

PPM APRIL 2005

## Risks

**Securities to Be Purchased.** The Portfolio may purchase low rated or unrated securities. Such securities may offer higher yields than higher rated securities, but may generally involve greater volatility of price and risk of principal and income, including the possibility of default by, or bankruptcy of, the issuers of the securities. In addition, the markets for such securities may be illiquid. The Portfolio may invest in private and public debt owed by companies on either an assignment or participation basis. When the Portfolio invests on a participation basis with a seller it may not have direct access to the relevant key professionals leading the bankruptcy plan and will rely on information provided by the participation seller. The Portfolio may enter into contracts with dealers as principal to purchase certain securities. Such transactions are not subject to exchange rules. The Portfolio may purchase securities issued by the companies and governments of countries other than the U.S., including developing countries. The Portfolio may purchase privately placed and unregistered securities. The Portfolio may invest in the securities of U.S. or non-U.S. open-ended or closed-ended investment companies, partnerships and other collective investment vehicles. Most partnerships and collective investment vehicles provide for redemption of interests only at specified intervals during a year. Consequently, the Portfolio would be unable to liquidate those interests other than at the specified dates.

**Equity.** The Portfolio may invest in equity and equity type instruments and therefore may acquire management rights associated therewith. Accordingly, the ultimate value realized on such investments will largely depend on the company's ability to execute the restructuring or liquidation plan, if any.

**Long Equity Exposure.** Components of the Portfolio's Event Driven Equity Arbitrage and Relative Value Investments strategy, Long/Short Equity Investments strategy and the Special Situation Companies sub-strategy of the Distressed Securities and Special Opportunities Investments strategy, and other strategies, involve long, unhedged or only partially hedged investments in, and exposure to, equities. Such investments may decline in value along with general equity market declines.

**Direct Debt Investments.** The Portfolio will not make direct loans or otherwise engage in active management of any U.S. company. However, a subsidiary of the Portfolio may purchase certain loans, or portions thereof, made by D.B. Zwirn Special Opportunities Fund, L.P. (the "DB U.S. Fund"), a U.S. investment fund engaged in investing in distressed securities and special opportunities and managed by D.B. Zwirn & Co., L.P. ("DBZ"), an affiliate of HCM which is a separate investment management company managed by Daniel B. Zwirn, some time after the date of the origination of the loans by the DB U.S. Fund. Loans or portions of loans will be assigned from the DB U.S. Fund at their fair market value at the time of such assignment, as determined by HCM. Each assignment will be accepted or rejected by an independent investment manager. As a result of this and other factors, the performance of the Portfolio's direct debt investments will not be identical to those of the DB U.S. Fund.

**Investing in Non-U.S. Securities.** The Portfolio's investing in non-U.S. securities involves considerations that are not applicable to investing in U.S. securities, including unfavorable changes in currency rates and exchange control regulations, reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees, local economic or political instability and greater market risk in general. In particular, investing in securities of issuers located in emerging market countries involves additional risks, such as

related to HCC

**Substantial Fees and Expenses.** HCC will pay management fees and brokerage commissions whether or not it makes any trading profits. HCC must therefore make substantial profits from its investments to avoid depletion or exhaustion of its assets from these expenses. In addition, an incentive fee is payable to HCM based on realized and unrealized gains and losses as of the end of the applicable period. As a result, an incentive fee could be paid on unrealized gains which may never be realized. Further, payment of an incentive fee based on trading profits may create an incentive for HCM to select riskier or more speculative investments than would be the case in the absence of such a fee. When HCM allocates assets of the Portfolio to outside traders of individual accounts or collective investment vehicles, the Portfolio pays such traders a management fee based on allocated assets or market value, or an incentive fee based on a percentage of net trading profits, or both, and, with collective investment vehicles, the Portfolio's pro rata share of the operating expenses of such vehicles. HCC will share pro rata in these expenses. Outside trader management fee percentages range from .375% to 1.0% of net assets per year, and incentive fee percentages range from 12.5% to 20% of net trading profits.

**Effects of Substantial Redemptions.** Substantial requests for redemption by Shareholders could induce the Portfolio to liquidate positions sooner than would otherwise be desirable, which could adversely affect the performance of the Portfolio. In addition, regardless of the period of time in which redemptions occur, the resulting reduction in the Portfolio's net assets, and thus in its equity base, could make it more difficult for the Portfolio to diversify its holdings and achieve its investment objective. Under certain circumstances, HCC and/or the Portfolio may suspend or limit redemptions (in whole or in part) as it deems necessary in its sole discretion.

