EVEREST CAPITAL

Marko Dimitrijević, CFA
President

Everest Capital Inc.
2601 S. Bayshore Drive
Suite 1700
Miami, Florida 33133
(305) 666-1700
(305) 666-1919 Fax

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To: Investors and Friends

Re: Would you hire this manager?

Happy New Year from all of us at Everest Capital! As we welcome 2007, I thought you might enjoy this brief exercise. We answer investor questionnaires on Everest Capital all the time and see reports written on other funds similar to the one below. Please take a look at the data (it is not Everest) and think about how you would feel about hiring "Manager X" based on standard performance measures and brief qualitative information:

Manager Due Diligence Report

"Manager X" (not an Everest Capital fund)

Period: January 1990 – December 2006

	Manager X	MSCI All Country World Price Index	Barra S&P 500
Cumulative Return	**1,167.9%**	**163.5%**	**475.2%**
Annualized Return	**16.1%**	**5.9%**	**10.8%**
Annualized Std Deviation	**22.0%**	**14.1%**	**14.0%**
Annualized Sharpe Ratio	**0.66**	**0.27**	**0.60**
Best 1-Month Return	**30.0%**	**10.2%**	**11.4%**
Worst 1-Month Return	**-14.3%**	**-14.2%**	**-14.5%**
Percent Profitable Months	**60.8%**	**61.3%**	**65.2%**
Worst 12-Month Return	**-38.1%**	**-29.3%**	**-26.6%**
Maximum Drawdown	**-43.8%**	**-48.4%**	**-44.7%**
Correlation		**0.36**	**0.43**

Investment Style

Manager X is a U.S.-based investment team headed by experienced partners with one the key decision maker. The team started out as U.S. value investors, then they began investing in merger arbitrage and later diversified into large-cap growth stocks. They have also opportunistically invested in distressed debt and U.S. treasuries and started to diversify into Western Europe and recently Asia. Their latest move has been into the foreign currency market.

Notes and Comments

The team has clean background checks. They have great cumulative and annualized returns but have had large drawdowns and also style drift.

Given the above information, would you consider hiring Manager X?

The first factors I notice are the strong cumulative and annualized returns, but what many other investors pick up on are the high standard deviation, Sharpe Ratio and hefty drawdown. Also, many investors would have a hard time figuring out which “box” to place “Manager X” in considering its investment style is eclectic and not strictly value or growth.

Who is Manager X? The manager was created by taking the last 17 years of returns from none other than the greatest team of investors of all time: Mr. Warren Buffett and Mr. Charlie Munger of Berkshire Hathaway.

If Mr. Buffett were not already successful, famous and very wealthy, I believe that few people would hire him today based on his record of the past 15 to 20 years. Why? If you invested $1 million with Mr. Buffett and Mr. Munger in 1990, it would have grown to $12.7 million versus about $2.6 million in the MSCI All Country World Price Index and $5.8 million in the S&P 500, but their volatility and historical drawdown probably would have excluded them from many manager searches these days.

Some of today's widely used yardsticks are not relevant for long term investors: while I have the utmost respect for Bill Sharpe – he was one of my professors at Stanford – the over reliance on the Sharpe Ratio could lead investors with medium to long time horizons, such as pensions, endowments or families, to make investment decisions that would negatively impact their wealth creation over time. The monthly volatility becomes meaningless over the long-term, as what matters is absolute dollars earned.

The standard academic answer to my point is that a manager can take a low volatility strategy and leverage it, thus creating a higher return strategy that is still smooth. The problem is that low historical volatility does not guarantee that in the future a strategy or manager may not have a sudden increase in volatility. In such a case, the idea of leveraging a (historically) low volatility strategy can be hazardous. The best example of this risk is what happened to LTCM, a levered fund of historically low volatility arbitrages. Thus, in most instances, investors seeking short-term smoothness have to sacrifice long-term wealth creation.

Instead of the Sharpe Ratio, we would propose instead the Buffett Ratio: the final dollar value of the investment divided by what the initial money would have become in a global benchmark index (MSCI All Country World Price Index, S&P 500, etc). The time length used should match the investor’s horizon. Five years would be a reasonable horizon for most investors. Using Berkshire’s 16.1% annualized return since 1990, a five-year investment would produce $2.11 for every dollar invested versus $1.67 in the S&P 500. (Berkshire mostly invests in U.S. companies.) The Buffett Ratio since 1990 of Mr. Buffett and Mr. Munger would therefore be $2.11/$1.67 or 1.26. An investor would be 26% richer investing with Mr. Buffett than in U.S. equities on a five-year horizon during that period. I believe that is what matters, as at the end of the day, one cannot spend risk-adjusted returns, just plain old dollars.

