



HILLSDALE

A leader in Alternative Investment Strategies

Table 1: Normal Months

Date	TB > 20 bps < 50 bps	CAH Net Return
Feb 94	22	0.99%
Apr 94	35	-2.47%
May 94	36	-1.53%
Nov 94	48	1.93%
March 97	31	6.54%
June 97	26	10.60%
Dec 97	25	1.09%
Jan 98	50	0.49%
April 98	31	-1.29%
July 98	24	5.40%
Feb 99	25	6.06%
March 00	29	-0.67%
April 00	20	-1.76%
Jan 03	22	0.26%
March 03	23	2.15%
Average Net Return: 1.85%		
Frequency: 10/15		

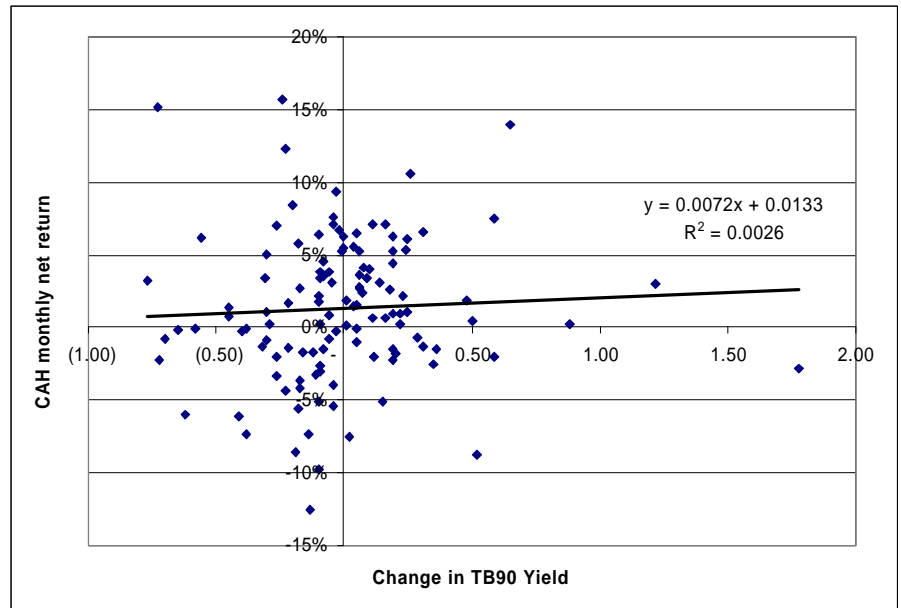
Table 2: Stress Months

Date	TB > 50 bps	CAH Net Return
March 94	178	-2.85%
Dec 94	88	0.22%
Jan 95	122	3.02%
March 95	59	-2.03%
Oct 97	59	7.51%
Aug 98	65	13.97%
Dec 99	52	-8.72%
Average Net Return: 1.59%		
Frequency: 4/7		

Stress Testing the Canadian Aggressive Hedge Fund for Rising Interest Rates

Hillsdale's return forecasts, risk control and portfolio construction methodologies were simulated in a proprietary test environment from January 1994 to December 2003. Monthly returns net of the TSX Composite Index and of disturbance costs were regressed against coincident changes in Government of Canada 3 month Tbill rates. As seen below, the strategy generates average monthly net returns of 1.33% with a small positive bias to rising interest rates.

Aggressive Hedge Net Returns vs. 3 Month T-Bills



Returns were then separated into periods of either falling or rising rates. Monthly returns during periods of rising rates were re-combined ('bootstrapped') into a single return stream. During months where T-bill rates increased (53 observations), the strategy generated average monthly net returns of 1.95% with approximately 72% of the months being positive.

Periods of rising interest rates were then further clustered into "normal" periods, defined as a monthly increase of between 20-50 bps (15 observations) and "stress" periods, defined as a monthly increase of greater than 50 bps (7 observations).

During periods of "normal" interest hikes the strategy generated an average monthly net return of 1.85% with approximately 67% of the months being positive. During periods of "stress", the strategy generated an average monthly net return of 1.59% with approximately 57% of the months being positive. Individual months and returns are shown in Tables 1 and 2.

All Hillsdale strategies are designed over 20-30 years of rigorous in and out of sample testing. Specific attention is paid to avoid the use of 'fat tail' forecast variables which often arise from the mining of a single regime environment or from the use of purely linear techniques. The Canadian Aggressive Hedge Equity fund is constructed to be neutral to most known macro factors including yield curve shifts and changes in credit spreads and inflation. While we recognize that a given macro environment is only a small contributor to the net returns of this strategy, it is important to underline that a rising interest rate environment has rarely negatively impacted the strategy and that through all aggregate periods of rising rates, the Canadian Aggressive Hedge strategy provided returns in excess of the TSX Composite Index.

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