

THE OPTIMIZE FUND L.P.

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Once again market headwinds abounded: political uprisings in the Middle East (contributing to oil prices above \$100 a barrel), European debt concerns and rising inflationary pressures in emerging markets muted global market returns. Despite these major events most markets ended the quarter on a positive note with the US and select European countries leading the pack.

The second round of quantitative easing in the US kept liquidity abundant and rates held steady at low levels as the US government continued to intervene in the bond market. The global recovery is now proceeding in a normal fashion with emerging market growth keeping commodity prices at historically high levels. Multinational corporations continue to expand their foreign presence benefiting from developing countries above average growth. Developing countries are proactively tightening monetary pricing to rein in inflation, especially in the food, real estate and energy categories. Some of the larger emerging countries are using fiscal policy and various other restrictive controls to quell speculation and spiraling food and fuel costs.

A significant number of globally positioned North American and European conglomerates now face increased currency exposure as foreign operations exceed their domestic business. Passing through rising input costs has been a major stumbling block for those businesses with extreme price sensitivity such as in the food distribution business. Commodity producing countries (Canada, Australia, Russia and Brazil) continue to benefit, however, at the cost of reduced competitiveness (for exporters) as their currencies appreciate due to the imbalances in investment flows.

In terms of market dynamics, North American and European markets continue to trade at reasonable valuations based on growth and at a significant discount, if one were to factor in the historically ultra low rate environment. Emerging markets are trading at low double digit multiples despite growth rates in the high teens and low twenties. Proactive government policy by these emerging regimes, if successful, will keep bubbles from forming and subsequently bursting, thus, smoothing out the cyclicity associated with economic and business cycles.

In conclusion, we are still moderately bullish and expect markets to continue to advance in line with the global economic recovery. However, ballooning government balance sheets and debt burdens amongst certain developed countries is our major long-term concern and must be addressed. Our investment stance has not changed with our focus being to capitalize on the secular trend in emerging markets. Furthermore we will participate in the global market recovery by positioning ourselves in globally diversified, industrial, energy and technology companies which have unique competitive advantages, such as niche products (Apple) and global footprints (Caterpillar). We maintain a medium to long-term focus and are willing to ride through uncertain times and short-term market gyrations, periodically using derivatives to smooth out returns at times.

Sincerely,

Jeff Kreps