Isn't it ironic that today's widely utilized quantitative criteria would exclude the world's most successful investment team? As Mr. Buffett himself said, he prefers "a lumpy 15% to a smooth 12%." With $1 trillion of capital chasing smooth returns in arbitrage and market neutral strategies, we believe most investors will be lucky to earn about 8-10% (LIBOR+300/400), let alone 12%. Already most hedge fund indexes show 10% returns for the past 5 years and the "smoother" sub indexes are even lower. We believe a 15% return will look extremely attractive going forward.

If we had to choose one outside manager, we would much prefer to be invested with Messrs. Buffett and Munger than in most hedge fund strategies. Fortunately, we "eat our own cooking" and invest in our own funds. While we're not in the same league as Mr. Buffett, since January 1, 1990, Everest's global macro strategy has compounded at 16.5% net of all fees and expenses (a little better than Berkshire Hathaway, albeit on a smaller capital base).

Using Everest Capital Global's 16.5% annualized return since inception, a five-year investment would produce $2.15 for every dollar invested versus $1.33 for the MSCI All Country World Price Index. Everest Capital Global's Buffett Ratio would therefore be $2.15/$1.33 or 1.62. (One would have become 62% richer over a five year period investing in Everest Capital Global than in world equities.)

Using Everest Capital Global's 28.0% annualized return for the last five years, a five year investment would produce $3.44 for every dollar invested versus $1.53 in the MSCI All Country World Price Index. The Buffett Ratio of Everest Capital Global would therefore be $3.44/$1.53 or 2.25. (And if you are wondering, the Sharpe Ratio for Everest Capital Global is 0.7 since inception and 1.1 over the last five years.)

Here are the returns of Everest Capital's global strategy compared to some other investment alternatives represented by indexes:

	Since 1/1/90 Cumulative	Since 1/1/90 Annualized	5 Years Annualized	3 Years Annualized
Everest Capital Global	1,237.2%	16.5%	28.0%	21.3%
MSCI All Country World	163.5%	5.9%	8.9%	13.6%
S&P 500	475.2%	10.8%	6.2%	10.4%
MSCI Emerging Markets	325.1%	8.9%	23.5%	27.3%
Lehman Aggregate Bond	225.1%	7.2%	5.1%	3.7%
CSFB Tremont Hedge Fund	N/A	N/A	9.8%	10.3%

I like to think of returns in more practical and enjoyable terms: $1 million invested in Everest Capital's global strategy since 1990 would be worth over $13.3 million today versus $5.7 million if the same $1 million had been invested in U.S. stocks and much, much less had it been invested in either global or emerging market stocks, bonds or average hedge funds.

I hope this exercise will prompt some reflections and discussions. Please feel free to send me your thoughts and comments.

As we enter our 18th year I want to thank you for your confidence.

Happy New Year,

Marko Dimitrijević, CFA

NOTES:

There is no exact way to measure the investment performance of Messrs. Buffett and Munger. The increase in Berkshire's book value is one common method. However this is not comparable to usual portfolio performance measures for investments of fund managers, which rely on marking securities to market. Many of these holdings for example have had their book values increase year after year, yet their market value has varied widely year over year. We used the monthly returns of Berkshire Hathaway's stock since 1990. While one may argue that the fact that Berkshire Hathaway is public may make its stock price swing more than the value of its underlying portfolio, it could also at times underestimate the decline of the value of those investments. For example, in the past five years the decline in valuation of the newspaper holdings of Berkshire Hathaway has been underreported because several of the holdings are 100% owned by Berkshire and thus their prices do not have public quotes which would have most probably declined while their book values have increased. Therefore, we believe the performance of the stock of Berkshire is a good approximation of Messrs. Buffett and Munger's performance. From 1990 through 3Q 2006 Berkshire's book value compounded at 17.7% vs. 15.4% for the stock. Berkshire has paid no dividend during this period.

Everest Capital Global returns reflect performance of Everest Capital Global Ltd. since inception on January 1, 1992; Everest Capital Global, L.P., its U.S. sister partnership, from February 1, 1991 to December 31, 1991; and a portfolio managed by Marko Dimitrijevic for a private investment partnership from January 1, 1990 to January 31, 1991. Net returns reflect performance after pro forma 2% management fee (1½% prior to February 2006) and 20% incentive fee.

The performance information was calculated by Everest Capital based on audited financial statements for the periods through December 31, 2005, and based on unaudited estimates for the periods thereafter and represents returns at the master fund level. Returns in any feeder fund or of any individual investor may vary from the returns of the associated master funds shown due to the timing of capital transactions, expense accruals and other items. Indices included to show the general trend of the securities markets in the periods indicated. No representation is made that Everest Capital strategies are or will be comparable, either in composition or element of risk involved, to the securities comprising the selected indices.