QFS MARKET NEUTRAL PORTFOLIO

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YTD Performance

QFSMN:	-4.80%
DJIA:	+7.16%
S&P:	+4.44%
NASDAQ:	-.32%

Dear Partner,

The QFS Market Neutral Portfolio returned -4.8% for the period ended December 31, 2011. With uncertainty and fear trickling out of Europe, our bearish view of the markets is reflected in our portfolio. Investing cautiously, we have held ample reserves of cash to deploy on quality ideas. Our losses have largely been a result of quickly changing, volatile markets which, from our perspective, has resulted in further mispricing and therefore increased opportunity. While the portfolio has underperformed during our first active quarter, we believe with time, our theses will play out and we expect next quarter to be strong.

We held a long position in Qualcomm, a wireless technology giant, known particularly for its development of mobile CDMA technology and development of wireless chips. We held Qualcomm largely because of its consistency and because we felt it was undervalued at $50 per share. We hedged this position with a short on Novatel Wireless, a developer of mobile Wi-Fi devices as well as a large portfolio of software. We did not believe the business model of Novatel Wireless was sound due to the expenses that go along with mobile wireless internet. Most importantly, we did not believe Novatel's price fully reflected its failing business model. Our beta-hedged position on these two shares was closed out up 5% on the trade at a profit of 0.3% to the portfolio.

An ill timed foray into gold mining stocks resulted in a contribution of -1.4% to performance. We believed that the stocks of junior gold miners were not reflecting the increase in the gold price since the beginning of the year, however as the quarter has progressed gold has struggled, and so have our equity positions. We have exited these investments.

Despite that loss, we were fortunate to have a position in Harleysville Group, a property and casualty insurance company specializing in small businesses, just prior to being bought out by Nationwide Insurance at a greater than 80% premium, resulting in a portfolio gain of 1.7% from this now closed trade. The press had reported on potential takeover talks a few days prior to the news being announced. We correctly anticipated the sizable premium needed to be paid to gain control over Harleysville, due to the company being majority owned by policyholders, as well as Nationwide being a private bidder.

During the quarter, we purchased PetSmart, and correspondingly shorted PetMed Express. PetSmart is a pet retailer in the midst of margin expansion as they further optimize their product selection and top-line growth through initiatives such as pet hospitals. PetSmart offers services we believe the internet will not be able to usurp. PetMed Express is a mature business that sells pet medications online. PetMed faces increasing competition from large retailers as well as Amazon's wag.com. We have temporarily closed this position at a slight profit as signs of further declines in PetMed's business have not yet shown up in quarterly results. PetSmart continues to execute well.

We originally established a long position in Seagate Technology and short position in Western Digital, both top producers of hard drives, on the news of flooding in Thailand causing extensive disruption of Western Digital's operations while comparatively sparing Seagate's factories. While originally profitable, this trade has lost the portfolio 0.9%, as Western Digital has managed to bring factories back on sooner than expected and the company's merger with Hitachi remains on track. We believe an opportunity remains here, as the market remains skeptical Seagate can keep market share gains long term. We believe that increasing global demand for hard drives will continue to favor the growth of both companies, and propose longing both Seagate and Western Digital while shorting the S&P will help us take advantage of our conviction in this macro trend.

However, the volatile markets swung in our favor as our bearish bet of long Coca-Cola against the market netted 0.5%. Back in September when this trade was initiated, their was much fear stemming from the European crisis as a whole. Expecting a downturn, we shorted the market and bought Coca-Cola as a defensive bet. Coca-Cola has strong cash flows and a healthy business model, and furthermore pays a 3% dividend.

Electronic Arts and Activision Blizzard are both huge game publishers. We have gone long Activision Blizzard and shorted Electronic Arts. Activision Blizzard has the highly anticipated Diablo III due out in 2012, as well as expansion packs for major games such as World of Warcraft and Starcraft. Electronic Arts is floundering in comparison, and their next big game, Star Wars: The Old Republic a risky financial decision in our view. We continue to monitor this position. We believe Activision has made the right decision to focus on developing what they have, improving upon existing gaming franchises via expansion packs instead of developing risky new ventures which may not increase their market share. Activision's decision to consolidate their initial gains matches our views on a bearish economy in the coming months.

In hard economic times, luxury goods will outperform lower end retailers due to their consumers being more price sensitive. Because of this, we took a position of Long LVMH and Coach while hedging with Gap. With just under 20% of the portfolio in this trade, we took a -1.9% hit to performance due to timing and high levels of volatility affecting our profitability. With LVMH and Coach holding the highest level of cash flow in their companies history, we expect strong organic growth through increased capital expenditure along with future acquisitions. We intend to re-evaluate at the next quarter earnings release to analyze their usage of cash flow and future outlook.

