



**City of Cincinnati Retirement System
Investment Committee**

**February 5, 2009 12:00PM
Centennial II – Meeting Room A**

AGENDA

Call to Order

Approval of Minutes

🚩 December 4, 2008

New Business

- 🚩 12:15 PM - Conference Call: PIMCO
 - Susie Wilson and Sapna Shah

- 🚩 1 PM Conference Call: ABS Investment Management
 - Mark Murphy and Laurence Russian

- 🚩 Brett Christenson, Marquette Associates:
 - 2008 Investment Performance Report

Adjournment

Next Meeting: April 2, 2009 - Centennial II, HR – Room A

ABS Investment Management LLC

2008 Year-End Review Equity Long/Short FoHFs

January 2009
55 Railroad Avenue
Greenwich CT 06830
(203) 618-3737

**Please see the end of this presentation for important disclosure information.*

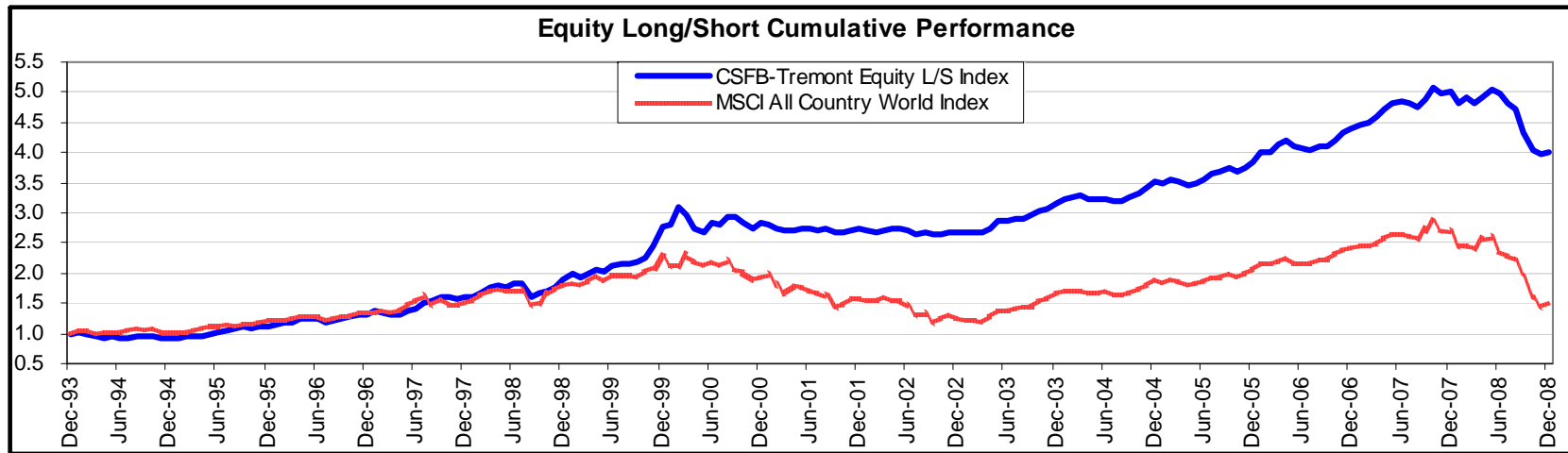
ABS | Investment
Management

2008 Year in Review

- **Equity Long/Short as an Equity Replacement**
- **ABS Firm Update**
 - Diversified investor base
 - Stability of investment and operational team
- **Hedge Fund Industry Review**
 - Hedge funds face new challenges in 2008
 - Why equity long/short in 2009
- **ABS Global Portfolio Review**
 - 2008 Performance attribution
 - Current portfolio structure
- **Conclusion**
 - Why equity long/short?
 - Why equity long/short now?
 - Why ABS?

Equity Replacement Adds Value

- Using equity long/short as an equity replacement has consistently proven to be a successful way to invest in the equity markets
- Flexible portfolio management allows funds to protect capital during down periods and capture upside in positive markets:



	1-Year		3-Year		5-Year		1994-2008	
	CSFB-Tremont L/S	MSCI AC World	CSFB-Tremont L/S	MSCI AC World	CSFB-Tremont L/S	MSCI AC World	CSFB-Tremont L/S	MSCI AC World
Cumulative Return	-19.91%	-43.56%	+4.11%	-26.49%	+27.42%	-9.36%	+301.40%	+50.46%
Annualized Return	-19.91%	-43.56%	+1.35%	-9.75%	+4.97%	-1.95%	+9.71%	+2.76%
Annualized Volatility	12.04%	24.89%	9.72%	18.20%	8.37%	15.23%	10.22%	14.99%

