



MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund SM

De-Mystifying Hedge Fund Strategies and Concepts

Overview Presentation – May 1, 2008

Lee W. Schultheis - Chief Investment Strategist

Alpha Hedged Strategies Fund (ALPHX)

Beta Hedged Strategies Fund (BETAX)



MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund SM

Disclosure

The Funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 1.866.Low.Beta (569.2382), or visiting www.aipfunds.com. Read it carefully before investing.

About Risk:

Certain hedging techniques and leverage employed in the management of the Funds may accelerate the velocity of possible losses. Short selling involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the Funds, although an investor's loss is limited to the amount invested in the Funds. Derivatives involve investment exposure that may exceed the original cost and a small investment in derivatives could have a large potential impact on the performance of the Funds. Options held in the Funds may be illiquid and the fund manager may have difficulty closing out a position. The Funds may also invest in:

- smaller capitalized companies - subject to more abrupt or erratic market movements than larger, more established companies;
- foreign securities, which involve currency risk, different accounting standards and are subject to political instability;
- securities limited to resale to qualified institutional investors, which can affect their degree of liquidity;
- shares of other investment companies that invest in securities and styles similar to the Funds, resulting in a generally higher investment cost than from investing directly in the underlying shares of these funds.

The Funds intend to utilize these individual securities and hedging techniques in matched combinations that are designed to neutralize or offset the individual risks of employing these techniques separately. Some of these matched strategies include, merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. There is no assurance that these strategies will protect against losses. The Funds are non-diversified and therefore may invest in the securities of fewer issuers than diversified funds at any one time; as a result, the gains and losses of a single security may have a greater impact on the Fund's share price.

Because the Funds are fund-of-funds, your cost of investing in the Funds will generally be higher than the cost of investing directly in the shares of the mutual funds in which it invests. By investing in the Funds, you will indirectly bear your share of any fees and expenses charged by the underlying funds, in addition to indirectly bearing the principal risks of the funds. Please refer to the prospectus for more information about the Fund, including risks, fees and expenses.

Mutual fund investing involves risk; loss of principal is possible. Please consult an investment professional for advice regarding your particular circumstances. An investment in the Funds may not be suitable for all investors.

Executive Summary

- Hedge Fund Strategies are appealing due to their design in that they may:
 - have low correlation to equity markets
 - have low volatility
 - have a high degree of consistency of returns thru different market environments

- Hedged strategies – Common Misconceptions
 - Hedge fund strategies behave the same at all times
 - Hedge fund strategies behave more aggressively than just being long the market
 - Anything with leverage is “risky”
 - Anything with short selling is “risky”

- Examples from Recent Hedge Fund Strategy Behavior
 - Amaranth in 2006
 - “Quant Flu” in 2007
 - Sub-Prime issues in late 2007
 - Difficulties across broad spectrum of hedged strategies in January of 2008



