

DEXION TRADING LIMITED – INVESTOR CALL

On 9 December 2009 Dexion Capital plc hosted an open Question and Answer audio web conference call with Permal Investment Management Services Ltd (“Permal”). Permal is the investment adviser to Dexion Trading Limited (“the Company”) or (“DTL”).

The Company is a feeder fund into Permal Macro Holdings Limited (“PMH”). Accordingly, the Company’s investment objective and policy mirror that of PMH and references to the Company’s portfolio are made on a look through basis to PMH’s portfolio.

Present on the call were:

Robert Kaplan (“RK”), Executive Vice President and Deputy Chief Investment Officer, Permal, is responsible for discovery and analysis of independent investment managers as well as responsible for ongoing asset allocation, performance monitoring and research.

Omar Kodmani (“OK”), Senior Executive Officer, Permal, is responsible for monitoring Permal’s international investment activities.

Robin Bowie (“RB”): Chairman, Dexion Capital plc and Member of the Board of DTL answered questions concerning the Corporate Actions.

A link to the audio replay of the call can be found on the Company’s website at: www.dexiontrading.com under the Web Conference section.

An overview of the topics discussed is summarised below (PLEASE NOTE: *From time to time it is necessary to clarify matters which were said on the call, for correction or clarification purposes and these corrections and clarifications are set out in square brackets and italics and footnoted for your attention*):

PERFORMANCE

OK We are managing around US\$20 Bln at the moment, that number has been rising since the second quarter thanks to strong NAV performance across our fund range, as well as stabilising client flows. On the client flows, we are pleased to highlight that PMH is benefiting from institutional allocations from the US, from Europe and from the Middle East and they are allocating directly into this fund which is very good news from a shareholder based stand point. We are seeing a greater concentration in long term shareholders with an institutional perspective which is highly beneficial from a PMH perspective.

The fund today is US\$5.4 Bln as at 30 November 2009 and the big news to highlight in terms of the fund’s terms, is that from 1 January 2010 we are reverting to 20 days notice from the open end fund perspective.

As at 30 November 2009 DTL was up +11.46% (on a NAV basis). The US Dollar NAV of the open ended fund is just about +10% year to date (“YTD”). That is a good result compared to the fund’s general absolute return objective, but also compared to the universe of macro funds that is out there. Just as an indication, HFRX Macro was down -6% in 2009 [(as at 30 November 2009)]¹. The combination of

¹ Correctly should specify that the data is as at 30th November 2009

allocating to high quality discretionary and high quality systematic managers, which is the core of what PMH does, is a very strong formula for investment success. It has been consistently in the top right [*left*]² hand corner [*(lower risk, higher return)*]³ of risk return charts compared to traditional indices and compared to other hedge fund strategies. So on a backward looking basis, it has been a very robust way to invest in hedge funds and I would like to remind the audience that DTL is the only fund of macro funds on the London listed market. More importantly, on a forward looking basis, we feel we are in a period of lots of global imbalances which are causing lots of divergences in commodity prices, exchange rates, equity indices and interest rates, these are the bread and butter of what macro traders trade and we think they will have lots of fertile opportunities in 2010.

INVESTMENT ENVIRONMENT & OUTLOOK

RK Currently the size of the portfolio is US\$5.5Bln, with investments in 46 different managers spread across 47 different funds, which means that one manager is actually managing two different strategies.

YTD, we are up +10.2%. The main contributors to performance are the discretionary managers which contributed +9% to performance, the systematic managers which contributed +2% and the natural resource managers which contributed +1% to performance. These figures exclude fees and expenses of -1.8%. Compared to the HFRI Macro, up +6%, this is a very good result. We can also compare it to the HFRX Macro, which although slightly skewed to systematic managers, is down -6.3% YTD. So depending upon the index you use there is about 400 to 1600 basis points of outperformance.

Performance was largely driven by all strategies within the fund. The discretionary managers, which represent 52% of the portfolio, are up +17.7% YTD (as at 30 November 2009), which is highly positive when you look at the HFRX Discretionary Index which is only up +4.7% as at 30 November 2009.