**Activities of HCM and its Principals.** HCM and its principals manage other investment funds that use certain of the strategies that will be employed by the Portfolio. HCM and its principals may manage additional individual or collective investment vehicle accounts in the future. There is no specific limit in the Trading Manager Agreement with HCM as to the number of accounts which may be managed or advised by HCM. In addition, certain of HCM's controlling principals own other asset management companies. Such companies may use different trading strategies than those used by HCM for the Portfolio. The principals have agreed to devote substantially all of their business time to HCM for the term of the Trading Manager Agreement.

**Activities of DBZ.** DSAM owns a minority interest in DBZ, which is a physically separate investment management company managed by Daniel B. Zwirn. DBZ manages through a separate account the distressed securities and special opportunities investments of the Portfolio. DBZ manages other investment accounts with the same strategy as it uses for the Portfolio and may manage other such accounts in the future. Accounts managed by DBZ, including the Portfolio's account, may compete for positions in certain portfolio securities. DBZ, however, has agreed that on the placement of orders for client accounts, it will attempt in good faith to achieve an equitable treatment of all accounts, including the Portfolio's account, on an overall basis.

**Limited Liquidity of Investment.** Shares are subject to restrictions on transfer because Shares are not registered pursuant to the 1933 Act. In addition, it is not expected that there will be any established over-the-counter market for sale of the Shares. A Shareholder may not transfer his Shares without the consent of the directors of HCC. Nonetheless, a

HCC may pay placement fees to individuals or entities that refer investors to various affiliates of JPM will serve as placement agents for HCC. The JPM placement agents will not receive placement fees from HCC, but may receive fees directly from investors subscribing for Shares. In addition, JPM, as a majority owner in HCM, will indirectly benefit from the services of the placement agents which place shares in HCC by increasing the assets upon which HCM receives fees from HCC.

JPM will be required to treat HCC as an affiliated entity for purposes of Sections 23A and B of the Federal Reserve Act, as amended ("Sections 23 A & B"). Sections 23 A & B require that banking subsidiaries of JPM, such as JPMorgan Chase Bank, National Association and its subsidiaries, comply with certain standards and restrictions in dealing with affiliates such as HCC. Transactions between such JPM affiliated banking entities and unrelated third parties may also be subject to restrictions under Sections 23 A & B if the proceeds of the transactions are transferred to, or used for the benefit of, an affiliate, such as HCC.

#### **Other Collective Investment Vehicles**

HCM and its affiliates, including JPM, and DBZ sponsor or manage other collective investment vehicles and any of them may sponsor or manage additional collective investment vehicles, which may compete with HCC and the Portfolio. In addition, the directors of HCC may serve as directors or otherwise as controlling persons of such other collective investment vehicles. Messrs. Swieca and Dubin are actively engaged in advisory, management and administrative services for multiple collective investment vehicles and managed accounts. In addition Messrs. Austin and Harris own the general partners of the U.S. Fund and the Portfolio and serve as directors of the general partner of the Portfolio and various other collective investment vehicles. None of Messrs. Swieca, Dubin, Austin and Harris will devote their entire time and attention to HCC or the Portfolio. HCC or the Portfolio may enter into transactions with HCM or its affiliates, or with collective investment vehicles or accounts managed by HCM or its affiliates. None of the directors will knowingly or deliberately favor any such collective investment vehicles over HCC or the Portfolio in their dealings on behalf of such collective investment vehicles.

In addition, an inherent conflict of interest exists when HCM engages in the practice of "cross trading," i.e., HCM effects a trade between the Portfolio and another investment fund that it or its affiliate manages. Such trades will also be reviewed and approved, as necessary, by an unaffiliated third party. Although the Portfolio will not make direct loans or otherwise engage in active management of any U.S. company, a subsidiary of the Portfolio will purchase certain loans, or portions thereof, some time after the date of the origination of such loans. Loans are assigned at their fair market value at the time of the assignment. However, it may be difficult or impossible to establish a fair market value based on market or other third-party pricing for loans, over-the-counter or illiquid securities, including those to be purchased from other entities managed by HCM or an affiliate of HCM. Moreover, although HCM will recommend that a subsidiary of the Portfolio accept loans from DB U.S. Fund, an investment fund managed by DBZ, an affiliate of HCM, an independent investment manager will accept or reject each assignment on behalf of such subsidiary.