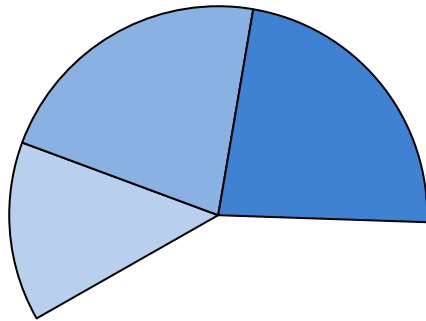
Equity Long/Short Strategies Remain Intact

- Hedge funds experience significant redemption requests during the second half of 2008
- Due to the liquidity available in the equity markets, the vast majority of equity long/short managers pay redemptions AND maintain their portfolio structure
- Generally, equity long/short funds are able to service redemptions without putting up gates, suspending redemptions, or side pocketing assets
- Strategies that depend on leverage to generate performance will find limited availability and high costs, which should have very limited impact for fundamental equity long/short managers
- Potential regulation of the hedge fund industry should impact equity long/short funds less in comparison to other strategies, as funds already are required to disclose long positions and invest in securities that trade on regulated exchanges

ABS Firm Update

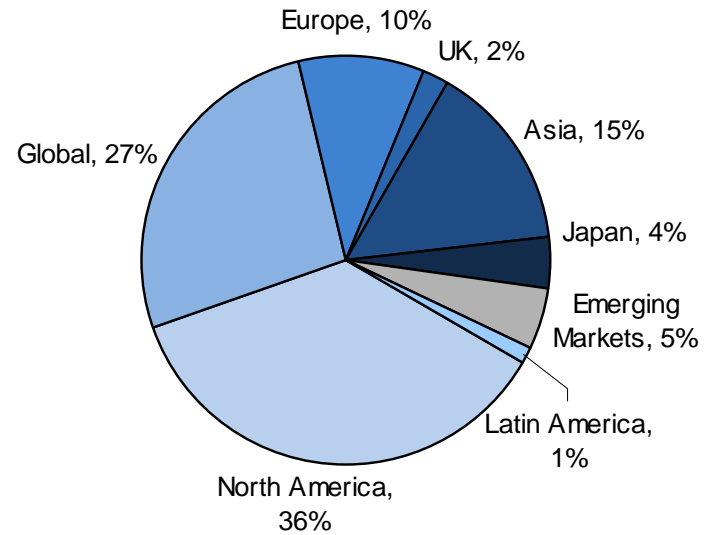
ABS Investor Base & Geographic Investments

Profile of Investor Base



Institutional	69%
High-Net-Worth	31%

Firm-wide Hedge Fund Managers



Total Firm-wide assets \$2.1 billion

*All statistics are estimated and measured on a dollar basis as of January 1, 2009

ABS Employee Update

We both began and ended the year with seventeen employees and have no plans to reduce our team

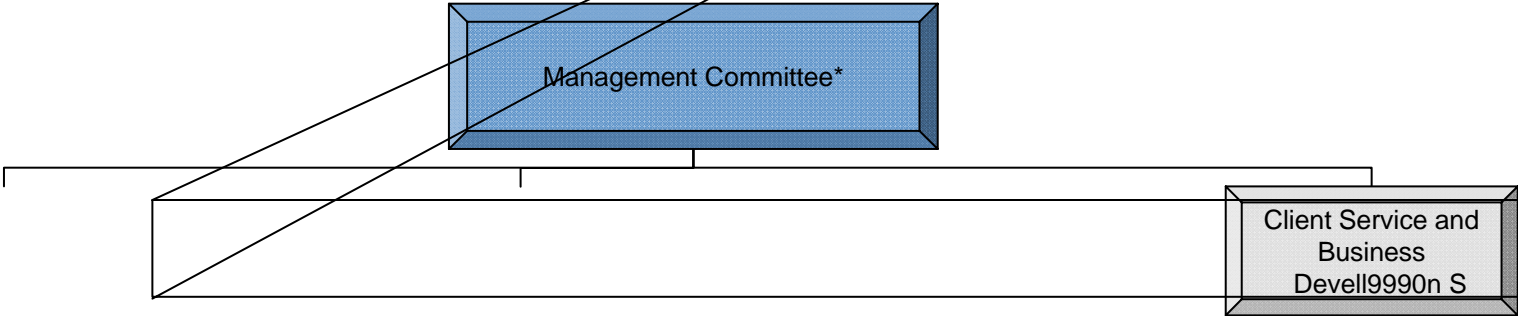
Tae Kim left ABS on June 30th. Tae started his own hedge fund. He had been a qualitative investment analyst for three years, starting at ABS in July 2005.

