PERFORMANCE REVIEW - TULIP TREND FUND LTD.

As during the previous major drawdowns in 2004 and 2006, we thought that also during the current difficult period, a written performance review might be welcome by investors. Investors who did read our previous reports or who are familiar with the strategy might skip initial sections and focus on section 4 to 10.

1. INTRODUCTION

Tulip Trend Fund Ltd. (hereafter referred to as “Fund”, “Tulip”) is a Cayman based limited liability company founded and set up in 2003 by Progressive Capital Partners Ltd (“Investment Advisor”, “Progressive”). Subsequent to the recommendation of the Investment Advisor, the Fund has engaged Transtrend B.V. (“Trading Advisor”, “Transtrend”) to invest Tulip’s assets according to the Diversified Trend Program – Enhanced Risk (USD) (“DTP”, “System”), but with 50% notional funding, i.e. double the risk.

2. STRATEGY

Markets are not efficient. Often, they tend to be driven by irrational behaviour such as fear and greed. This emotional crowd behaviour creates opportunities that DTP tries to exploit through a systematic, pre-defined approach.

DTP trades all markets in its investment universe (currently approx. 370 markets) exactly the same way and is unbiased, i.e. long and short signals are treated identically. It is run three times a day and based on quantitative analysis of price data, it generates buy and sell signals to capture price trends across a highly diversified portfolio. The System can be long, short or neutral in every of these markets.

Holding periods have averaged one month, with winners held 6-7 weeks and losers 2-3 weeks. DTP can therefore be classified as medium term trend following. Trend following is **based upon the expectation that trends occur in market prices from time to time**. In other words, trend following is speculative directional risk taking. Trend followers mostly generate strong profits in periods of expanding volatility and strong trends, while losses arise in choppy range bound markets and during reversals. Historically, the strategy has tended to be non-linearly correlated with equities and often, periods of strong returns from trend following coincided with substantially weakening equity markets for an extended period of time as experienced in 2007 and 2008.

3. RISK PROFILE AND RISK MANAGEMENT

Since inception, Tulip has been funding its account with approx. 50% notional assets, resulting (based on monthly return data) in a volatility (annualized standard deviation) of approx. 28%. Assuming a normal return distribution, this implies that during 68.27% of the time of a year, Tulip is expected to remain within +/- 1 standard deviations (“StD”) (+/-28%), during 95.45% within two StD (+/- 56%), during 99.73% within three StD and during 99.994% within four StD. Tulip’s risk profile is therefore approximately twice as high when compared to DTP or most common futures and equity funds (“Common Funds”). This cash efficient structure allows investors to get the exposure of Common Funds by putting only half the money at risk. Naturally, if an investor’s Tulip position is sized in proportions similar to positions in Common Funds, he is running double the risk.

Consequently, when performing in line with peers, Tulip’s returns during profitable periods are approximately twice as high, but also approx. twice as weak in losing periods, when compared to Common Funds. A relative over- or underperformance further increases this gap.

Risk management is based on extreme correlations in a highly adverse market environment to define the expected maximum loss of the portfolio in one day. Based on this, risk budgets across the various markets are allocated with the objective that Tulip should not lose more than a pre-defined maximum percentage of 24% (when 50% notionally funded) in one trading day.

The System does not use stop losses. Position exits are caused by DTP's signals, adjustment of the overall portfolio risk or increasing volatility in the respective market. Drawdowns are neither managed nor do they impact overall risk allocation.

4. RECENT RETURNS

As we move into 2010, world economies and markets have passed the third year of the financial crisis that was triggered by the bursting bubble of US subprime debt. Over this three year period, Tulip has performed roughly in line with expectations and the behaviour of the applied strategy during similar occasions in the past. Initially, positions of prior trends and the period to adapt to new trends caused negative returns, but as soon as the pressure increased, volatility expanded and strong trends emerged, the Fund was able to post substantial gains during the latter half of 2007 and in 2008. As tensions ceased, markets recovered and trends reversed, the inevitable give-back occurred and led to the Fund being down by approximately 10% into the summer of 2009. As the year moved on, the strategy was confronted with an unfavourable environment across most markets. The equity uptrend was regularly interrupted by strong sell-offs, that led to liquidation of long positions close to the lows of these corrections, while other markets such as the energy component experienced violent reversals subsequent to the strategy being positioned close to maximum risk allocations.

This led to the first negative calendar year since Tulip's inception and the second in the history of DTP. The disappointing return for 2009 represents also the weakest 12 month return compared to any other rolling annual return period before.

Also from a relative perspective, Tulip has underperformed the majority of reputable peers on a risk-adjusted basis, although many of them experienced also one of their weakest calendar years.

