Fixed Income Alternatives

Diversifying your Fixed Income Allocation
HATTERAS ALTERNATIVE MUTUAL FUNDS

- 2002 inception
- Pioneer in alternative mutual funds

EXPERIENCE

- Alternative investments
- Managing mutual funds
- Working as a Partner
- Managing sub-advisor relationships
- Board level reporting, communications, and requirements

EXPERIENCED TEAM

- 44 employees
- 9 alternative investment professionals
AGENDA

FIXED INCOME MARKETS TODAY

TOOLS TO DIVERSIFY YOUR FIXED INCOME ALLOCATIONS

PORTFOLIO SOLUTIONS
FIXED INCOME MARKETS TODAY
Source: Bloomberg. Data from January 1, 1981 – December 31, 2012. 30-Year: 30-Year Treasury Bond. 10-Year: 10-Year Treasury Bond. \textit{Past performance is not indicative of future results.}
As of 12/31/2012

30-Year: 2.9%
10-Year: 1.7%
Inflation: 1.8%

Traditional fixed income has outperformed equities with 23% of the volatility

10 Year Cumulative Performance as of December 2012

Source: PerTrac Data From January 1, 2002 – December 31, 2012. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indices of securities. Returns do not represent any actual investment. Returns are cumulative and based on each Index’s price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future results. The past performance figures do not represent performance of any Hatteras Funds security and there can be no assurance that any Hatteras Funds security will achieve the past returns of the illustrative examples. The unmanaged indices do not reflect fees and expenses and are not available for direct investment.
O N L Y  2  N E G A T I V E  C A L E N D A R  Y E A R S  I N  T H E  L A S T  3 1

Barclays US Aggregate Bond Index

Source: PerTrac. Data from 1981 – 2012. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indices of securities. Returns do not represent any actual investment. Returns are cumulative and based on each Index’s price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future results. The past performance figures do not represent performance of any Hatteras Funds security and there can be no assurance that any Hatteras Funds security will achieve the past returns of the illustrative examples. The unmanaged indices do not reflect fees and expenses and are not available for direct investment.
INVESTORS’ FLIGHT TO SAFETY & QUEST FOR YIELD

CUMULATIVE NET FLOWS INTO BOND VS. EQUITY FUNDS

INVESTORS’ LOOK FOR DIVERSIFICATION IN NON-TRADITIONAL BOND FUNDS

CUMULATIVE NET FLOWS INTO NON-TRADITIONAL BOND FUNDS

Source: Morningstar. Data from January 1, 2007 – December 31, 2012. Excludes all fund-of-fund flows. The Morningstar Nontraditional Bond category contains funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond fund universe. Many funds in this group describe themselves as “absolute return” portfolios, which seek to avoid losses and produce returns uncorrelated with the overall bond market. Another large subset are self described “unconstrained” portfolios that have more flexibility to invest tactically across a wide swath of individual sectors, including high yield and foreign debt, and typically with very large allocations.
The BofA Merrill Lynch Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond’s OAS, weighted by market capitalization. The BofA Merrill Lynch High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below). The unmanaged indices do not reflect fees and expenses and are not available for direct investment. Returns do not represent any actual investment. Past performance is not indicative of future results.
RISING RATES HAVE CAUSED SIGNIFICANT DRAWDOWNS IN BOND RETURNS

BONDHOLDER DRAWDOWNS WHEN Aaa BOND RATES ROSE BY +2.0% OR MORE | JANUARY 1926 – DECEMBER 2012

Source: FRED, Federal Reserve Economic Data, from the Federal Reserve Bank of St. Louis. Morningstar. Drawdowns: IA SBBI Long Term US Corporate Bond Index. Bond Rates: Moody’s Seasoned Aaa Corporate Bond Yield. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indices of securities. Returns do not represent any actual investment. Past performance is no guarantee of future results. The illustrations are not intended to predict the performance of any specific investment or security. The unmanaged indices do not reflect fees and expenses and are not available for direct investment.
1% RISE IN INTEREST RATES COULD SIGNIFICANTLY IMPACT BOND PRICES