Jeff Alleva joined ABS in September as a qualitative analyst based in Greenwich. Prior to joining ABS, he was in the Investment Banking group at Bear Stearns. Before Bear Stearns he was an analyst at Duke University Management Company and a minor league pitcher in the Kansas City Royals organization. He received a BA from Duke University and an MBA from Duke University's Fuqua School of Business.

We are actively interviewing candidates and hope to add the following hires over the next 6-12 months:

- **Qualitative Investment Analyst to Hong Kong office**
- **Junior Operations Analyst**

ABS Organizational Chart



2008 Industry Review

Challenges Faced by Hedge Funds in 2008

➤ Government Intervention

Ineffective regulations and bailouts, such as short selling bans and direct cash infusions to the finance, insurance, and auto industries creates tremendous market volatility

➤ Redemptions & Deleveraging

The hedge fund community has its first bout with negative performance and substantial net outflows, forcing managers to sell longs and cover shorts at the worst time

➤ Common Holdings

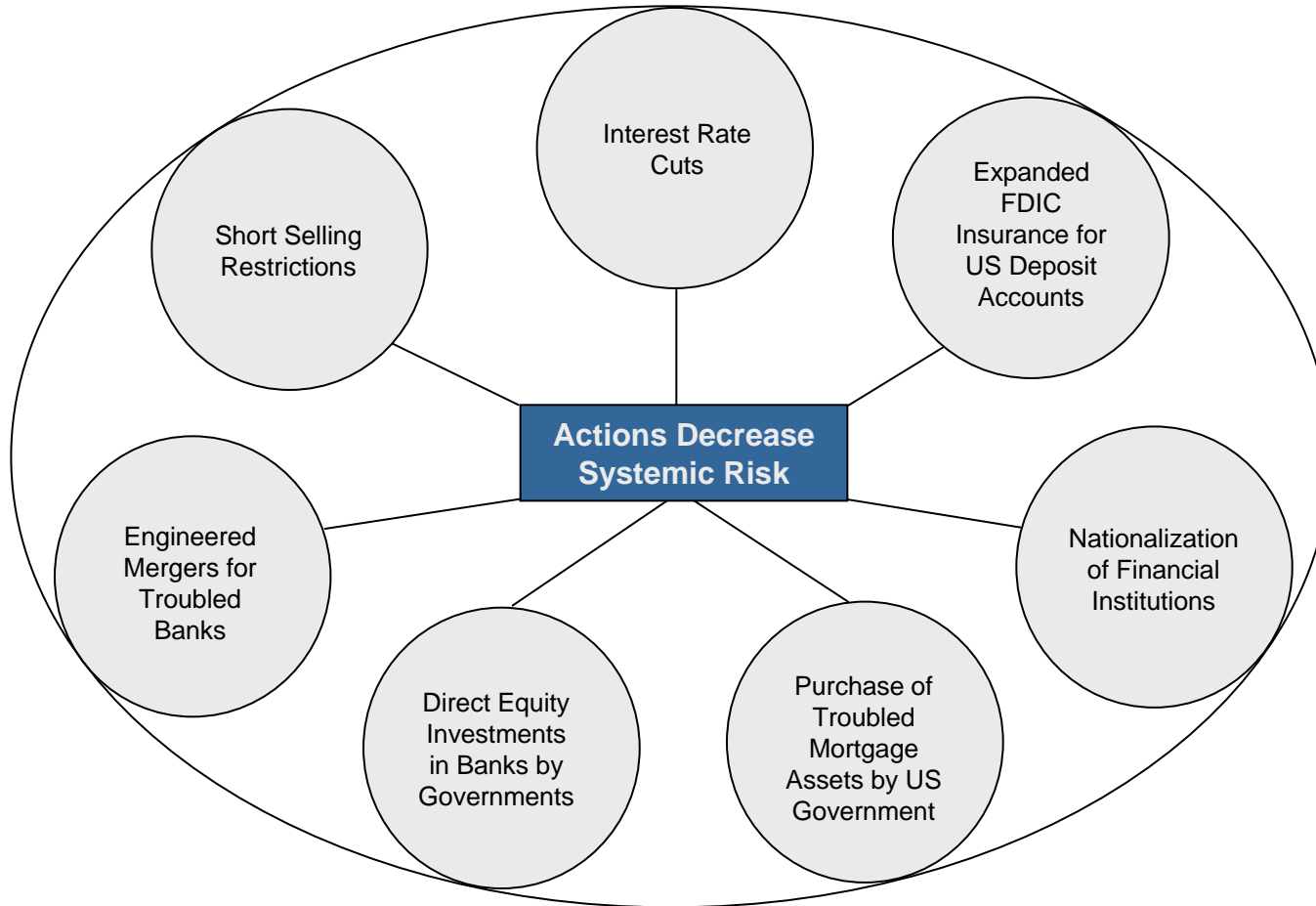
With a large number of new managers and increased AUM over the past 5 years, “unique” ideas become widely held among hedge funds