PLM April 2005

## Risks Related to HCC

**Substantial Fees and Expenses.** HCC will pay management fees and brokerage commissions whether or not it makes any trading profits. HCC must therefore make substantial profits from its investments to avoid depletion or exhaustion of its assets from these expenses. In addition, an incentive fee is payable to HCM based on realized and unrealized gains and losses as of the end of the applicable period. As a result, an incentive fee could be paid on unrealized gains which may never be realized. Further, payment of an incentive fee based on trading profits may create an incentive for HCM to select riskier or more speculative investments than would be the case in the absence of such a fee. When HCM allocates assets of the Portfolio to outside traders of individual accounts or collective investment vehicles, the Portfolio pays such traders a management fee based on allocated assets or market value, or an incentive fee based on a percentage of net trading profits, or both, and, with collective investment vehicles, the Portfolio's pro rata share of the operating expenses of such vehicles. HCC will share pro rata in these expenses. Outside trader management fee percentages range from .375% to 1.0% of net assets per year, and incentive fee percentages range from 12.5% to 20% of net trading profits.

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HCC 3rd QTR 2001 Market Commentary

In Europe many issues have turned from volatility trades into credit trades as equity prices have fallen precipitously. This is reflected in the average delta of the market<sup>1</sup> which is currently at around 15% compared to over 50% at the start of the year. Credit derivatives are playing an increasingly important role in Europe and have been valuable in allowing us to isolate the volatility component of convertibles, while avoiding the sometimes abrupt widening of credit spreads.

Japan continues to be a profitable market for our convertible activities despite an ever shrinking market universe. We have been successful in exploiting higher levels of Japanese stock market volatility while having a large segment of our book asset swapped.

### Merger Arbitrage

The merger business is going through an uninspired period. A paucity of new deal flow has left a smaller number of transactions to review. In addition, a number of the existing deals happen to be "hostile" without a definitive merger agreement in place. As is often the case, hostile deals lacking both management and shareholder support tend to trade much more like pure equities in a volatile stock market environment. This was certainly the case in September as two of the hostile deals we owned, Weyerhaeuser / Willamette and Danaher / Cooper Industries, traded very poorly. In both cases, the takeover premium attached to the target companies, Willamette and Cooper Industries<sup>2</sup> respectively, completely evaporated in the September market dislocation. We currently have less than 12% of our portfolio allocated to merger arbitrage and will remain moderately positioned until we see more compelling opportunities.

### Personnel and Strategy Group Developments

After an extensive two-year search, we are pleased to inform you that we have brought on board an experienced investment professional to build and manage a distressed and special situations credit team within Highbridge. Our search was a difficult one for a number of reasons. First and foremost, we wanted to find a talented and skilled investment professional who shared our philosophy with respect to capital preservation, risk assessment and portfolio management. In addition, we wanted to find someone who has a deep understanding and knowledge of corporate credit as well as the restructuring process. Finally, we needed someone dedicated to event-driven investing (i.e., buying securities in anticipation of clearly defined recapitalization events) so that we complement our core group of arbitrage / absolute-return investment strategies. The person chosen, Daniel Zwirn, comes to us from Michael Dell's private investment firm, MSD Capital, L.P., where he founded and built a successful distressed and special situations business. Before MSD, Dan was employed at Davidson Kempner Partners, where he focused on distressed debt investing and international merger arbitrage. Dan

<sup>1</sup> The average delta of the market is the market weighted average of the theoretical delta of each convertible issue. The theoretical delta is the ratio of the common stock underlying a convertible bond that needs to be shorted against a long convertible position to make the position market neutral.

<sup>2</sup> We subsequently exited our Danaher / Cooper Industries position because of concern about possible asbestos liability.

began his career in 1993 in the mergers department of Lazard Frères & Co. after which he received his MBA from the Harvard University Graduate School of Business in 1998.

In today's difficult business environment, we feel very enthusiastic about the investment opportunities available in the corporate credit markets and believe that the number of interesting situations will only increase as banks, high yield mutual funds and CDOs seek to further rationalize their holdings and borrowers continue to encounter increasingly discerning lenders.

We will be allocating approximately five percent (5%) of our equity capital to the distressed strategy group over time. Any material changes above or below that number will be communicated to our investors.