PARALLEL YIELD CURVE SHIFT

Source: Bloomberg. MBS: BoA ML Mortgage Backed Index; High Yield: BoA ML High Yield Master II Index; Broad Mkt.: BoA ML Corp + Gov’t Index; TIPS: BoA ML US Treasury IL Index; EMD: BoA ML Emerging Markets Diversified Corporate Index; Munis: BoA ML Municipal Bond Master Index; Corp.: BoA ML Corporate Bond Master Index; Treasuries: BoA ML US Treasury Indices. Change in bond price is calculated using both duration and convexity according to the follow formula: New Price = (Price + (Price * -Duration * Change in interest rates)) + (0.5 * Price * Convexity * (Change in Interest Rates)^2). Calculation assumes 2-year Treasury interest rate falls 0.25% to 0.00% and the 5-year Treasury falls 0.72% to 0.00%, as interest rates can only fall to 0.00%. Chart is for illustrative purposes only. Past performance is not indicative of comparable future results. The unmanaged indices do not reflect fees and expenses and are not available for direct investment, Data as of 12/31/12.
**INVESTORS FACE TWO PRIMARY RISKS**

1) **PRESERVATION OF CAPITAL**

<table>
<thead>
<tr>
<th>Fixed Income Risk by Security Type</th>
<th>Duration (Interest Rate) Risk</th>
<th>Credit Risk</th>
<th>Default Risk</th>
<th>Liquidity Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Grade</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Mortgage Related Strategies</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>High Yield</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Bank Loans</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

This information reflects Hatteras Funds’ opinion and should not be considered a complete representation of fixed income risks.
INVESTORS FACE TWO PRIMARY RISKS

2) INABILITY TO MEET THEIR LONG TERM INVESTMENT GOALS

<table>
<thead>
<tr>
<th>INDEX</th>
<th>YIELD 12/31/2012</th>
<th>MIN YIELD</th>
<th>MAX YIELD</th>
<th>MAX DRAWDOWN</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury 3-Month Bill</td>
<td>0.04%</td>
<td>-0.04%</td>
<td>3.32%</td>
<td>-0.14%</td>
</tr>
<tr>
<td>U.S. Treasury 10-Year Note</td>
<td>1.76%</td>
<td>1.39%</td>
<td>4.27%</td>
<td>-13.22%</td>
</tr>
<tr>
<td>U.S. Treasury 30-Year Bond</td>
<td>2.95%</td>
<td>2.45%</td>
<td>4.84%</td>
<td>-30.73%</td>
</tr>
<tr>
<td>U.S. Corporate Master</td>
<td>2.77%</td>
<td>2.72%</td>
<td>9.32%</td>
<td>-16.73%</td>
</tr>
<tr>
<td>Emerging Markets Corporate Plus</td>
<td>4.16%</td>
<td>4.16%</td>
<td>16.59%</td>
<td>-27.58%</td>
</tr>
<tr>
<td>U.S. High Yield CCC or Below</td>
<td>10.42%</td>
<td>9.61%</td>
<td>45.02%</td>
<td>-48.84%</td>
</tr>
</tbody>
</table>

Source: Bloomberg. Indices represented by the BofA ML Indices. Index returns are provided for illustrative purposes only to demonstrate a hypothetical investment vehicle using broad-based indices of securities. Returns do not represent any actual investment. Returns are cumulative and based on each Index’s price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future results. The past performance figures do not represent performance of any Hatteras Funds security and there can be no assurance that any Hatteras Funds security will achieve the past returns of the illustrative examples. The unmanaged indices do not reflect fees and expenses and are not available for direct investment.
TOOLS TO DIVERSIFY FIXED INCOME EXPOSURE
2 WAYS TO GENERATE RETURNS IN TRADITIONAL FIXED INCOME