➤ Liquidity Issues

Credit securities become illiquid and cause multi strategy hedge funds to liquidate equity positions, impose gates, side pockets, and freeze redemptions

Unprecedented Government Interventions

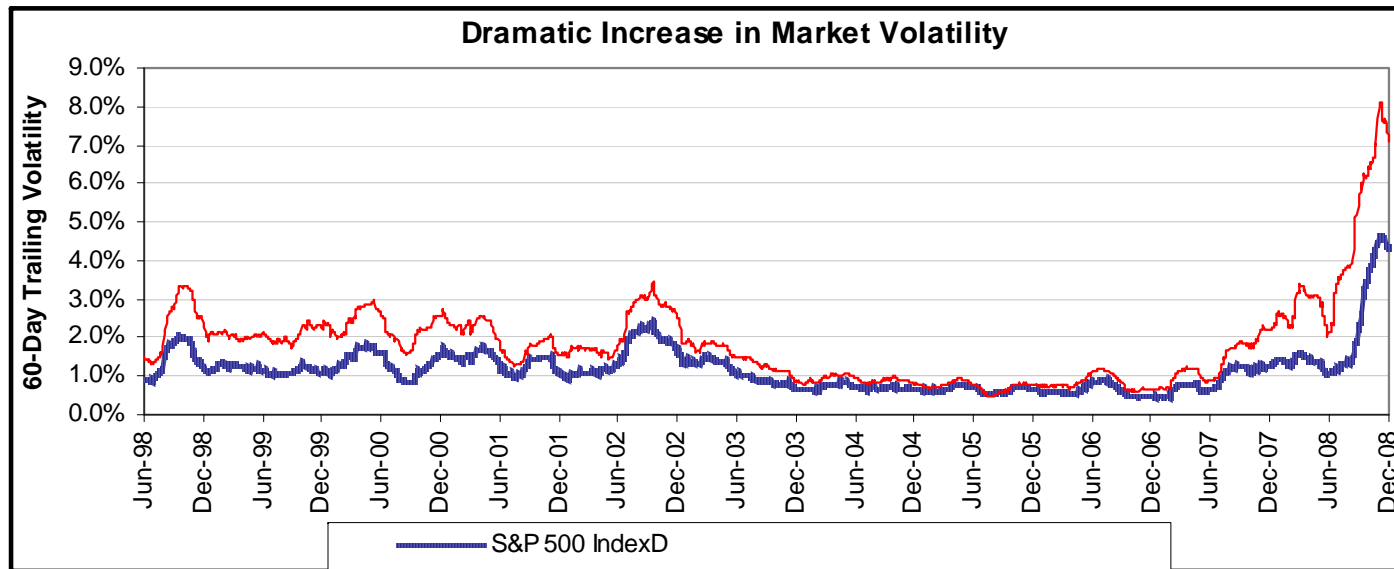
Credit crisis forces unprecedented government intervention



However, government actions fail to ease investor nerves, and the resulting uncertainty creates massive volatility, sector rotation, and further deleveraging

Impact of Interventions: Volatility

- With government equity infusions, loan guarantees, and short selling restrictions, volatility spikes significantly in the second half of 2008:



- Since Sept 1 (4 months), the S&P 500 experiences 35 intra-day moves over 5%. From January 1998 to August 2008 (10+ years), there were a total of just 16 intra-day moves over 5%, and none during the past five years (2003-2007).