The systematic managers are the second largest allocation of the fund representing 27% of the portfolio. This strategy generated +7.3%, which compared to the HFRX Systematic Index which was down -5.5% YTD, is almost 13% of outperformance.

Both natural resources and relative value arbitrage represent 4% of the portfolio. The former is up +26.6%, largely driven by equity long/short and commodity investing. The most comparable indices for natural resource allocation are the HFRI Equity Hedge (Sector – Energy/Basic Materials) Index, which is up +36% YTD, and the HFRX Commodity Index, which is down -3% YTD. The +26.6% gain which we have made in this strategy compares favourably.

² Correctly should read '*left*'.

³ Correctly should specify the meaning of DTL risk returns being in the top left hand corner of the risk return chart.

Relative value arbitrage is up +3.5% YTD. This is driven mainly by yield curve trading on government debt and equity market neutral, both highly liquid instruments. Comparable indices are the HFRX Relative Value Arbitrage Sovereign Index, which is up +11% while the HFRX Equity Market Neutral Index is down -5% and so the positive +3.5% generated by this strategy is somewhere in the middle of those two numbers.

ASSET ALLOCATION

In terms of asset allocation, over the last 12 months, there has been a shift away from systematic managers to discretionary managers. The thesis behind this allocation shift is that Permal believes that the panic and the downward momentum of 2008 and the first quarter of 2009 would eventually subside, especially given the adoption of global fiscal and monetary policies on a coordinated basis. We believed that the less panicked and less momentum driven environment would play better towards the discretionary managers who invest based on fundamentals versus the trend followers who invest based on momentum. This allocation shift has worked exceedingly well.

A 5% allocation to credit managers was also added to the portfolio. This is embedded within the discretionary allocation. Throughout the years, we find a theme that is potentially being missed by the macro managers. For example in 2003, we thought the macro managers were missing a big secular bull market in natural resources. Consequently, that allocation was added to the portfolio. Furthermore, in 2007 we believed a lot of the discretionary managers were missing the short subprime thesis and its impact on global credit markets. John Paulson was therefore added as it was felt that he had that short subprime thesis covered. One of the themes that we envisaged was going to occur in 2009 was that there would be a recovery in the credit markets which many of the discretionary managers were not playing. We therefore added a 5% credit allocation to the portfolio, which in turn, worked exceedingly well.

To summarise the shifts in asset allocation, discretionary was taken from a low of about 40% of the portfolio 18 months ago to a peak of about 57% and currently it represents 52% of the portfolio. Conversely, the allocation to systematic managers went from 37% 12 months ago to 27% currently. The discretionary managers, up +17.7% YTD, and the systematic managers, up +7%, proves that the allocation shift has paid off.

Going forward, the aim is to reduce the exposure to credit further. This has already been the focus with the reduction of the discretionary allocation going from 57% to 52% as some of those profits made in the credit markets are being taken. The main reason for this reduction of credit exposure is because we believe that the easy money has been made in credit.

We are also focusing on increasing natural resources. We believe that the large amount of money being printed, will eventually lead to inflation, therefore one way to play that inflation trade would be through the commodities and natural resource markets. Discretionary managers have built out their resources more to play not only in the fixed income, equity and currencies markets which would have been the case five

years ago, but also in the commodities markets. Opportunities are also growing in natural resources, with allocations potentially increasing to as high as 10%.

Finally, the aim is also to reduce cash. Cash currently has quite a high allocation of 14%. This is due to a couple of reasons: Firstly, profits are being taken from the credit managers and secondly, some managers are being sold as capital is redeployed into separate accounts with new managers. The latter being a great focus over the last year in particular and proved to be highly successful. It is therefore expected for cash to be back to its normal level of about 5% within the next few weeks.

In the fixed income markets managers are continuing to be long the short end of yield curves as interest rates seem set to stay low in the developed markets for quite some time given the issues of unemployment, low inflation and output gaps. For example, it's very difficult for central banks to start raising interest rates while unemployment in the US is at 10% and therefore the managers remain long at the short end of the curve.