1) **Yield/Income**

2) **Appreciation**
### Traditional Fixed Income - Beta

<table>
<thead>
<tr>
<th></th>
<th>Potential Portfolio Benefits</th>
</tr>
</thead>
</table>
| **Investment Grade Bonds** | • Core stable allocation  
                             | • Low default risk |
| **High Yield Bonds**     | • Return enhancer  
                             | • Income potential |
| **Mortgage Backed Securities** | • High quality and very liquid  
                                    | • Alternative form of credit risk |
| **CMBS / ABS**           |                                                 |
| **TIPS**                 | • Inflation hedge  |
| **Sovereign Bonds**      | • Diversification of country risk  
                             | • Possible currency opportunity |
| **International & Emerging Market Bonds** | • Diversification of country risk  
                                                | • Possible currency opportunity  
                                                | • Low correlation advantages |
| **Bank Loans**           | • Attractive inherent seniority  
                             | • Reduced interest rate sensitivity |
4 WAYS TO GENERATE RETURNS IN ALTERNATIVE FIXED INCOME

1) Yield/Income

2) Appreciation

3) Depreciation

4) Alternative Trading Strategies
LIQUID ALTERNATIVE FIXED INCOME STRATEGIES

- **Long/Short Equity**
  - Diversified
  - Sector Focus
  - International
  - Short Bias

- **Market Neutral**
  - Diversified
  - Sector Focus
  - International
  - Quantitative

- **Relative Value - Long/Short Debt**
  - Relative Value
  - Long/Short Fixed Income
  - Hedged
  - Event Driven
  - Stressed/Distressed
  - Yield Curve

- **Event Driven**
  - Merger Arbitrage
  - Activist
  - Distressed Restructuring
  - Event Equity/Debt

- **Managed Futures Strategies**
  - Systematic Div. Fixed Income
  - Systematic Short Term Trading
  - Systematic Countertrend
  - Systematic Trend Following
### Alternative Fixed Income Trading Strategies

<table>
<thead>
<tr>
<th>Alternative Fixed Income - Alpha</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative Value</td>
<td>Seeks to profit from differences in the performance of two related securities</td>
</tr>
<tr>
<td>Long / Short Fixed Income</td>
<td>Seeks to profit from undervalued (long) or overvalued (short) fixed income securities</td>
</tr>
<tr>
<td>Hedged</td>
<td>Hedges out (removes) some aspect of the market risk (credit risk/interest-rate risk) Typically attempting to remove a broader market risk or isolate a mispricing</td>
</tr>
<tr>
<td>Event-Driven Fixed Income</td>
<td>Seeks to profit from a specific corporate event (capital restructuring, acquisition, merger)</td>
</tr>
<tr>
<td>Stressed/Distressed Debt</td>
<td>Seeks to profit from purchasing debt that is trading at a discounted value because the issuer is under stress</td>
</tr>
<tr>
<td>Yield Curve Trading</td>
<td>Seeks to profit from an anticipated change in the slope or a shift in the yield curve</td>
</tr>
</tbody>
</table>

Alpha refers to returns not contributable to market exposure.
3 WAYS INTEREST RATES CAN MOVE

1: Rise
2: Fall
3: Muddle Along
MARKET SCENARIO: RISING RATE

Market Environment

1) Growth increases
2) The Fed likely increases interest rates
3) Inflation expectations follow

Results

- Credit sensitive securities and shorter duration securities perform well as improving economy reduces defaults
- High quality and longer duration securities impacted by rising rates
- Increased volatility benefits active trading and relative value opportunities

Investment Approach

- Increase exposure to bank loans
- Shorten duration to reduce interest rate sensitivity
- Increase short positioning in portfolio

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative Value</td>
<td>✓</td>
</tr>
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<tr>
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<td></td>
</tr>
<tr>
<td>Yield Curve Trading</td>
<td>✓</td>
</tr>
</tbody>
</table>

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CASE STUDY 1: ALTERNATIVE FIXED INCOME TRADING STRATEGIES

<table>
<thead>
<tr>
<th>TRADING STRATEGY</th>
<th>GOAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event-Driven Fixed Income</td>
<td>Profit from a specific event such as a corporate event (i.e. capital restructuring, acquisition, merger)</td>
</tr>
</tbody>
</table>

