of our portfolios may comprise 30% to 40%. Characteristically, this would include exposure to non correlated alternative strategies such as publicly traded, real estate and hedge funds of funds, as well as fixed income securities. Limited exposure to commodities may also be a useful diversifier. These defensive positions are designed to be non directional and absolute return oriented, mitigating the volatility of equity markets and giving investors down side protection.

Asset Allocation. Polygon's decision making is based on multiple factors including: *macroeconomic fundamentals* such as GDP, inflation, balance of payments etc; *valuations*, including dividend discount models, P/E ratios and return on equity; and *technical factors* like liquidity and cash flow.

In terms of style we favor both value oriented and small company strategies, as the evidence shows they are amongst the few long term anomalies in equity markets. However, in light of the recent out performance of both these factors, we have grown more cautious towards them. Political risk and cultural attitudes towards business and the investment environment are also important criteria in our asset allocation.

Diversification and risk control are critical to our investment process. As noted above, we are very global in our approach, and seek to diversify across asset classes and regions. At the moment, typical asset allocation for a balanced portfolio would be 30% US equities, 40% non US equities and 30% non directional, absolute return strategies.

Performance. Since inception in Dec 2002 Polygon has out performed both US and global equity markets by a substantial margin -- with lower risk. We offer two primary approaches: *Global Growth* and *Global Balanced*. For additional information please email or call us at: 1 609 921 2445.

***Turnover*.** We believe that turnover is a significant drag on performance and are therefore generally long term buy and hold investors. Polygon's annual turnover is typically less than 50%. For taxable, US based, investors we seek to minimize tax liability, as long as it is consistent with our overall strategy.

Administration and custody. We monitor our portfolios continuously, using a variety of electronic sources which instantaneously notify us of significant portfolio movements. Our systems have specific alerts which are triggered, if a position gains or declines by more than 5% on any day, or if a security hits a 12 month high or low.

We are driven by client preferences and offer several different custody options. Many of our clients use Fidelity as their custodian as they have a robust technology platform which provides electronic access to the contents of client portfolios 24 hours a day and can also offer a credit card and check writing facilities. Please note that we are not tied to Fidelity in any way, and are happy to use other custodians of our clients' choosing. For international clients who prefer a non US custodian, we also have a relationship with a Swiss based bank.

Compensation. The only fee Polygon receives is its annual management fee (and performance fees, if applicable). We receive no other form of compensation, and discounts (if any) are passed onto the client. The minimum size of our portfolios is $ 500,000. We are happy to provide details about either our standard, or performance, fee on request.