Deleveraging and Sector Rotation

- Heightened volatility leads to a reduction in overall exposure by equity long/short funds, as managers reduce exposure and position concentration
- Redemptions during the second half of 2008 force even the best-performing funds to sell/cover positions in order to pay investors
- Deleveraging puts pressure on commonly-held long positions and heavily shorted stocks, as evidenced by the massive sector rotation in financial versus non-financial stocks from the second to third quarter:

Common Long Sectors	Q2	Q3	Financial-Related Shorts	Q2	Q3
Metals & Mining	6.52%	-44.55%	Autos	-21.51%	0.06%
Oil & Gas Services	24.98%	-35.56%	Banks & Thrifts	-26.36%	16.48%
Steel	7.01%	-44.84%	Bond Insurers	-61.49%	72.92%
Technology	1.16%	-16.84%	Homebuilders	-23.96%	18.92%

- Sector rotation is exacerbated by the global ban on short selling, as stocks on the SEC's restricted list rallied **+23.6%** in the two days following the ban (Sept 18th & 19th), while the S&P 500 gained just **+8.5%**.

*Sector and Industry index information sourced from Bloomberg. Bloomberg Tickers include: Metals & Mining – BWMING, Oil & Gas Services – BWOILS, Steel – BWIRON, Technology – MXWD0IT, Auto Manufacturers – S15AUTO, Banks & Thrifts – BKX, Bond Insurers – Simple Average of (DEXB BB, MBI, ABK), Homebuilders – SPSIHO.

Why Equity Long/Short in 2009?

- Equity long/short portfolios are well-positioned for 2009 due to a handful of factors:
 1. **Fewer Players:** reduction in the number of hedge funds will ease the “herding” into common long and short positions
 2. **Quality Upgrade:** formerly hard-closed funds re-opened due to redemptions
 3. **Lower AUM:** managers who grew too large will regain portfolio flexibility, especially on the short side
 4. **Market Dislocations:** extreme volatility without regard for underlying fundamentals create compelling opportunities long and short

- Equity long/short funds should be able to generate strong returns on capital without high levels of market exposure or position concentration

2008 ABS Global Portfolio Review

Interventions Hurt Long/Short Strategies

- Three months with substantial government-induced volatility were particularly negative for ABS portfolios (combined loss of -14.7% for ABS Global):

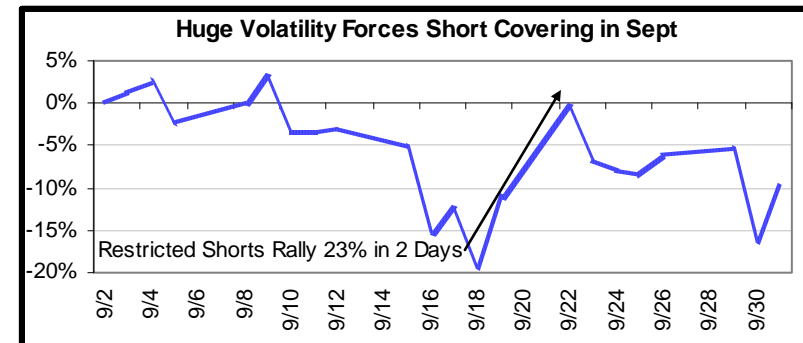
1. January: Funds cut long positions as markets sell off aggressively in the 1st half of the month, then rally during the final week fueled by surprise Fed cuts of 125 basis points
ABS Global: -4.85%
MSCI AC World: -8.26%

January	Peak to trough	Recovery	Jan Return
Consumer	-13.21%	+7.57%	-6.64%
Financials	-14.80%	+8.82%	-7.28%
Technology	-15.56%	+4.47%	-11.79%
Energy	-16.46%	+5.11%	-12.20%

2. March: Market declines again, forcing managers to reduce long positions, but the Bear Stearns bailout leads to a massive rally in heavily-shortened financial stocks, forcing managers to cover shorts and reduce exposure, resulting in another whipsaw
ABS Global: -3.40%
MSCI AC World: -1.73%

March	Average Performance
Heavily-Owned Longs*	-5.5%
High Short Interest Shorts*	+4.0%