**Event Driven: International Coal Group**

**Thesis**

Attractive yield, low leverage

**Corporate Event**

Recapitalize - strong fundamentals and valuable reserves

**Trade**

Bought International Coal 10.25% bonds at $101

**Conclusion**

Within 45 days of investment, ICG tendered for its bonds at $107.25, + 6.2%
MARKET SCENARIO: FALLING INTEREST RATE

Market Environment

1) Spending and GDP growth decelerates towards recession
2) Default rates increase
3) Interest rates decline

Results

- High quality and longer duration securities benefit from falling rates
- Credit sensitive securities likely to sell off as credit spreads widen reflecting increasing default risk

Investment Approach

- Increase allocation to event driven/credit strategies
- Look for distressed debt opportunities
- Look to purchase securities higher in capital structure
- Short bonds lower in the capital structure

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Opportunity</th>
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</thead>
<tbody>
<tr>
<td>Relative Value</td>
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<td>✓</td>
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<tr>
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<td>✓</td>
</tr>
<tr>
<td>Stressed/Distressed Debt</td>
<td></td>
</tr>
<tr>
<td>Yield Curve Trading</td>
<td>✓</td>
</tr>
</tbody>
</table>
CASE STUDY 2: ALTERNATIVE FIXED INCOME TRADING STRATEGIES

<table>
<thead>
<tr>
<th>TRADING STRATEGY</th>
<th>GOAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long / Short Fixed Income</td>
<td>Profit from undervalued (long) or overvalued (short) fixed income securities</td>
</tr>
</tbody>
</table>

**SHORT: GREAT ATLANTIC & PACIFIC TEA COMPANY (GAP)**

**Thesis**
- Great Atlantic & Pacific Tea Company (GAP) had high leverage and negative free cash flow
- The company faced secular headwinds
  - Squeezed on the high end (Whole Foods) and low end (Walmart, Target)

**Trade**
*Short* GAP’s Bonds and purchased GAP put options

**Conclusion**
- GAP filed for Chapter 11 several months later
- GAP short positions resulted in significant gain

The hypothetical mathematical illustration is an example of the type of strategy a manager would attempt to implement in the trading strategy mentioned above. It is not a recommendation by the Fund, Advisor, or Distributor nor is it to constitute a past recommendation of specific investments made by Hatteras. The descriptions are not to be used to make any investment decision relating to the Fund. The descriptions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Past performance is not indicative of future results.
MARKET SCENARIO: CONTINUE TO MUDDLE ALONG

**Market Environment**

1) Low interest rate environment persists
2) Low growth environment continues
3) Unemployment remains elevated with modest inflation

**Results**

- Lower quality securities outperform as investors continue to search for yield in a tight spread environment.
- Investment grade delivers the current yield of ~2.5% with increased volatility
- Active trading managers should have greater opportunity in heightened volatility environment

**Investment Approach**

- Buy high yield fixed income while maintaining hedge to protect downside risk
- Limit duration of portfolio to protect against sudden rate changes

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative Value</td>
<td>✓</td>
</tr>
<tr>
<td>Long / Short Fixed Income</td>
<td>✓</td>
</tr>
<tr>
<td>Hedged</td>
<td>✓</td>
</tr>
<tr>
<td>Event-Driven Fixed Income</td>
<td>✓</td>
</tr>
<tr>
<td>Stressed/Distressed Debt</td>
<td></td>
</tr>
<tr>
<td>Yield Curve Trading</td>
<td>✓</td>
</tr>
</tbody>
</table>

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# CASE STUDY 3: ALTERNATIVE FIXED INCOME TRADING STRATEGIES

<table>
<thead>
<tr>
<th>TRADING STRATEGY</th>
<th>GOAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative Value</td>
<td>Profit from differences in the performance of two related securities</td>
</tr>
<tr>
<td>Event-Driven Fixed Income</td>
<td>Profit from a specific corporate event (capital restructuring, acquisition, merger)</td>
</tr>
</tbody>
</table>