5. REASONS FOR THE WEAK PERFORMANCE

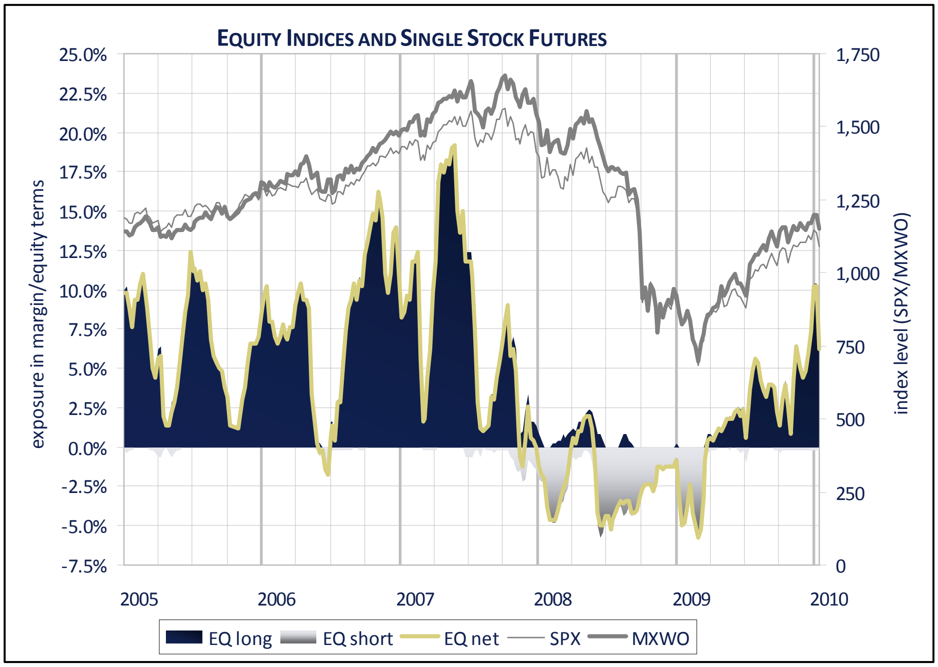
Sharp reversals are the biggest threat to a trend following strategy. Reversals in different markets can often coincide; they cluster. Even in markets that normally exhibit no or low correlation. To limit the aggregate impact of sharp reversals, Transtrend has always traded relatively limited position sizes in markets with such clustered reversals, and relatively large position sizes in markets with less clustered reversals. These latter markets include some large, fairly independent commodity markets like natural gas and many of DTP's synthetic markets (combinations of markets). This has helped to keep drawdowns limited in the past. Indeed, DTP seems to be less sensitive to reversals in some main driving markets like the US Dollar or international bonds than some of its peers. However, there is also another side to this coin: DTP is more sensitive to sharp reversals in the more isolated markets. Albeit that this sensitivity is still not higher than its sensitivity to reversals in the US Dollar or bonds. In 2009 an above average number of sharp reversals in the more isolated markets was witnessed. One would expect that a number of other programs which normally trade smaller sizes (in the case of natural gas) or not at all (in the case of synthetic markets) in these markets will be less hurt by these reversals. Also, one would expect that such programs will profit more from the good trends that DTP also picked up in some other markets, but in which DTP trades smaller sizes because of their normally more clustered reversals. Overall, the profits from these good trends did not make up for the series of hard-felt reversals, leading to the current drawdown that is historically large, but not an outlier, neither in magnitude nor in length.

The vast majority of losses from isolated markets including synthetics occurred in September (energy) and December (energy, interest rates).

6. BUT THERE WAS A TREND IN EQUITY MARKETS!

Although Tulip's role in a portfolio is not to be an equity replacement, some might argue that there was a trend in equity markets. So why didn't DTP make more money in equities? The following chart shows the long (blue area), short (grey area) and net (golden line) exposure of Tulip (in margin/equity terms) in equities and single stock futures, charted along with the MSCI World (MXWO, thick grey line) and the S&P 500 (SPX, thin grey line).

It is apparent that during the first months of the year, equity attributions were negative, as parts of open profits on shorts were given back during the reversal. Shorts were then further cut back and longs gradually increased after Q1. The subsequent rally was often interrupted by violent setbacks during which positions were reduced towards the lows of these corrections. For the overall year, trading of equity index and single stock futures resulted in a small profit of close to 2% for Tulip.