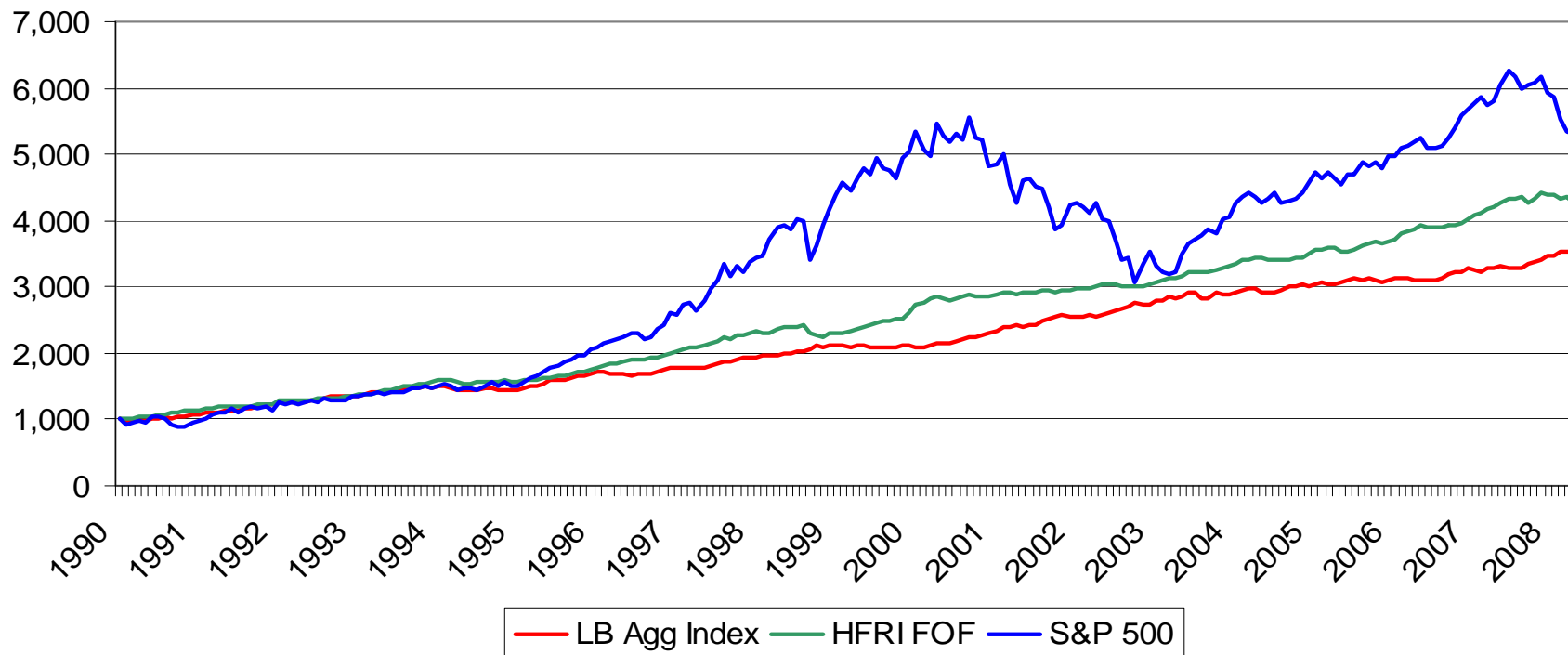
MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund sm

A Consistent Pattern of Returns Associated With Conservative Fund-of-Funds

Chart 1

Growth of \$1,000 Since Inception of
HFRI FOF: Conservative Index
January 1990 - March 2008



Performance quoted represents past performance; past performance does not guarantee future results. Benchmark performance should not be considered reflective of Fund performance. Please refer to the Appendix for index descriptions. Source: Hedge Fund Research, Inc.



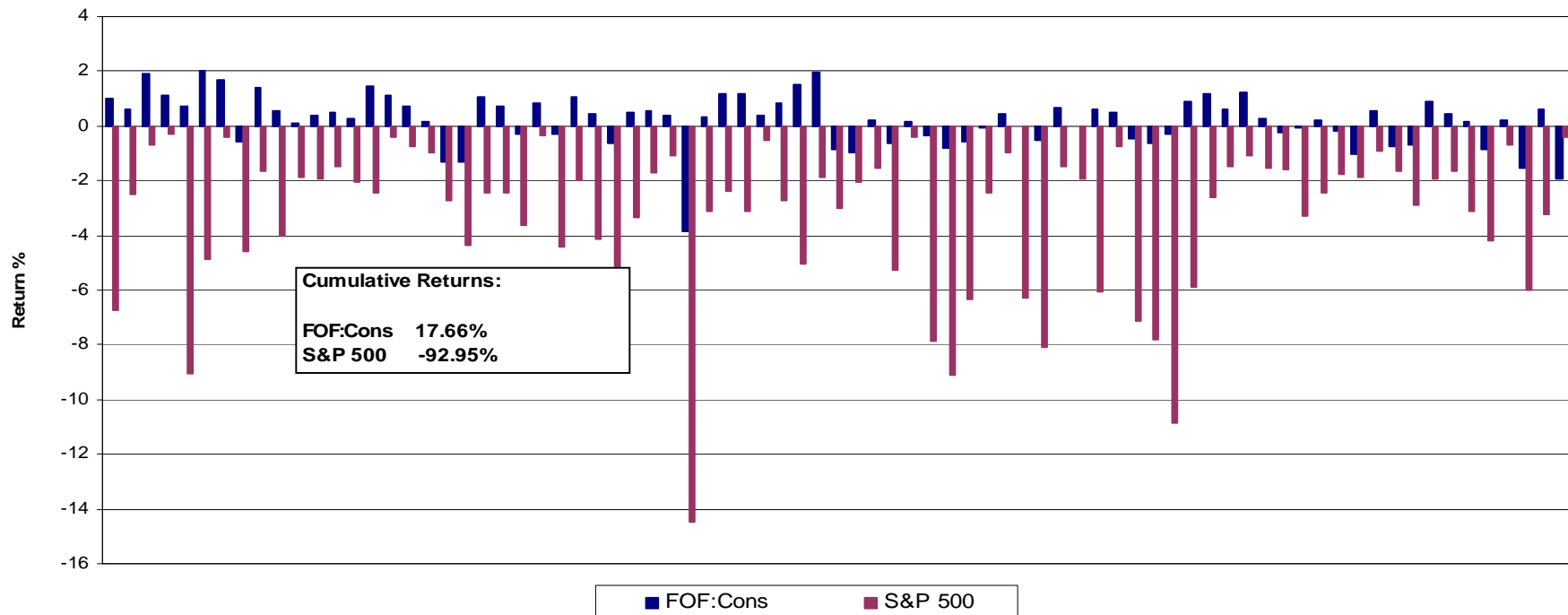
MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund SM