### Relative Value: Kodak

**Thesis**
- Highly leveraged capital structure
- Declining revenues and diminishing margins

**Trade**
- *Short* Kodak unsecured notes at $69
- *Long* secured notes at $83

**Conclusion**
- Company filed for bankruptcy
- Unsecured notes were at $26 (up $43), + 62%
- Secured notes are at $91 (up $8), + 10%

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ALTERNATIVE FIXED INCOME STRATEGIES HAVE OUTPERFORMED IN RISING INTEREST RATE ENVIRONMENTS

JANUARY 1, 1990 – DECEMBER 31, 2012

<table>
<thead>
<tr>
<th>Time Period</th>
<th>10/1/93 – 11/30/94</th>
<th>1/1/96 – 8/30/96</th>
<th>10/1/98 – 1/31/00</th>
<th>6/1/03 – 6/30/06</th>
<th>1/1/09 – 3/31/10</th>
<th>9/1/10 – 3/31/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>BarCap US Agg. Bond Index</td>
<td>-3.5%</td>
<td>-1.1%</td>
<td>-0.8%</td>
<td>6.1%</td>
<td>7.8%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>HFRI RV Fixed Income Index</td>
<td>6.1%</td>
<td>10.5%</td>
<td>8.1%</td>
<td>37.9%</td>
<td>36.8%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Difference</td>
<td>9.6%</td>
<td>11.6%</td>
<td>8.9%</td>
<td>31.8%</td>
<td>29.0%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

Source: Bloomberg. Interest Rates: US Generic Govt. 10 Year Yield. Yields are yield to maturity and pre-tax. The rates are comprised of Generic United States on-the-run government bill/note/bond indices. The illustrations are not intended to predict the performance of any specific investment or security. The past performance figures do not represent performance of any Hatteras security and there can be no assurance that any Hatteras security will achieve the past results of the illustrative examples. The unmanaged indices do not reflect fees and expenses and are not available for direct investment. Past performance is not indicative of future results.
TOOLS TO DIVERSIFY FIXED INCOME EXPOSURE

OPPORTUNITY THROUGHOUT THE CREDIT CYCLE

- Stressed performing HY
- Post-reorg equity
- Liquidations
- Litigation

- Restructurings
- Rescue financing
- DIP financing

- High quality preforming credit
- Distressed exchanges
- Rescue financing
- Bridge financing

- Merger arbitrage
- Tender offers
- LBO: Long Equity + Long CDS
- Leverage

- Single name vs. Index arbitrage

- Tail hedges
- Single name CDS
- Capital structure arbitrage
- Uncorrelated assets
- Cash

Source: Hatteras Funds, LBO: Leverage Buyouts; CDS: Credit Default Swaps; DIP: Debtor in Possession
TOOLS TO DIVERSIFY FIXED INCOME EXPOSURE

RELATIVE VALUE STRATEGIES ARE THE LARGEST IN THE HEDGE FUND INDUSTRY

**ESTIMATED STRATEGY COMPOSITION BY AUM**

- Macro: 21.66%
- Event-Driven: 24.78%
- Equity Hedge: 26.54%
- Relative Value: 27.02%

**ESTIMATED RELATIVE VALUE SUB-STRATEGY COMPOSITION BY # FUNDS**

- Multi-Strategy: 29.58%
- Fixed Income - Corporate: 18.97%
- Fixed Income - Asset Backed: 16.05%
- Fixed Income - Convertible Arbitrage: 11.54%
- Volatility: 11.14%
- Fixed Income Sovereign: 6.90%
- Yield Alternatives: 5.84%