7. FROM WHAT EVOLVES PERFORMANCE?

During the three times a day that DTP is run, buy and sell orders are generated. And although it attempts to stay out of sideway markets, only approx. 50% of the trades are winners, the rest losers. Not much better than a random system like tossing a coin - at first sight. The difference lies in the significantly higher profitability of winning trades than the average loser.

The System does not and cannot predict the outcome of a single trade as one only knows in hindsight if a trade was profitable or not. The only thing known is that the distribution of out-comes over a larger number of trades over a longer period of time has been clearly favourable in the past. These trades form the basis of DTP's highly attractive track record of more than 17 years and also Tulip's strong track record of almost 7 years.

So imagine that we write the profit/loss of all these thousands of trades on small cubes and put them into a bag. All we know is that we have 50% of loser cubes and 50% of winner cubes in that bag and that the winners are more profitable. But if we put our hand into the bag and pull out one trade after the other, we don't know in what order they will be distributed. For example, the first ten cubes pulled out might all be losers, or all winners or equally split, etc.

All these trades then create daily returns. Now imagine we do the same with all daily returns; we write all daily returns on cubes and put all cubes into a bag. In the case of DTP we know that in the past, approx. 54% of daily returns have been winners. But here again, we cannot forecast and don't know how they will be distributed. If we pull a longer series of losers or predominantly losers, this will then result in a drawdown or a negative monthly return and vice versa.

And if we move ahead now and do the same with these monthly returns, we will have close to 58% of the monthly cubes that will be winning months. But we still don't know in which order they will be pulled out and subsequently create annual returns.

Do any of these cubes care about calendar month or calendar year end? If we look at DTP's track record, there were rolling annual periods with up to 10 out of 12 positive months and up to 9 out of 12 negative months.

We believe that **the distribution of out-comes is random and has never been regular and consistent. A prolonged series of negative results – known as a drawdown – is not unexpected or unforeseen, it forms part of the strategy and can unfortunately not be avoided.**

8. Comparison to other Drawdowns

Previous drawdowns were sometimes contained by the diversification across subsystems, time frequencies and markets. Often, drawdowns were also mitigated because they started at a moment within a calendar month at which the Fund was up for the respective month, were split by calendar month or calendar year end, were cushioned by crediting back accrued performance fees or were dampened down by a healthy interest income on the vast cash portion held. In 2009, none of these factors was apparent. The entire drawdown fell into a calendar year, which causes one to interpret it as something unexpected or out of historic proportions. However, in relation to the risk profile (see section 3) it is well within expected fluctuation ranges. After the positive extreme during the best ever two calendar year return (2007 and 2008 cumulative: +134.30% for C USD), the pendulum swung back as Tulip (C USD) lost 25.53% in 2009. In relation to the prior gains, it is not unexpected to give back approx. a third of previous gains.

Ten Largest Drawdowns

based on daily returns since 1995
grey data based on simulated returns*

Drawdown	Start	End	Length
-38.26%*	1998-10-06	2001-03-16	639d
-35.87%	2009-03-03	2010-01-22	233d
-34.66%*	1997-10-06	1998-01-02	64d
-33.36%*	1996-02-01	1996-04-24	60d
-30.22%*	1998-06-16	1998-08-26	52d
-28.75%*	1997-02-19	1997-07-16	106d
-28.01%	2007-01-19	2007-05-22	86d
-27.00%*	2003-06-12	2004-11-25	379d
-25.12%*	1998-01-13	1998-06-11	108d
-24.43%	2006-05-12	2006-11-06	127d

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RETURNS. THE VALUE OF YOUR INVESTMENT MAY FLUCTUATE.

While the current drawdown is the largest based on monthly returns, it is interesting to know that based on daily figures, Tulip has already experienced several drawdowns in this magnitude before. If we simulate Tulip C USD returns before the Fund's launch (grey, simulated returns*), we learn that there were even drawdowns based on daily returns of close to 40%. Therefore, had the calendar year start and end coincided with the peak and trough of that drawdown, a negative calendar year return of 40% would appear on the performance table, but the overall return would be unchanged.

The above emphasises the irrelevance of calendar year returns and is also the reason why we have been proclaiming already during the profitable times of Tulip, that calendar year returns should not be a reason to select an investment as they do not provide any information about risks and risk-adjusted returns.

9. WHAT NOW?

How does Transtrend react to these losses? Not at all. If they did, they would exactly act contrary to their core belief mentioned in section 2. They would emotionally react and take decisions subsequent to losses. Losses, that are well within expected ranges. At the low of the drawdown in 2006, DTP had lost money in currencies for six months in a row. During the following months, currencies were the most favourable sector and contributed more than 20% to Tulip's performance. Also DTP's relatively large allocation to isolated markets (see section 5) will not be changed, since they have no reason to believe that the more isolated markets will remain less attractive.