### **Outlook**

We are encouraged by the resilience of the convertible market in the face of stressful equity market conditions. Secondary market valuations are now theoretically cheap as convertible valuations have lagged the higher volatility environment priced into the options market. Historically, this has been a good indicator for strong returns going forward as this "dispersion" invariably begins to converge.

The merger business will most likely be quiet through the end of the year unless there is a clear signal that the economy has found bottom and equity prices enjoy a sustained rise.

We will most likely be interviewing candidates for the distressed investment team through the end of the year so it is unlikely that positions will be established before January 1, 2002.

As always, we thank you for your continued trust and confidence.

HCC Y/E 2001 MARKET COMMENTARY

A recent example of our broader thinking with respect to "events" occurred on November 9, 2001, when Dynegy announced its plan to merge with Enron, a company already under siege. In our view, Dynegy became a compelling short after the market enthusiastically bid up its stock following the announcement of its merger agreement with Enron and the subsequent unfolding of events leading to the deal's termination.

Buyers drove Dynegy's stock to the mid-40s reacting solely to the supposedly accretive nature of the deal without vetting the numerous risks inherent in the transaction. Dynegy was a thinly capitalized company seeking to buy a competitor several times its size which was mired in accounting issues, including off balance sheet liabilities and a questionable marked-to-market portfolio. In addition, Dynegy was one notch from a junk rating, had less than \$100 million of cash on its balance sheet and already had significant exposure to Enron.

Our view was that the merger strategy was entirely defensive in nature and highlighted the fundamental flaws in the market's enthusiastic embrace of the energy trading model. The subsequent unraveling of the deal only confirmed this and made the stock a compelling short sale in our view. We shorted Dynegy's stock as the Enron deal was unwinding (at an average price of \$38) because we believed the market was seriously overestimating the profitability of the energy trading model. Further, Dynegy's bond ratings were at risk and Dynegy was significantly weakened by the breakdown of the deal. Moreover, the termination of the agreement would certainly be contested by Enron and would result in a significant litigation overhang for the stock. Within days of the deal's termination, Dynegy's stock fell, Enron filed for bankruptcy and Enron sued Dynegy for \$10 billion in damages for wrongful termination of their merger. These events, combined with a meltdown in the merchant energy business, caused Dynegy stock to reach a low of \$20.90 on December 18. (We covered our short at an average price of \$24.)

In the heady merger arbitrage environment of the late 1990s, we would have scoffed at such an announcement, derided Dynegy for its short-sightedness and moved on to the "good deals" with 20%+ annual spreads. In today's environment, creative thinking and rigorous analysis is being rewarded. It should be noted that we have not moved outside of our core competency -- event-driven investing -- and still maintain a market-neutral profile within the portfolio.

### **Distressed / Special Opportunities**

As discussed in last quarter's letter, Dan Zwirn joined us as portfolio manager for our new Distressed / Special Opportunities group and will initially concentrate on secondary market distressed debt, special situation private loans and restructuring-related public equities. We have assembled a team of high quality analysts and support staff to comb through the markets in search of attractive investment opportunities. With the stream of corporate defaults and bankruptcies seeming only to increase each day, we have been finding a number of attractive opportunities that meet our strict guidelines for portfolio risk and have begun judiciously investing an initial \$200 million of capital, representing approximately 5% of Highbridge's assets.

## Outlook

While convertible valuations are not necessarily cheap, we are finding value in different segments of the market both in the U.S. and in Europe. Japan remains a challenge as the convertible market continues to shrink. Volatility, globally, remains high. Continuing volatility, along with a high level of issuance in the U.S. and Europe, constitute the key elements for success. We remain optimistic on both fronts.

Mergers will most likely remain subdued until the economy finds a bottom and corporate earnings are more predictable. Other event-driven investment opportunities should be plentiful, however, in what will most likely be volatile market conditions.

The first wave of companies in financial and operational distress were tech and telecom related. We are now seeing real industrial companies hit the wall. In all likelihood we are now witnessing the deflation of the late 1990s credit bubble, which could turn out to be a multi-year phenomenon. Our Distressed / Special Opportunities group is well positioned to capitalize on this development.

Highbridge is as deep with investment talent, systems professionals and support staff as it has ever been. Significant resources have also been allocated to upgrading our technology platform and software applications. We look forward to the market challenges of 2002 and remain committed to our long-term investment goals.

We thank you for your trust and confidence.