INSTITUTIONAL INVESTORS ARE FLOCKING TO RELATIVE VALUE STRATEGIES

RELATIVE VALUE ESTIMATED ASSETS

TOOLS TO DIVERSIFY FIXED INCOME EXPOSURE

HOW TO ALLOCATE TO ALTERNATIVE FIXED INCOME

- Alternative fixed income - a piece of your bond allocation
- Designed to provide risk mitigation and take advantage of credit opportunities
PORTFOLIO SOLUTIONS
**HATTERAS LONG/SHORT DEBT FUND**

### Fund Focus
- Designed as a fixed income allocation
- Multi-manager approach

### Reasons to Invest
An alternative fixed income allocation designed to mitigate risks such as rising interest rates

### Fund Highlights
- Daily Liquidity
- Position Level Transparency
- 1099 Tax Reporting

### Manager Allocation

<table>
<thead>
<tr>
<th>Manager</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sound Point Cap. Mgt.</td>
<td>32.1%</td>
</tr>
<tr>
<td>Raven Rock Cap. Mgt.</td>
<td>24.2%</td>
</tr>
<tr>
<td>Smith Breeden Assoc</td>
<td>22.7%</td>
</tr>
<tr>
<td>Meehan Combs</td>
<td>8.3%</td>
</tr>
<tr>
<td>SW Asset Mgt, LLC</td>
<td>4.8%</td>
</tr>
<tr>
<td>Cash/Other</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

### Portfolio Exposures

<table>
<thead>
<tr>
<th>Exposures</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Positions</td>
<td>358</td>
</tr>
<tr>
<td>Short Positions</td>
<td>73</td>
</tr>
<tr>
<td>Total Gross Exposure*</td>
<td>94.20%</td>
</tr>
<tr>
<td>Total Net Exposure*</td>
<td>74.11%</td>
</tr>
</tbody>
</table>

Data as of 3/31/13. *Exposure is calculated on an accounting basis and is not adjusted for derivatives.
Data as of 3/31/13. 1. Weighted average effective duration. The duration of floating rate loans in the portfolio is estimated to be 0.25 years. 2. The unsubsidized SEC yield is for Class I shares and is an annualized yield based on the most recent 30 day period. It does not include the reimbursement or waivers of certain expenses. 3. Allocations are a percentage of gross fixed income exposure which is calculated on an accounting basis and is not adjusted for derivatives.
<table>
<thead>
<tr>
<th>MEEHAN COMBS</th>
<th>Raven Rock</th>
<th>Smith Breeden</th>
<th>SoundPoint</th>
<th>SW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy:</strong> Multi-Strat. RV</td>
<td><strong>Strategy:</strong> Multi-Strat. RV</td>
<td><strong>Strategy:</strong> Fixed Inc. Arbitrage</td>
<td><strong>Strategy:</strong> Long/Short Credit</td>
<td><strong>Strategy:</strong> Long/Short EM Debt</td>
</tr>
</tbody>
</table>

### Matt Meehan
Chief Investment Officer

Meehan Combs invests in liquid corporate debt of companies domiciled and with primary operations in developed Europe.

The team concentrates on investment opportunities across the credit markets specifically focused on relative value, event-driven and stressed credit.

The manager invests throughout the capital structure and across a broad spectrum of companies, industries and asset classes.

### Guy Kaplan, CFA
Managing Partner, Portfolio Manager

A corporate credit approach with two core components: directional credit and relative value.

Directional credit includes both long and short positions in individual credits and event driven trades. Relative value includes convertible arbitrage, capital structure arbitrage, volatility arbitrage, and industry pairs trading.

Returns across all strategies are driven by a combination of fundamental research, sector selection, and proper assessment of market risks and opportunities.

### Jonathan M. Duensing, CFA
Principal, Senior Portfolio Manager

Smith Breeden’s fixed income arbitrage strategy invests primarily in fixed income securities with an emphasis on securitized credit and corporate credit.

Investments also may include emerging market debt, currency overlays, and other special situations.

Smith Breeden takes both long and short positions with either cash or derivative securities.

### Stephen Ketchum
Founder, Managing Partner

Sound Point concentrates on liquid investment opportunities across the credit markets specifically focused on relative value, event-driven and stressed and distressed credit.