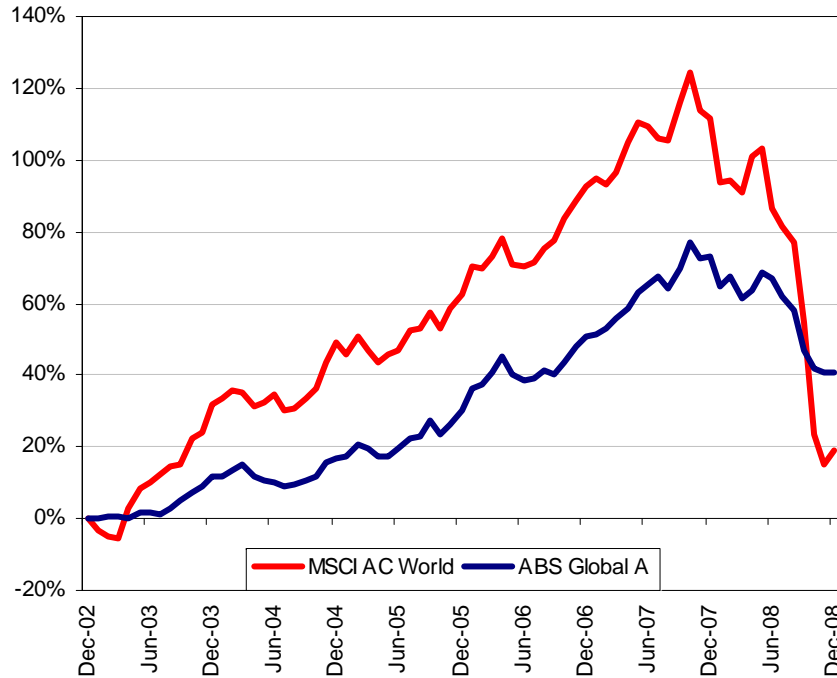
3. September: Lehman's bankruptcy, short selling bans, and direct government interventions contribute to record levels of volatility and deleveraging
ABS Global: -7.20%
MSCI AC World: -12.73%



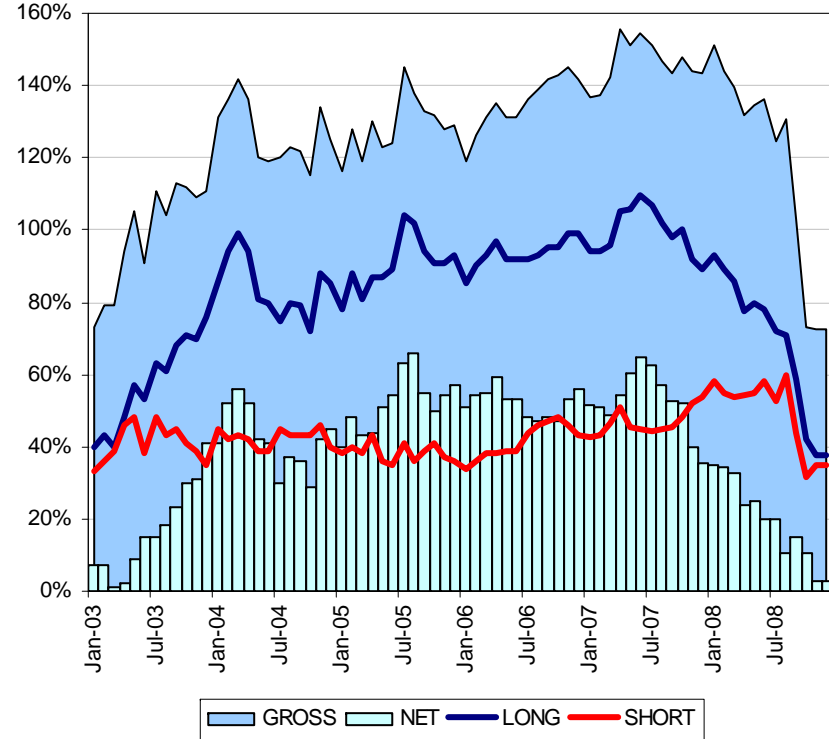
*Performance based on data from the Goldman Sachs Hedge Fund Trend Monitor

