ACCUMULUS
CAPITAL MANAGEMENT, LLC

February 7, 2011

# Accumulus Funds — 2010 Year-End Letter

Dear Accumulus Investor,

## Performance Review

During 2010, the Accumulus Funds returned between 9.1% and 10.0% in USD and 9.7% in EUR. The following table puts these returns in the context of hedge fund indices and other asset classes.

| | Q1 2010 | Q2 2010 | Q3 2010 | Oct-10 | Nov-10 | Dec-10* | Q4 2010 | 2010 YTD |
|---|---|---|---|---|---|---|---|---|
| Accumulus Fund US$ | 1.96% | 1.15% | 3.03% | 1.12% | 0.91% | 1.42% | 3.48% | **9.96%** |
| Accumulus Fund EUR | 2.10% | 1.08% | 2.76% | 1.05% | 1.03% | 1.35% | 3.47% | **9.73%** |
| Accumulus Fund LP (US$) | 2.91% | -0.57% | 3.23% | 1.21% | 0.64% | 1.38% | 3.26% | **9.08%** |
| HFRX Global Investable Index | 1.62% | -2.78% | 3.15% | 1.12% | -0.27% | 2.36% | 3.23% | **5.19%** |
| HFRI Fund of Funds Composite Index | 1.42% | -2.60% | 3.27% | 1.49% | -0.11% | 1.97% | 3.38% | **5.46%** |
| S&P 500 Index (DRI) | 5.39% | -11.41% | 11.29% | 3.80% | 0.02% | 6.68% | 10.76% | **15.08%** |
| MSCI World Index (DRI) | 3.34% | -12.47% | 13.89% | 3.74% | -2.11% | 7.39% | 9.06% | **12.35%** |
| CSFB High Yield II Index | 4.47% | 0.21% | 5.96% | 2.36% | -1.06% | 1.84% | 3.14% | **14.42%** |
| US Gov't Bonds (7-10 Year Maturities) | 1.54% | 8.08% | 4.49% | -0.09% | -0.93% | -3.37% | -4.35% | **9.68%** |
| S&P/GS Commodities Index | 1.06% | -6.60% | 10.27% | 3.31% | 2.07% | 9.72% | 15.70% | **20.43%** |

* December 2010 Performance is estimated

2010 turned out to be another good year for risk taking, at least for those that had the fortitude to ride out the two corrections of the late spring and late summer. In the context of the performance of many traditional risk assets like equities or high yield bonds, the performance of Accumulus seems unremarkable; however, we would note that our benchmarks are a) the risk free rate and b) averages of absolute return managers. Compared to those we did well.

At the time of writing we also have the estimated performances for January 2011 which at 1.36% for Accumulus Fund LP, and 0.76% for Accumulus Fund are also significantly better than Hedge Fund averages or than the risk free rate.

2010 Performance was driven by our convertible arbitrage and credit managers. Merger arbitrage, while a solid performer, underperformed slightly as did our bearish global macro exposure. Long/short equity performed poorly. Over the past 2 years, Accumulus has made a decisive allocation away from equity-related strategies, except where there are hard catalysts like merger arbitrage. We would like to explain our rationale for this move as it sets us apart from other multi-strategy fund of funds. We believe that alpha has three main drivers: a) an informational/analytical edge; b) superior trading; and c) the assumption of liquidity risk. Equities score very low on each point:

a) We believe that it has become increasingly difficult to gain an edge in equities due not only to Regulation FD ("Fair Disclosure") but also due to the proliferation of excellent buy-side equity research conducted by both long-only managers and hedge fund managers. Long gone are the days of the "smart hedge funds and dumb mutual funds". The recent scandal surrounding expert networks,

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whose clients included as many mutual fund managers as hedge funds, illustrates the intense race by equity investors to gain an informational edge. Ironically, the government is focusing on this area just as advantaged information has become so widespread as to lose its economic benefit! In contrast, we see that in credit the composition of holders is still characterized by a majority of dumb money and a minority of smart money. This is because most credit buyers, in particular insurance companies, are driven primarily by credit ratings and do not conduct thorough in-house credit research.

b) Equities are exchange traded and transacting in this space has become virtually free, giving any day trader with an online account equal execution to large hedge funds or bank trading desks. In contrast, bonds often trade with wide bid-offer spreads so that a deep knowledge of market composition and disciplined entry and exit yields can create substantial value.

c) Given the liquidity of equities, often portrayed as the great advantage of equity strategies in crises periods such as 2008, there is little value in being a “liquidity provider”. Witness the nosebleed PE Ratio of the Russell 2000 of 35x versus the S&P 500 of 16x. It hardly looks like less liquid stocks are any cheaper than the liquid large caps.

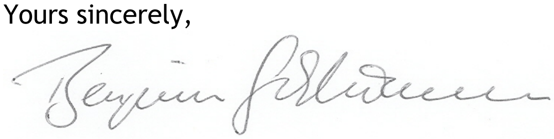
Apart from the three reasons described above, there is a final and maybe most important reason that make equity strategies not very suitable to the hedge fund format of investing. Equities are very long duration instruments and their value is driven by earnings and cash flows many years out. Therefore their fair value is inherently uncertain, especially in environments where the macro picture is very opaque as is currently the case, and they can therefore gyrate wildly back and forth without any fundamental justification. Stock prices can also remain hugely over- or undervalued for longer than the patience of most hedge fund investors allows for. Hedge Funds are absolute return strategies and their annual performance fee mechanisms require trades to work in most months and quarters. Equities do not really fit this model; they should be held in long-only formats with multi-year time horizons and lower fee structures. Performance fees, if any, need to be back-ended.

By preferring credit-based strategies we are not making a statement that credit is cheap relative to equities (this was clearly the case in late 2008 and in most of 2009), we are merely saying that credit instruments have hard catalysts and shorter duration which make them more appropriate instruments to be long or short in absolute return mandate. Given the confusing macro picture referred to above - good cases can be made for deflation and for inflation - we are even more skeptical of directional managers and their ability to “get it right”. Also, as has been the case for many years now, Accumulus does not invest with quantitative managers as we do not feel that we can add any meaningful value in their selection process. All we know is that their models work until they don’t.

Relative value and event-driven strategies, the bread and butter of banks’ proprietary trading desks for decades, seem attractive to us due to the withdrawal of bank risk capital, generally low leverage levels, high risk aversion and an over-emphasis of liquidity on the part of most investors who are still fighting the last battle of 2008.

If all of this sounds a bit theoretical, please give us a call as we’d be happy to discuss the Accumulus portfolio with you in detail.

Yours sincerely,



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