The manager invests throughout the capital structure and across a broad spectrum of companies, industries and asset classes.

SW seeks to generate income and capital appreciation with little correlation to U.S. credit markets by investing in the corporate debt of companies domiciled and with primary operations in emerging market countries.

### David Hinman, CFA
Chief Investment Officer

SW hedges positions using broader based market derivatives.

The investment team identifies opportunities through fundamental credit research and adds value by identifying and capturing inefficiencies in the marketplace.
<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>MEEHAN COMBS</th>
<th>RAVEN ROCK CAPITAL MANAGEMENT</th>
<th>SMITH BREEDEN ASSOCIATES</th>
<th>SOUND POINT CAPITAL MANAGEMENT</th>
<th>SW Asset Management, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative Value</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Value Long/Short</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Hedged</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Credit: Event-Driven</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Stressed/Distressed Debt</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
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<tr>
<td>Yield Curve Trading</td>
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<td></td>
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<td>✓</td>
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</table>
## PORTFOLIO SOLUTIONS

### HATTERAS LONG/SHORT DEBT FUND | MULTIPLE SECTOR EXPOSURE

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>MEEHAN COMBS</th>
<th>RAVEN ROCK CAPITAL MANAGEMENT</th>
<th>SMITH BREEDEN ASSOCIATES</th>
<th>SOUND POINT CAPITAL MANAGEMENT</th>
<th>SW ASSET MANAGEMENT, LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>High Yield</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Convertibles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Asset Backed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Treasuries</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>International Corporate</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Investment Grade</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>
### HATTERAS LONG/SHORT DEBT FUND | AVERAGE ANNUAL RETURNS

#### RISK/RETURN PROFILE (MAY 2011 – MARCH 2013)

<table>
<thead>
<tr>
<th>Fund</th>
<th>1 Year</th>
<th>Since Inception</th>
<th>Standard Deviation</th>
<th>Correlation to Barclays US Agg Bond Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hatteras Long/Short Debt Fund (Class I)</td>
<td>3.43%</td>
<td>1.99%</td>
<td>3.41%</td>
<td>-0.26</td>
</tr>
</tbody>
</table>

*Net Fund Operating Expenses are contractually capped 2.49% for through April 30, 2014, and exclude dividends on short positions and interest on borrowing, as well as other extraordinary expenses. Total Annual Fund Operating Expenses 3.02%. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the Funds may be lower or higher than the performance quoted. For performance information current to the most recent month end, please call 877.569.2382 or visit us at hatterasfunds.com.*

1. Inception date for Hatteras Long/Short Debt Funds was May 2, 2011;
SUMMARY
FIXED INCOME MARKETS TODAY

- Interest rates are at historic lows
- Investors face two primary risks
  1) Principal protection
  2) Meeting long-term investment objectives

ALTERNATIVE FIXED INCOME STRATEGIES OFFER TOOLS TO DIVERSIFY INVESTORS’ PORTFOLIOS

HATTERAS LONG/SHORT DEBT FUND IS A PORTFOLIO SOLUTION

- Multiple Alternative Fixed Income Strategies
- Multiple Alternative Fixed Income Managers
- Designed To Mitigated Risks Associated With Traditional Fixed Income
The Funds’ investment objectives, risks, charges and expenses must be considered carefully before investing. The summary prospectus and prospectus contain this and other important information about the investment companies, and may be obtained by calling 877.569.2382, or visiting hatterasfunds.com. Read it carefully before investing.

Key Risk Factors: 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. 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. Fixed Income instruments are exposed to credit and interest rate risks. Investing in lower-rated (“high-yield”) debt securities involves special risks in addition to the risks associated with investments in higher-rated debt securities, including a high degree of credit risk and liquidity risk. 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 (affiliated) that invest in securities and styles similar to the Fund, resulting in a generally higher investment cost than from investing directly in the underlying shares of these funds; shares of other unaffiliated investment companies primarily including ETFs. Exposure to the commodities markets through investment in managed futures programs may subject the Fund to greater volatility than investment in traditional securities.