Transtrend's research is an ongoing process of developing new ideas and the implementation of refinements and new applications. These ideas are not specifically related to drawdowns. We believe that the strength of systematic trading is to remain disciplined, particularly during drawdowns. Of course, although this approach has been correct during all previous drawdowns, we will only know in hindsight if this approach was also correct this time.

Transtrend always sees room for improvement in DTP. This is what keeps them moving all the time. They are far from dispirited because of the 2009 performance. On the contrary, the whole team is as motivated as ever before and excited about possible additions and innovations to the System. They will continue to build on the strong elements of their program. Even after witnessing the 'darker side', Transtrend believes and trusts in their basic principles and in their long term success.

They continuously work to further improve each step in the investment process, ranging from data quality to the trading systems, risk management and trade execution. Recently, a number of projects related to tick-data have been completed and a number of trade execution algorithms were further refined. In addition, several new markets were added such as for example electricity and the US Dollar versus the Indonesian rupiah as well as a number of synthetic markets.

10. OUTLOOK

While the above explanations are helpful, they do not change the fact that last year's return has been disappointing. Weak performance is never pleasant but particularly frustrating for investors who could not enjoy Tulip's profits prior to 2009. So what lies ahead?

If we analyse the steps that were taken by the governments and central banks across the globe, we conclude that apart from printing vast amounts of new paper money in unprecedented magnitudes, nothing central or substantial has been fixed. The problem was temporary solved with the medicine that caused the problem: easy money in order to inflate asset prices; a new debt and paper money bubble that will continue to inflate and pop one day. Large imbalances within the global macro economic environment remain that are expected to create new money flows, new market reactions, new herd movements and hopefully strong and consistent trends again going forward.

The impressive and solid track record of Tulip Trend Fund's trading advisor has proved that its trend following strategy has delivered very attractive investment returns in the long run. Like any other investment however, it experiences periods of above average returns and times of frustrating below average performance.

The Fund’s interesting correlation characteristics make it an attractive element of diversification for an investor portfolio. Risk/return measures compared to other asset classes can be displayed as follows:

RISK AND RETURN COMPARISON (based on monthly returns)						
2004-12-31 until 2009-12-31	**Tulip Trend Fund C USD**	**MSCI World Total Return USD**	**S&P 500 Total Return USD**	**Topix Total Return JPY**	**Eurostoxx 50 Total Return EUR**	**HFR Fund of Funds Composite USD**
1 year return	**-25.53%**	29.99%	26.46%	7.62%	25.65%	11.67%
3 year return, cumulative	**74.48%**	-15.97%	-15.95%	-43.19%	-20.68%	-3.21%
5 year return, cumulative	**148.39%**	10.46%	2.11%	-15.00%	16.39%	14.87%
Annualised standard deviation	**25.77%**	17.57%	16.05%	19.53%	18.66%	6.72%
Largest drawdown	**26.36%**	54.03%	50.95%	56.23%	54.21%	22.23%
Correlation with Tulip C USD	1.00	0.09	0.07	-0.04	0.06	0.22

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For more than 25 years, systematic trend following has evidenced to be one of the few investment strategies that has provided uncorrelated and attractive overall returns. Numerous times, the strategy was declared dead, last time in 2006. Every time, it did come back in a very convincing way. Of course, there is no guarantee that this is again the case this time. It is impossible to forecast at what level and when a recovery will start as the strategy is entirely dependent on a certain market environment. There is a risk that markets might not turn favourably for the strategy soon and remain unfavourable for longer. However, when they turn favourable again, we have experienced in 2007 and 2008 that the program is able to profit nicely. All we know is that Transtrend’s team will continue to do its work with passion, precision and discipline, which has resulted in a very strong track record over all those years.

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*Inception date C USD Class: April 1, 2004. Monthly returns from December 1993 to March 2003 are simulated results based on the actual performance of the Standard Risk USD subset (due to longer history) of the Diversified Trend Program composite track record of the Tulip's trading advisor with pro-forma adjustments made for the Tulip's fee and notional funding particulars. Daily drawdown data before April 1, 2003 are simulated returns based on the actual performance of two managed accounts of the Enhanced Risk USD subset of the Diversified Trend Program with pro-forma adjustments made for Tulip’s fee and notional funding particulars. As such, any returns before April 1, 2003 do not represent actual Tulip returns and are hypothetical. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that Tulip will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved. One of the risks of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. Returns from April 1, 2003 to March 31, 2004 reflect Tulip A EUR returns adjusted for fees, currency & interest differentials.