Despite our bearish outlook on the economy, we expect a higher than predicted demand in semiconductor equipment in the coming year as manufacturers change their equipment due to a change in processes. We have gone long in Applied Materials, an equipment and service provider to the semiconductor, flat panel display, and photovoltaic industries. News of supply hits due to flooding in Thailand makes the future view on this equity uncertain but fundamentally, this equity is severely undervalued and near its 52-week low so we expect good returns from this bet in the upcoming quarter.

Back at the end of the third quarter, Morgan Stanley exceeded expectations on earnings because of DVA accounting changes but the underlying business was still fundamentally sound. Deutsche Bank is a major European bank requiring a substantial capital raise to reach ever increasing adequate capital ratio. Despite our trade, long Morgan Stanley, short Deutsche Bank, being fundamentally sound, extreme volatility in the markets resulted in a loss of 0.5%. We look to exit from this position soon as financial regulations on liquidity are tightened resulting in a larger hit for Morgan Stanley as the company lacks a consumer banking arm.

Near the end of November Walgreens, a retail pharmacy, seemed way undervalued and it looked like it had some ground to gain against CVS Caremark, its largest competitor. Walgreens looked particularly undervalued due to its sizable fall from its 52-week high of $47 down to $32 largely due to difficulties coming to terms on a deal with Express Scripts. CVS Caremark was priced at $37, surpassing Walgreen's share price for the first time, prompting us to research both companies. We concluded that CVS Caremark was overvalued. As a result we put on a beta-hedged long WAG, short CVS Caremark. Since November, Walgreens has reported high inventory fees as well as a loss in prescriptions due to its likely loss of Express Scripts on January 1, 2012. These fees caused Walgreens to miss earnings and provide poor guidance while CVS Caremark met earnings. As a result, we have lost 0.4% in our portfolio on this trade so far but we plan to continue holding for the long-term as we certainly continue to consider Walgreens undervalued and the spread in performance between CVS Caremark and Walgreens too great for the time being.

Before Home Depot and Lowe's, two big-box home improvement retailers, released earnings in mid-November we believed the short-term value of the companies was not reflected in their prices. This belief was held particularly in the foundation that Lowe's was not as healthy and was experiencing a reorganization phase. A portion of this belief was already priced into the stocks, as Lowe's announced it was to close 20 stores, many of which were in the same city as Home Depot stores. We saw this as a retreating move and expected it to reflect in earnings. It did. Since earnings, Lowe's has reassured its investors that they are simply in reorganization and the stock has gained some ground back; however we are still up 0.1% in our portfolio due to the trade. We intend to close this trade soon if we feel Lowe's has begun to show positive results from its reorganization.

Yahoo! and Garmin, were two unrelated stocks that we felt were going in different directions. Yahoo! has been in talks with potential bidders for the past few months and those talks have been slowly escalating. With investors changing their minds daily as to whether the likelihood of the company being bid on is higher or lower, this stock has maintained extreme volatility. We still keep a long position on the stock, as it is our belief that a tangible bid for Yahoo! will materialize and that its price will increase to between $16.50 and $20 per share. The difficulty in continuing to hold this stock is that, without new management and a new company strategy, it will be difficult for Yahoo! to be successful moving forward. As a result, we have watched this trade daily for any news regarding a bid.

Garmin, a manufacturer of global positioning systems (GPS) and developer of GPS software for its systems, on the other hand, is a company we believe that does not have a successful business model to last for the long-term. Before earnings in the beginning of November we projected Garmin would lose a large portion of its revenues to smartphones for automobile devices due to the fact that phones offer the same service for free. Our projections were correct, as Garmin's automobile revenues fell 9%. Nonetheless, the stock has continued to rise on increased sales in other sectors, particularly its fitness sector. Although Garmin has benefited from these sectors we see them being a temporary solution to Garmin's long-term problem of a faulty business model due to the emergence of easier, cheaper technology. While we have lost .6% on this trade, we will continue to hold a short position on this stock at least until next quarter's earnings, as we believe our thesis is still strong.

Despite heavy volatility, our portfolio is well positioned for the upcoming quarter. We expect an upturn in our performance with our theses requiring time and patience to appear through the noise and volatility of the market.

Sincerely,

Brian Fu, Joshua Cheung, Preston Parnell, Xiaowei Wang