Absolute Return & Conservative Fund-of-Funds - Decreased the Volatility of Investors' Portfolios During Bear Markets

Chart 2

HFRI Conservative FOF Index vs. S&P 500
S&P 500 DOWN Months
January 1990 - March 2008



Performance quoted represents past performance; past performance does not guarantee future results. Benchmark performance should not be considered reflective of Fund performance. Please refer to the Appendix for index descriptions. Source: Hedge Fund Research, Inc.



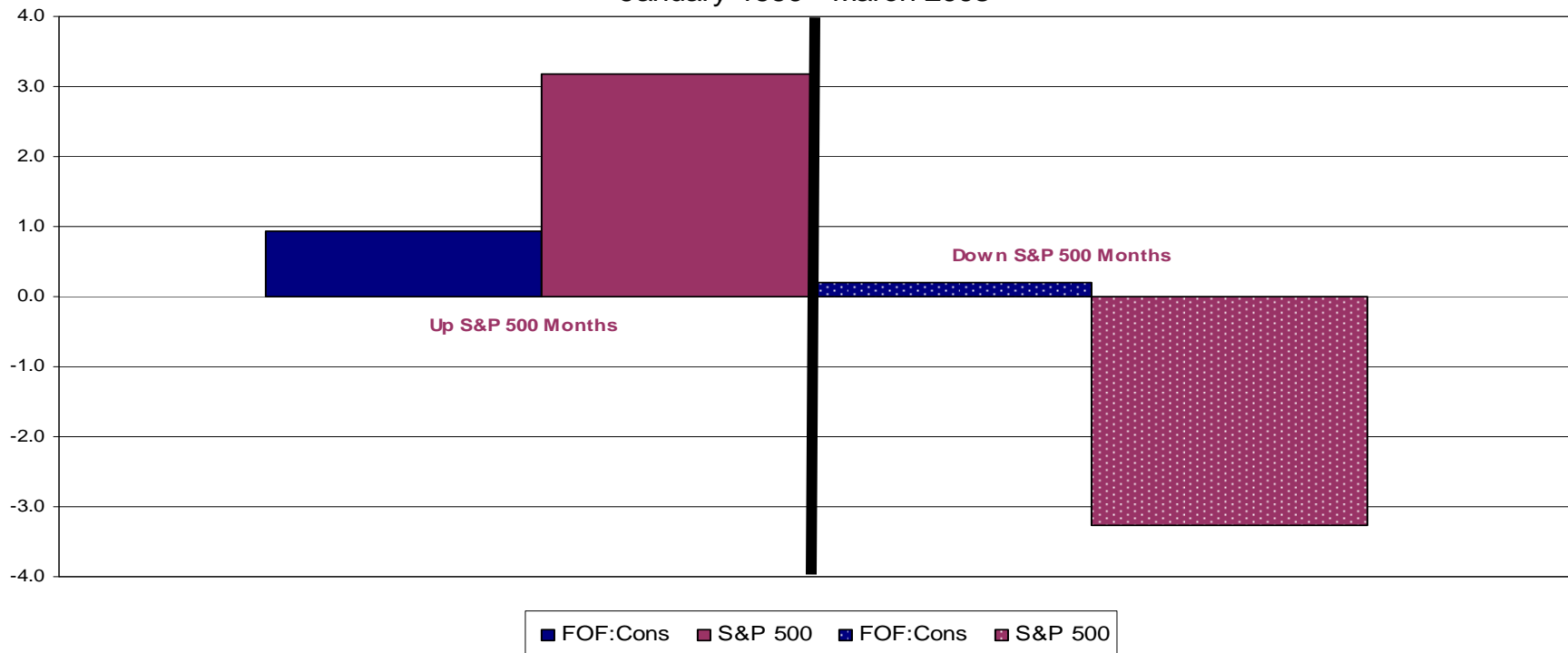
MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund sm

