THE OPTIMIZE FUND L.P.

INVESTOR NEWSLETTER – Q3 2010

On the economic front, activity softened across the globe in Q3 after a strong rebound from the depths of the financial crisis in the first half of 2009. This created panic amongst investors as markets spiked to the downside and upside as conflicting economic data was released. It now appears as though a double dip recession has been avoided but developed markets are likely to maintain below average growth rates until the unemployment picture begins to improve and the trends in claims and new job growth resume a more positive trajectory. This factor combined with restrained loan growth and exploding government deficits has created a dilemma for the Federal Reserve and resurrected the possibility of further quantitative easing. The US government's desire to increase regulations and invoke additional reform packages (in both the healthcare and financial arena) has only heightened budgetary concerns. Lastly, foreclosure activity in the US continues to be a concern and is likely to take years to resolve. Real estate cycles are longer and tend to be less transparent as supply and demand imbalances are worked out.

On the positive side, corporations continue to excel in terms of profitability and leverage reduction as the streamlining of operating costs during the crisis has helped boost margins and profitability which are now also being accentuated by a return to revenue growth. Corporations in general are cashed up and ready to absorb additional shocks should they arise. On top of continued earnings outperformance, the future outlook for many corporations continues to improve. Early cycle cyclicals (industrials etc) are displaying vastly improved fundamentals and commodity prices are again moving higher as the business cycle begins its upswing. Most importantly emerging markets are once again leading the global recovery with China and India both resuming double digit industrial growth and high single digit GDP growth. This has resulted in copper prices approaching $4.00 and inventory overhang in other metals being whittled down. Markets across the globe are returning to positive territory after a rocky start in 2010. When looking at valuations, even excluding ultra low interest rates, it appears to me that based on growth expectations; most markets are trading either at a discount to fair value or at fair value. If one adds in historic low interest rates most markets globally are trading at significant discounts.

On the portfolio front, hedging has been costly but necessary to cope with volatility and reduce exposure to potentially negative developments in both individual stocks and the markets as a whole. We have repositioned ourselves with a considerable weighting in industrials and technology based leaders with significant revenue growth potential in emerging markets such as Deere, Apple and IBM. Energy and precious metal stocks have significantly lagged their underlying commodity price movements, but we suspect that this gap will narrow as sustained commodity prices from emerging market demand becomes more entrenched. Select bets in the financial sector, such as Citibank and BNS which are more internationally focused, complement our resource and industrial positions and fall in line with our increased exposure to emerging markets. With most defensive names trading at premium valuations we have reduced our weighting and continue to build out our positions in select emerging market leaders, to provide us with the hyper growth element. This provides us with an optimal diversification mix.

Lastly, pessimism still prevails especially amongst the retail crowd with significant cash remaining on the sidelines. With interest rates at historic lows (adding huge risks to fixed income investing) we believe the dynamics are set for a modest and maybe significant move up in stock markets over the next few years with volatility spikes less frequent and governments slowly restoring their balance sheets backstopped by continued strong emerging market growth.

Sincerely,

Jeff Kreps