Year 2001 Performance Attribution	
U.S. Convertible Arbitrage:	65%
European Convertible Arbitrage:	25%
Japanese Convertible Arbitrage:	13%
Event Driven Investments:	(3%)
	100%

PPM

Oct 2006

financial advisory fees or fees in connection with restructurings or mergers and acquisitions, as well as underwriting or placement fees, financing or commitment fees, trustee fees and brokerage fees. Moreover, when JPM or its affiliates provide or arrange financing to a borrower in which the Portfolio has invested, the holder of the senior securities (which may include JPM or its affiliate) may have, and in the event of the borrower's financial distress or insolvency will have, interests substantially divergent from those of the Portfolio. There can be no assurance that the interests of the Portfolio will not be subordinated to those of JPM and its affiliates or other clients.

Under certain circumstances, the Portfolio may invest in connection with a transaction in which JPM or its affiliates and/or HCM or its principals (the "Affiliated Partners") have already invested or are expected to participate. In some cases, HCM may invite JPM or its affiliates or HCM's principals to co-invest with the Portfolio because, for example, the investment opportunity is larger than the typical investment amount for the Portfolio or because co-investing with the Affiliated Partners may provide the Portfolio or the portfolio company in which the Portfolio invests with certain benefits. In such cases, the amount available for investment by the Portfolio may be correspondingly reduced to permit the Affiliated Partners the opportunity to co-invest. In addition, the terms of the Portfolio's investment, including the type of security purchased, may be different from the terms of the Affiliated Partners' investment or the type of security the Affiliated Partners purchase. Conflicts could arise after the Affiliated Partners on the one hand, and the Portfolio on the other hand, make investments in the same issuer with respect to the issuer's strategy, growth and financing alternatives and with respect to the manner and timing of the Portfolio's exit from the investment compared to the Affiliated Partners' exit. Should the Affiliated Partners invest in a different type of security from the security purchased by the Portfolio, additional conflicts may arise, particularly if the issuer experiences financial difficulties. For example, in the event the Affiliated Partners hold a security senior to that held by the Portfolio, the Portfolio's interest will be subordinate to that of the Affiliated Partners.

JPM may also make a market in and conduct proprietary trading activities in securities of companies in which the Company invests for JPM's own account and for the account of JPM's clients. Such activities will be conducted independently of the Company but could affect the value of securities held by the Company.

#### **Other Collective Investment Vehicles**

HCM and its affiliates, including JPM, and DBZ sponsor or manage other collective investment vehicles and any of them may sponsor or manage additional collective investment vehicles, which may compete with HCC and the Portfolio. In addition, the directors of HCC may serve as directors or otherwise as controlling persons of such other collective investment vehicles. Messrs. Swieca and Dubin are actively engaged in advisory, management and administrative services for multiple collective investment vehicles and managed accounts. In addition, Messrs. Austin and Harris own the general partners of the U.S. Fund and the Portfolio and serve as directors of the general partner of the Portfolio and various other collective investment vehicles. None of Messrs. Swieca, Dubin, Austin and Harris will devote their entire time and attention to HCC or the Portfolio. HCC or the Portfolio may enter into transactions with HCM or its affiliates, or with collective investment vehicles or accounts managed by HCM or its affiliates. None of the directors will knowingly or deliberately favor any such collective investment vehicles over HCC or the Portfolio in their dealings on behalf of such collective investment vehicles.

HCM and its affiliates may trade for their own accounts and manage accounts for other individuals or entities, including entities in which HCM or its directors or employees may hold an interest, either directly in managed accounts or indirectly through investments in private investment entities. These accounts may pay different fees, trade with different amounts of leverage or utilize different trading strategies than the Portfolio, and HCM or its personnel may have income or other incentives to favor such accounts.

Other accounts may also compete with the Portfolio for positions and may compensate HCM and/or its affiliates better than the Portfolio. For the foregoing reasons, among others, HCM, Messrs. Swieca and Dubin and their affiliates and HCM's portfolio managers may have a conflict of interest between acting in the best interest of the Portfolio and such other accounts. When the Portfolio and one or more other clients have available funds for similar investments, HCM will allocate investments between the Portfolio and the other clients in its sole discretion. Similarly, HCM may cause the liquidation of such positions for the Portfolio and its other clients in its discretion. Such allocations or liquidations may benefit another client instead of the Portfolio or may be detrimental to the Portfolio. Future investment activities by HCM on behalf of other clients may give rise to additional conflicts of interest and demands on HCM's time and resources.