ABS Global Portfolio Performance and Exposure

ABS Global Cumulative Performance Since Inception



ABS Global Exposure Chart

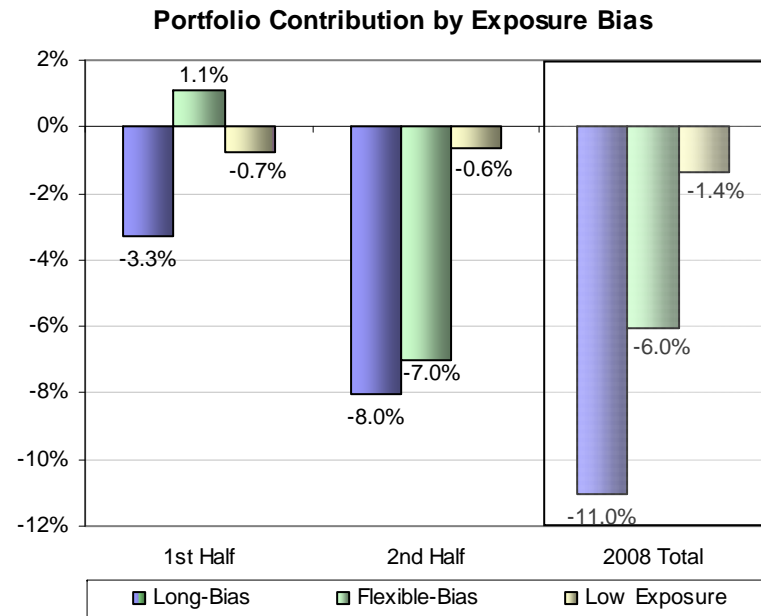
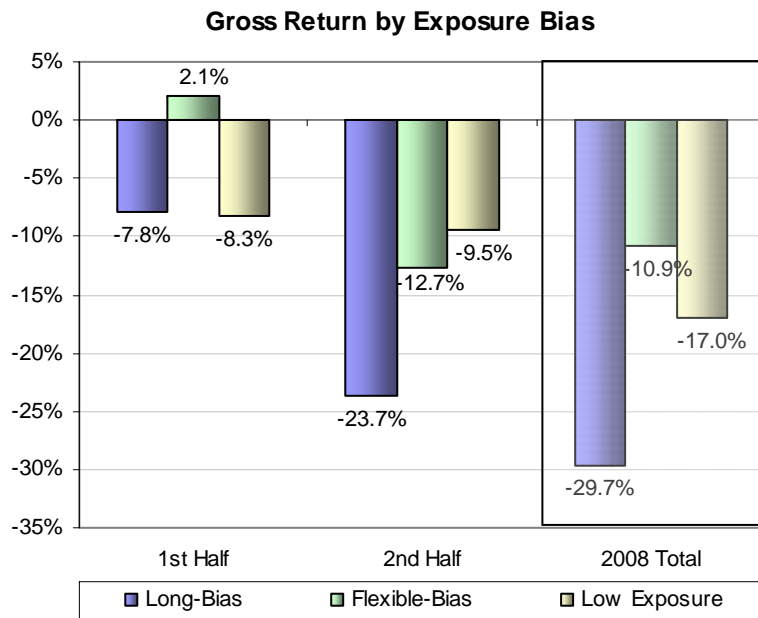


Data Through: December-08	1-Year		3-Year		5-Year	
	ABS Global	MSCI AC World	ABS Global	MSCI AC World	ABS Global	MSCI AC World
Cumulative Return	-18.89%	-43.56%	9.50%	-26.49%	28.75%	-9.36%
Annualized Return	-18.89%	-43.56%	3.07%	-9.75%	5.18%	-1.95%
Annualized Volatility	10.07%	24.89%	9.59%	18.20%	8.56%	15.23%

*ABS Global Portfolio performance return data net of 1% management fee and 5% incentive fee charged to class B shares. December performance is an estimate.

Return Attribution: by Exposure Bias

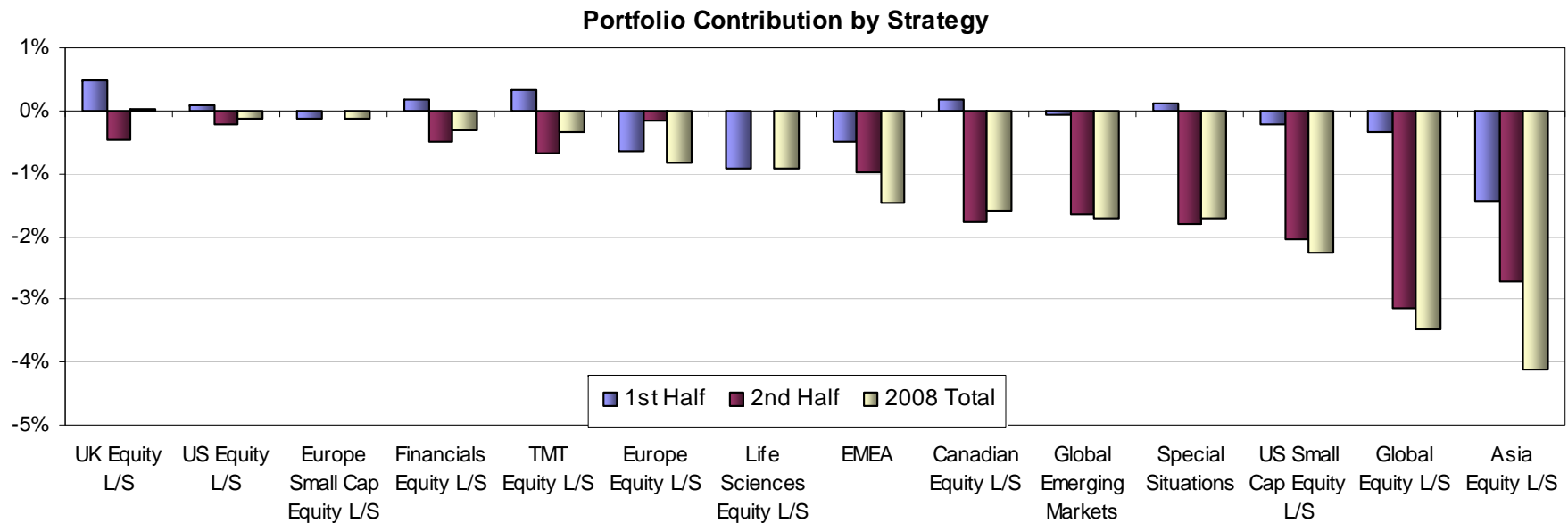
- As shown below, long biased funds suffered the largest losses, as the majority of the world's equity markets experienced their worst year since the 1930s
- Flexible funds perform well during the first half of the year, but the dramatic sector rotation during the third quarter had a significant negative impact
- Low exposure funds felt the pain of hedge fund deleveraging, especially in the healthcare and commodity-related sectors