Conservative Fund-of-Funds Have Provided Positive Returns In Both Bull & Bear Markets

Chart 3

Average Montly Returns
HFRI Conservative Fund of Funds Index vs. S&P 500
January 1990 - March 2008



Performance quoted represents past performance; past performance does not guarantee future results.

Benchmark performance should not be considered reflective of Fund performance.

Please refer to the Appendix for index descriptions. Source: Hedge Fund Research, Inc.



MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund SM

Key Portfolio Attributes of Absolute Return Strategies

- **Lower Risk Profile - *non-correlation to Equity Market Indices***
 - Target beta of +.05 to +.15 vs. 1.00 for the S&P 500
- **Performance – *“absolute” returns vs. “relative” returns vis-à-vis the market***
 - Target annual return of T-bills + 4-6% net return
- **Consistency – *increasing the predictability of expected range of returns***
 - 68% of yearly returns should fall within 1 std. dev. of the avg. return
 - 95% of yearly returns should fall within 2 std. dev. of the avg. return
 - Diversity of managers / strategies in hedge fund-of-funds (30 - 40)
- **Seeking superior “risk-adjusted” returns**



MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund sm

Misconception # 1 – hedged strategies behave the same at all times

- **Charts # 1 & 2 – August 1998 LTCM (Long-Term Capital Management, L.P.) “blow-up” temporarily impacts conservative HFOF’s**
- **Chart # 2 – Some down periods have negative returns for HFOF’s**
- **Chart # 3 – Conservative HFOF’s can have greater returns than S&P 500 in down markets**

Misconception # 2 – hedged strategies more risky than S&P 500

- Chart # 1 – Smoother trend line for Cons. FOF than S&P 500
- Chart # 2 – Conservative HFOF's down less (or up) in Down S&P 500 months
- True “hedging” designed to reduce risk, not magnify risk
- Hypothetical Example – Long Ford & Short GM
 - Market down 15% (S&P 500)
 - Ford down 15% (same as market)
 - GM down 20% (more than market)
 - Net 5% position gain

Misconception # 3 – anything with leverage is “risky”

- Charts # 1, 2 & 3 – Conservative HFOF’s include underlying HF’s with some degree of leverage, yet have behaved with lower risk stats than S&P 500
- Leverage is a “magnifier” of existing portfolio risk
 - Am I leveraging market risk (beta) or manager risk (alpha) ?
- Hypothetical Example – S&P vs. HFRI Cons. FOF (both leveraged 50%)
 - S&P 500 has a beta of 1.00
 - HFRI Cons. FOF has a beta of 0.10
 - Adding 50% leverage increases their beta stats by:
 - 0.50 for the S&P 500
 - 0.05 for the HFRI Cons. FOF

Misconception # 4 – anything with short selling is “risky”

- Charts # 1, 2 & 3 – Conservative HFOF’s include underlying HF’s with significant degree of short selling, yet have behaved with lower risk stats than S&P 500
- Short selling (no offsetting long positions) is full directional betting on market movement, and with unlimited loss potential – very risky
- Market neutral investing uses short selling by design to be less risky, to neutralize market risks, and focus on manager abilities
- Hypothetical Example – Long Ford & Short GM
 - Only Long Ford down 15%
 - Long Ford & short GM – Net 5% position gain

The “Alternatives” Space – Recent Events

➤ Recent Regulatory Events

- 2006 – Most hedge fund managers registered as RIA's
- 2007 – SEC proposes changes to accreditation standards for hedge fund investors

➤ Recent Market Events

- 2006 – Amaranth melt-down
- 2007 – “Quant Flu” hits equity market neutral long/short hedge funds in August
- 2007 – Sub-prime woes hit Merrill Lynch & Citibank – CEO's ousted
- 2008 – Broad array of hedged strategies struggle in January



MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund SM

Appendix

HFRI (Hedge Funds Research, Inc.) Performance Indices, which are equally weighted hedge fund performance indices broken down into 37 different categories by strategy. The Fund Weighted Composite Index includes over 2,000 constituent funds, both domestic and offshore. It does not include fund of funds. The Fund of Funds Composite Index includes over 800 constituent funds, both domestic and offshore. It includes only fund of funds. Convertible Bond Arbitrage involves purchasing a portfolio of convertible securities, generally convertible bonds, and hedging a portion of the equity risk by selling short the underlying common stock. Distressed Securities strategies invest in, and may sell short the securities of companies where the security's price has been, or is expected to be, affected by a distressed situation. Equity Hedge investing consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options. Event-Driven involves investing in opportunities created by significant transactional events. Macro involves investing by making leveraged bets on anticipated price movements of stock markets, interest rates, foreign exchange and physical commodities. Merger Arbitrage involves investment in event-driven situations such as leveraged buy-outs, merges and hostile takeovers. Relative Value Arbitrage attempts to take advantage of relative pricing discrepancies between instruments including equities, debt, options and futures. HFRI Sector is a composite index encompassing several sector sub-strategies including: energy, financial, health care/biotech, real estate, technology and other. **S&P 500 Index**: The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. **Lehman Brothers Aggregate Bond Index** is composed of securities from Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. The index's total return consists of price appreciation/depreciation plus income as a percentage of the original investment. **Lehman Brothers Intermediate Government/Credit Bond Index** is a market value weighted performance benchmark which includes virtually every major U.S. government and investment-grade rated corporate bond with 1-10 years remaining until maturity. **MSCI World Index** is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of June 30, 2007 the index consisted of 23 developed market country indices, including the United States. **90-day U.S. Treasury bill**, constant maturity; are short-term loans to the U.S. government, are full-faith-and-credit obligations of the U.S. Treasury and are generally regarded as being free of any risk of default.

You cannot invest directly in an index.

Alpha: is an annualized return measure of how much better or worse a fund's performance is relative to an index of funds in the same category, after allowing for differences in risk. **Beta**: measures the correlation and magnitude with which a fund moves in relation to a general market benchmark. **Standard deviation**: A statistical measure of portfolio risk used to measure variability of total return around an average, over a specified period of time. The greater the standard deviation over the period, the wider the variability or range of returns and hence, the greater the fund's volatility.



Alternative Investment Partners, LLC - Manager Bio

Lee W. Schultheis is the CEO, Chief Investment Strategist and Founder of the AIP Mutual Funds. AIP's Alpha Hedged Strategies Fund (ALPHX) and Beta Hedged Strategies Fund (BETAX) are two open-end mutual funds that invest their portfolios in a manner similar to a conservative hedge fund-of-funds, employing a multi-manager approach to a variety of hedged alternative investment styles. Schultheis is recognized as a pioneer in the alternative investing arena, as Alpha Hedged Strategies Fund was one of the first mutual funds to offer institutional and retail investors access to a broad array of hedge fund managers through an open-end no-load mutual fund vehicle. AIP Mutual Funds have experienced significant growth over the past 5 years with assets exceeding \$800 Million

He is frequently interviewed on mutual fund and hedge fund industry issues, with articles appearing in *The Wall Street Journal*, *BusinessWeek*, *Financial Advisor Magazine*, *TheStreet.com*, *Barron's* and *InvestmentNews*. Mr. Schultheis makes frequent guest appearances on CNBC, CNN, and Bloomberg TV. He is a well respected and sought-after speaker at industry conferences including NAPFA, FPA and the Financial Advisor Symposiums. Recent topics include "Hedge Fund Strategies in a Mutual Fund" and "De-Mystifying Hedge Fund Strategies & Concepts".

Before founding Alternative Investment Partners, LLC, (AIP) he was chief operating officer at Kinetics Asset Management as well as president of Kinetics Funds Distributor, Inc. Mr. Schultheis has more than 20 years of investment industry experience, including the mutual fund programs at Chase Manhattan Bank and US Trust Company of New York. He holds a BS from Cornell University.



MUTUAL FUNDS

Hedge Fund Strategies in a Mutual Fund SM

De-Mystifying Hedge Fund Strategies and Concepts

Overview Presentation – May 1, 2008

Lee W. Schultheis - Chief Investment Strategist

Alpha Hedged Strategies Fund (ALPHX)

Beta Hedged Strategies Fund (BETAX)