Subject to requirements of applicable law, HCM may from time to time cause an investment vehicle or client account it manages to enter into a principal transaction with another investment vehicle or client account it manages, including the Portfolio. HCM may engage in the practice of cross trading in order to "rebalance" the portfolios, where a particular client account or investment vehicle needs liquidity, where investment objectives differ, to reduce or eliminate transaction costs or market impact, in order to combine accounts or otherwise. The cross trade will be executed based on volume weighted average prices obtained from unaffiliated third party, independent market data sources or through the use of another fair and equitable methodology for calculating the transfer price. An inherent conflict of interest exists when HCM engages in the practice of "cross trading."

Although the Portfolio will not make direct loans or otherwise engage in active management of any U.S. company, a subsidiary of the Portfolio will purchase certain loans, or portions thereof, some time after the date of the origination of such loans. Loans are assigned at their fair market value at the time of the assignment. However, it may be difficult or impossible to establish a fair market value based on market or other third-party pricing for loans, over-the-counter or illiquid securities, including those to be purchased from other entities managed by HCM or an affiliate of HCM. Moreover, HCM may recommend that a subsidiary of the Portfolio accept loans from DB U.S. Fund or another fund affiliated with HCM, in which case an independent investment manager will accept or reject each assignment on behalf of such subsidiary.

### **Valuation of Portfolio Assets**

The Administrator, in consultation with HCM, will value the securities and instruments held by the Portfolio. When no market exists for an investment or when the Administrator, in consultation with HCM, determines that the market price does not fairly represent the value of the investment, the Administrator, in consultation with HCM, will value such investment as it reasonably determines. The Administrator and HCM each have a conflict of interest in providing such valuations because the management fee payable to HCM and the

**Highbridge Capital Corporation**  
**Notes to Consolidated Financial Statements**  
**(in U.S. Dollars)**

2002 Financials 3/31/02

**1. Organization**

Highbridge Capital Corporation ("HCC") was incorporated as an exempted company in April 1992 under the laws of the Cayman Islands. HCC is a registered broker-dealer under the United States ("U.S.") Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. HCC's activities include trading U.S. and non-U.S. securities, derivatives and commodities including equities, futures, exchange traded and over-the-counter options, warrants, and convertible and corporate bonds for its own account. Highbridge Capital Management, LLC, a Delaware limited liability company, serves as the investment manager of HCC (the "Trading Manager").

HCC owns all of the outstanding shares of Highbridge International LLC ("HILLC") and Cobra LLC ("Cobra"). HILLC was incorporated as an exempted limited duration company in June 1993 and re-registered as an exempted limited liability company in December 1997 under the laws of the Cayman Islands. HILLC trades securities and enters into certain derivative transactions for its own account. Cobra was incorporated as an exempted limited duration company in August 1996 and re-registered as an exempted limited liability company in December 1997 under the laws of Cayman Islands. Cobra was established to purchase and sell less liquid assets, such as direct investments, for its own account. HILLC has established several wholly-owned subsidiaries each of which has a special investment purpose. Included among these subsidiaries are HCM/Z Special Opportunities LLC, which makes investments in distressed assets, special situations and bank debt, and Smithfield Fiduciary LLC, which purchases and sells private investments in public companies.

**2. Significant Accounting Policies**

The consolidated financial statements include the accounts of HCC and its wholly-owned subsidiaries (collectively, the "Company"). Intercompany accounts have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year. Actual results could differ from those estimates.

Securities inventory and securities sold, but not yet purchased are recorded at listed market prices or estimated fair value, as appropriate, and realized and unrealized gains and losses are reflected in principal transactions, net in the accompanying consolidated statement of income and expenses. Securities for which market quotations are not readily available including, trade claims, bank debt and private loans, are valued at their estimated fair value as determined in good faith under consistently applied procedures established by the Trading Manager including, but not limited to one or more quotations provided by outside brokers, or valuations provided by other third parties. Because of the inherent uncertainty of valuation for the investments, the estimate of fair value by the Trading Manager may differ from values that would have been used had a ready market existed, and any differences could be material. Securities transactions are accounted for on a trade date basis.