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 each Funds’ share price. Because the Funds are funds-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’s 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. These securities have not been approved or disapproved by the Securities and Exchange Commission.

The Funds are distributed by Hatteras Capital Distributors, LLC, an affiliate of Hatteras Alternative Mutual Funds by virtue of common control or ownership.
INDEX DEFINITIONS

30-YEAR TREASURY BOND is a U.S. Treasury debt obligation that has a maturity of 30 years.

10-YEAR TREASURY BOND is a U.S. Treasury debt obligation that has a maturity of 10 years.

BARCLAYS US AGGREGATE BOND INDEX is an unmanaged, un-investible index that represents securities that are SEC-registered, taxable, and dollar denominated. It covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

BOA MERRILL LYNCH OPTION-ADJUSTED SPREADS (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond’s OAS, weighted by market capitalization. The BofA Merrill Lynch High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below).

BOA ML MORTGAGE BACKED INDEX is an unmanaged index composed of all fixed securities mortgage pools by GNMA, FNMA and the FHLMC, including GNMA Graduated Payment Mortgages.

BOA ML HIGH YIELD MASTER II INDEX is a commonly used benchmark for high yield corporate bonds. It measures the broad high yield market.

BOA ML CORP + GOV’T INDEX Tracks investment grade sovereign debt publicly issued and denominated in the issuer’s own domestic market and currency as well as the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody’s, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody’s, S&P and Fitch foreign currency long term sovereign debt ratings).

BOA ML EMERGING MARKETS DIVERSIFIED CORPORATE INDEX tracks total returns for external-currency-denominated debt instruments of corporate entities in the emerging markets.

BOA ML MUNICIPAL BOND MASTER INDEX measures total return on tax-exempt investment grade debt publicly issued by U.S. states and territories, and their political subdivisions, including price and interest income, based on the mix of these bonds in the market. This index is often used as a reference for the performance of tax-exempt U.S. municipal bonds.

BOA ML CORPORATE BOND MASTER INDEX is a market-value-weighted index composed of domestic Corporate (BBB/Baa rated or better) debt issues.

BOA ML US TREASURY INDICES measure the performance of direct obligations of the U.S. Treasury.
INDEX DEFINITIONS

**BofA ML U.S. High Yield CCC or Below Index** is a subset of the BofA Merrill Lynch US High Yield Master II Index tracking the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. This subset includes all securities with a given investment grade rating CCC or below.

**BofA Merrill Lynch Emerging Markets Corporate Plus Index** is a broad, capitalization-weighted composite index designed to track the performance of U.S. dollar- and euro-denominated debt of corporate issuers who primarily do business in emerging market countries.

**The BofA Merrill Lynch US Inflation-Linked Treasury Index** is an unmanaged index comprised of U.S. Treasury Inflation Protected Securities with at least $1 billion in outstanding face value and a remaining term to final maturity of greater than one year.

**Consumer Price Index** produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

**HFRI RV Fixed Income Corporate Index** are strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk free government bond.

**IA SBBI Long-Term Corporate Total Return Bond Index** is a market value-weighted index which measures the performance of long-term U.S. corporate bonds.

**Markit CDX North America High Yield Index** is an index based on a basket of North American single-name high yield credit default swaps.

**Moody’s Seasoned Aaa Corporate Bond Yield** reflects the average yield of constituent corporate bonds that have been given Moody’s Aaa credit rating. Corporate bonds can receive ratings from Moody’s that range from a high of Aaa to a low of C. Bonds given the Aaa rating are judged to be of the highest quality, with minimal credit risk.

**S&P 500 TR Index** is an index of 500 stocks chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor’s. The S&P 500 is a market value weighted index with each stock’s weight in the index is proportionate to its market value.
DEFINITIONS

**Alpha** measures excess return relative to the market; often referred to as a measurement of “manager skill.”

**Beta** is a measure of a fund.