*Attribution data presented gross of ABS fees but net of underlying fund fees. December performance based on estimates.

Return Attribution: by Strategy

- Asian and European strategies were the primary drivers of negative attribution during the first half of 2008, as managers began the year with high levels of net exposure
- The third quarter's sector rotation systematically took down all risky assets, resulting in losses for nearly all strategies
- September and October's volatility and deleveraging cause substantial losses for US-focused strategies during the second half



*Attribution data presented gross of ABS fees but net of underlying fund fees. December performance based on estimates.

ABS Global in 2009

- The portfolio currently has the following characteristics:
 - **Exposure:**
Low gross and net exposure
 - **Style:**
Larger allocation to funds with a flexible portfolio management style
 - **Structure:**
High concentration in managers that have demonstrated ability to add value long AND short

- In addition to our normal research activities, our due diligence teams will focus on the following areas in 2009:
 - **Qualitative:**
Review high quality funds who have previously been closed
 - **Quantitative:**
Push for additional transparency from all underlying managers
 - **Operational:**
Scrutinize valuation policies and procedures of our underlying funds

Conclusion

➤ Why Equity Long/Short?

- Using equity long/short as an equity replacement has consistently proven to be a successful way to invest in the equity markets
- Due to low leverage, high liquidity, exchange-traded securities, and substantial transparency, equity long/short strategies once again survive a major market upheaval

➤ Why Equity Long/Short Now?

- Fewer players and less AUM coupled with the best opportunity set in recent history (due to major stock and sector dislocations)
- Equity long/short funds should be able to generate strong returns on capital without high levels of market exposure or position concentration

➤ Why ABS?

- Principals working together and investing globally since 1994
- Equity long/short specialization for more than a decade
- Independent firm focused on performance and personalized client service

Disclosure Information

*This presentation is for discussion purposes only and has been prepared solely as a preliminary document to determine investor interest in ABS Offshore SPC (the "Fund"). The ABS Global Portfolio's official name is ABS Offshore SPC Global Segregated Portfolio. Performance data provided for the Global Portfolio includes unaudited information for 2008 and an estimate for December 2008. This presentation shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified investor receives a final confidential private offering memorandum (the "Fund Documents") describing the Fund. In the event of any inconsistency between this presentation and the Fund Documents, the Fund Documents will govern. This presentation is strictly confidential and is not to be provided to any person without the approval of ABS Investment Management LLC. An investment in the Fund will involve significant risks, including the risk of loss of the amount invested. Although benchmarks used in this presentation have been gathered using public and private sources and data we believe to be reliable, we make no representations as to their accuracy or completeness. The MSCI All Country World Equity Index (excluding dividends) is based in USD, symbol MXWD; it is not the Global Portfolio's benchmark and is being provided as we believe it provides a similar geographic exposure to how the Global Portfolio's underlying managers may invest. In considering the prior performance information contained herein, prospective investors should bear in mind that **past performance is no guarantee of future results and there can be no assurance that the Fund will achieve comparable results. There can be no assurance that any targeted returns contained in this presentation can be realized or that actual results will not be materially lower than those targeted.***