4/18/08

HCC First QTR Commentary

### Review of HCC Performance

In absolute terms, the first quarter was a difficult one for the Fund. We posted weak performance in the Long/Short Equity and Asian Equities and Convertibles portfolios - two of our top-performing strategies in 2007. In addition, the convertible markets were challenging, especially in March, due to a combination of credit deterioration, heavy deleveraging by market participants, and losses on our interest-rate hedges which suffered amid the flight to quality into U.S. Treasuries. We did see positive performance from several areas, including Statistical Arbitrage, our Louis Dreyfus Highbridge merchant energy business investment, and Fixed Income/Credit Relative Value.

While our long-term objective is to earn positive absolute returns, we believe that a critical component of earning those returns is the ability to preserve capital during inevitable market downturns and to have unencumbered buying power to respond to an improved investing environment when the dark financial clouds have cleared. Most important, our balance sheet leverage has remained at historically low levels throughout this period, and we have no allocation to the types of heavily-levered and/or illiquid credit strategies which have produced the most significant losses in the hedge fund community. Consequently, though the Fund has experienced a modest decline in value in the first quarter, the absence of significant losses and our large store of "dry powder" has left us well positioned to take advantage of opportunities we see developing in a number of markets and regions.

The table below reviews performance attribution<sup>(1)</sup> in the Fund, by strategy, for the first quarter.

Strategy	Quarter Ending March 31, 2008
Statistical Arbitrage	0.56%
Merchant Energy	0.11
Fixed Income/Credit	0.09
Special Opportunities	-0.07
Event Driven/Relative Value	-0.09
Other	-0.13
Global Macro	-0.17
Structured Private Investments	-0.19
U.S. & European Conv. And Vol Arb	-0.55
Asian Equities and Convertibles	-1.29
Long/Short Equity <sup>(2)</sup>	-1.54

Our *Long-Short Equity strategy* detracted 154 basis points from the Fund's returns during the first quarter. Some of our sectors experienced reversals in the new year; for example, our late-cycle industrial positions were negatively impacted by a powerful sector rotation in January following very strong performance in 2007. Our largest detractor within this group was Siemens AG, which pre-announced disappointing

## 1. Organization

Highbridge Capital Corporation ("HCC") was incorporated as an exempted company in April 1992 under the laws of the Cayman Islands. HCC is a registered broker-dealer under the United States ("U.S.") Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. HCC's activities include trading U.S. and non-U.S. securities, derivatives and commodities including equities, futures, exchange traded and over-the-counter options, warrants, and convertible and corporate bonds for its own account. Highbridge Capital Management, LLC ("HCM"), a Delaware limited liability company, serves as the investment manager of HCC (the "Trading Manager").

Prior to December 13, 2004, the trading manager of HCC was Dubin & Swieca Asset Management, LLC (formerly known as Highbridge Capital Management, LLC) "DSAM", a Delaware limited liability company formed in 1997. DSAM is a wholly-owned subsidiary of Dubin & Swieca Asset Management, Inc. (formerly known as Highbridge Capital Management, Inc.) ("DSAM, Inc."), a money management company incorporated in Delaware in 1989. Effective December 13, 2004, the rights and obligations of DSAM under the Trading Manager Agreement with HCC were assigned to HCM in connection with the purchase by JPMorgan Chase & Co. ("JPM") of certain assets of DSAM. In connection with the purchase, HCM assumed the name "Highbridge Capital Management, LLC" and JPM purchased a majority interest in HCM. Under the terms of the agreement pursuant to which JPM acquired its interest in HCM, JPM will acquire the balance of HCM in a series of later transfers. Day to day management and control of the investment process and operations of HCM remains with the principals and portfolio managers of DSAM who became the principals and portfolio managers of HCM.

HCC owns all of the outstanding shares of Highbridge International LLC ("HILLC") and Cobra LLC ("Cobra"). HILLC was incorporated as an exempted limited duration company in June 1993 and re-registered as an exempted limited liability company in December 1997 under the laws of the Cayman Islands. HILLC trades securities and enters into certain derivative transactions for its own account. Cobra was incorporated as an exempted limited duration company in August 1996 and re-registered as an exempted limited liability company in December 1997 under the laws of Cayman Islands. Cobra was established to purchase and sell less liquid assets, such as direct investments, for its own account. HILLC has established several wholly-owned subsidiaries each of which has a special investment purpose. Included among these subsidiaries are HCM/Z Special Opportunities LLC, which makes investments in distressed assets, special situations and bank debt, and Smithfield Fiduciary LLC, which purchases and sells private investments in public companies. 