At the long end it is a bit trickier. Some managers are short the long end of the curve, due to the fiscal deficit. The intention is that to attract buyers of sovereign debt or US Government debt, higher yields will need to be offered. In addition, they are short the long end of the curve because if you keep printing all this money eventually you will have inflation which will mean higher interest rates. However, there are managers who are long the short end of the curve believing that the Federal Reserve will continue implementing quantitative easing to ensure we get out of this trouble. If you recall, one of the biggest pain trades for hedge fund managers over the last decade was to be short Japanese Government Bonds. Some managers believe that being short the long end of the curve is going to be a painful trade. So what does this mean? There is a battle between the longs and the shorts and one will see quite a bit of volatility at the long end of the curve. One of the ways that macro managers play this, is through the volatility of the long end of the curve because it will bounce around quite a bit.

Within equities and commodities managers continue to be long because they are long risk assets. They don't expect too many shocks so if you have the shocks like Dubai World or Japan revising its GDP figures downwards, they will still be more isolated versus being very contagious and so it is still good to be long risk assets. They also cite that the biggest tailwind that you have is this 0% interest rate policy. It is a very powerful tailwind often when your cash is earning nothing to be long risk assets, because people will search for a yield.

With all that being said, some of the risk has been cutback recently for two reasons. Firstly, there has been such a rally in these markets over the last six to eight months, and secondly, coming to year end people want to lock in profits, with markets becoming a little bit less liquid, people want to have a bit more cash going into year end, therefore bringing risk down a little bit.

Lastly in terms of currencies the broad theme is to be long the Asian currencies, long the EM currencies, long the commodity currencies and short the developed market currencies. There appears to be a shift now from being short the Dollar against those currencies, to being short the Euro, the GBP and maybe even the Yen especially with recent announcements of Japan revising its GDP numbers.

Permal continues to acknowledge the instability present in the world, however we are also extremely excited about DTL and their Macro portfolio overall. In our other portfolios Macro continues to be a significant allocation because there is ability to make money in any type of environment.

QUESTIONS AND ANSWERS

Q Why has the systematic performance within DTL performed better in 2009 than the averages as measured by the HFRI and the HFRX indices?

RK: There are two reasons for this. Firstly, we do two things within our systematic allocation. We allocate to trend followers and to non-trend following qualities of managers. An example of a manager that has done very well this year is Andy Low, who is up approximately +13%. He is a non-trend following quantitative manager who designs models which are based upon fundamental economic data and how markets react to announcements in changes in economic data. Secondly, we have also allocated to more short term trend following models and I think the short term trend followers and counter trend followers have done very well this year and so I think those two changes have worked well for us.

Q What are the cash levels in the portfolio and are they so high for buyback purposes?

RB: You have to remember that this structure is different than other closed ended and the reason for this is that it is a feeder into Permal Macro Holdings, therefore we're not carrying the cash in this because of buybacks. If we wanted to do buybacks all we would have to do is use the borrowing line and buy back the stock and then unwind it because it is a feeder into a US\$5.4Bln fund, and so it unwinds the portfolio in even units rather than having to take out single managers from it. In terms of the FX line that is embedded in the Permal part of the structure, rather than Dexion having to do it separately as it happens in other funds, the choice of cash is Permal's.

Q Are there any specific themes of agriculture or expected themes in agriculture?

RK: It is not a major theme for us. A couple of managers play some agricultural plays but it is not very significant in the portfolio and the one theme I've heard from a couple of managers is talking about supply destruction and so there tends to be long agricultural plays versus short. But it is nothing meaningful within this portfolio.

Conclusions

RB: DTL is the best performing closed ended fund of funds portfolio in NAV terms over the last two years. If you take it from the beginning of '08 to the end of '09, it is above its high water mark and it is up +7.5%

over that time period and +11.46% YTD. The portfolio has low correlation to equities so it is a good diversifier for a traditional portfolio of equity and bonds. The fact that it is a feeder into the US\$5.4Bln Permal Macro Holdings means that it is liquid, so investors don't have to be concerned about the liquidity of the product.

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Q&A with Permal Investment Management Services Investor Audio Web Conference Call – 9 December 2009



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Registered Office: 9 Bridewell Place, London EC4V 6AW. Registered in England and Wales No. 4040660.*