## 2. Significant Accounting Policies

The consolidated financial statements include the accounts of HCC and its wholly-owned subsidiaries (collectively, the "Company"). Intercompany accounts have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

### **Special Opportunities**

Activities in the Special Opportunities Group in 2004 were both active and profitable. The Group purchased several loans in the fourth quarter and continues to see strong transaction flow, especially among small and middle market businesses.

For the year, the Group had strong performance in its special assets portfolio and made several new investments in commercial and industrial loans, leases and hard assets. The Group also made investments in troubled securitizations, while it lightened its exposure to distressed municipal bonds in an ever-tightening market. The Group sees little value in the U.S. secondary credit market, and as a result, has decreased its distressed debt exposure significantly over the course of the year to approximately 1.4% at year-end.

As of December 31, approximately 8% of Highbridge's portfolio of invested capital was allocated to Special Opportunities.

### **Statistical Arbitrage**

Our Statistical Arbitrage business performed well in 2004. Over the course of the year we steadily grew the books in the U.S. and non-U.S. markets.

While short-term technical forecasts were particularly strong in the first months of 2004, the bulk of the year's results were attributable to our medium and longer-term fundamental forecasts. We feel our ability to weight forecasts across investment horizons is very valuable and look forward to scaling up the overall business further in 2005.

As of December 31, approximately 12% of Highbridge's portfolio of invested capital was allocated to Statistical Arbitrage.

### **Structured Private Investments**

The quality and quantity of PIPE transactions in 2004 was good. The team's ability to reliably and quickly address the capital needs of companies has resulted in Highbridge's leading or participating in a number of attractive deals in the life sciences and technology industries. The industry composition of invested capital also continued to broaden. As more companies begin to recognize the benefits of structured private investments, Highbridge is seeing interest from a range of industry groups, including: retail, restaurant, banking, defense and insurance. Existing investments benefited nicely from a rally in small cap stocks during the fourth quarter.

As of December 31, approximately 4% of Highbridge's portfolio of invested capital was allocated to Structured Private Investments.

**Highbridge Master Fund L.P.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2005**

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**1. Organization**

Highbridge Master L.P. (the "Master") was registered as a Cayman Islands exempted limited partnership on March 24, 2005. The Master commenced operations on May 1, 2005 when Highbridge Capital Corporation ("HCC") contributed substantially all of its net assets.

The Master was organized to facilitate the joint implementation of the trading strategies of HCC and Highbridge Capital L.P. ("HCLP") (collectively the Feeders) through a "master-feeder" structure. The trading strategies include the trading of U.S. and non-U.S. securities, derivatives and commodities including equities, futures, exchange traded and over-the-counter options, warrants, convertible, and corporate bonds. The Feeders invest substantially all of their capital into the Master.

The general partner is Highbridge GP, Ltd. (the "General Partner"), a Cayman Islands exempted company. The General Partner has delegated investment management of the Master to Highbridge Capital Management, LLC (the "Trading Manager"). The Trading Manager is currently majority owned by JPMorgan Asset Management Holdings Inc., a wholly-owned subsidiary of JPMorgan Chase & Co., and minority owned by Dubin & Swieca Asset Management, LLC and one of its affiliates. Effective July, 2005, the Trading Manager registered as an investment adviser with the U.S. Securities and Exchange Commission.

The Master owns all of the outstanding shares of Highbridge International LLC ("HILLC") and Cobra LLC ("Cobra"). HILLC was incorporated as an exempted limited duration company in June 1993 and re-registered as an exempted limited liability company in December 1997 under the laws of the Cayman Islands. HILLC trades securities and enters into certain derivative transactions for its own account. Cobra was incorporated as an exempted limited duration company in August 1996 and re-registered as an exempted limited liability company in December 1997 under the laws of the Cayman Islands. Cobra was established to purchase and sell less liquid assets, such as direct investments, for its own account. HILLC has established several wholly-owned subsidiaries each of which has a special investment purpose. Included among these subsidiaries are HCM/Z Special Opportunities LLC, which makes investments in distressed assets, special situations and bank debt, and Smithfield Fiduciary LLC, which purchases and sells private investments in public companies.

Harmonic Fund Services (the "Administrator") serves as the administrator of the Master.

**2. Significant Accounting Policies**

The consolidated financial statements include the accounts of the Master and its wholly-owned subsidiaries (collectively, the "Fund"). Intercompany accounts have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Trading Manager to make estimates and assumptions that affect the fair value of investments, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.