

■ WHY HEDGE-FUNDS?

World economies have grown progressively closer and closer together. We have multi-national organizations with international products. We have world consortiums on everything from car emissions to the price of wheat.

The more companies specialize and interrelate, the more economies specialize and interrelate, the more performance of one becomes dependant on the performance of another and more difficult it becomes to ameliorate risk in an investment portfolio.

For this reason, the Professional Pensions PST restructured the 'Balanced Portfolio' into an 'Absolute Return Portfolio' with the potential for both higher return and better risk management. To achieve this PST Management commissioned the creation of Professional Pensions ARP Limited a purpose built BVI Mutual fund to invest in the US\$2 trillion hedge-fund marketplace. The aim of the portfolio has been to address the diversification issues in three ways:

- Diversification across markets.
- Diversification across strategies.
- Diversification across managers.

■ WHAT IS AN ABSOLUTE RETURN PORTFOLIO?

An Absolute Return Portfolio ('ARP') is a portfolio that can take both long and short positions, buy and sell undervalued securities, trade options or bonds, and invest in almost any opportunity in any market where it sees the possibility for worthwhile gains for reasonable risk.

As opposed to traditional portfolios of stocks and bonds that look to out-perform their respective industry indices, ARPs can profit from both rising and falling markets and look to maximise risk adjusted returns under all market conditions.

There are approximately 14 broad categories of investment strategies used by ARP managers (although the actual classifications may vary), each offering different degrees of risk and return under different market conditions.

A Long / Short manager, for example, may invest in stocks and bonds around the world looking for specific event catalysts to drive investment return. Long / Short portfolios provide excellent return and liquidity but can be quite volatile compared with distressed-securities portfolios for example, that buy equity or debt of companies entering or exiting financial distress.

A relative value manager takes advantage of price or spread inefficiencies and tend to be uncorrelated to stock returns. Whereas a derivatives index managers may be looking for short-term breakouts in stock markets that have them in and out of markets in hours and can provide returns negatively correlated to the Long / Short equity managers. Market Neutral managers on the other hand can provide extremely consistent returns for extended periods of time, until the volatility blows out.

The bottom line is, these managers are highly specialized and utilize a variety of financial instruments to reduce risk, enhance returns and minimize the correlation with equity and bond markets.

Recognizing the differences across these strategies, the investment in Professional Pensions ARP Limited blends various strategies and asset classes together to create a more stable long-term investment return than individual funds offer.

■ PERFORMANCE SUMMARY¹

October was a strong month, with Professional Pensions ARP Limited (ARP) returning 0.97% net of fees as the master funds geared up to full leverage again under the new Segregated Portfolio structure.

The third quarter in general was a difficult one across the board for hedge-funds with little solace to be gained even from the derivatives sector as many managers in that sectors posted new historically low drawdowns. The net result saw ARP trading up only 0.84% net of fees for the quarter and incurring its first losing month since inception in July.

Performance Statistics

Jul 2006	-0.19%
Aug 2006	0.60%
Sep 2006	0.43%
Oct 2006	0.97%
Sep Quarter	0.84%

■ SECTOR DIVERSIFICATION AT 1 NOVEMBER 2006²

Professional Pensions ARP Limited invests equally in each of the Empyrean SPC Limited Segregated Portfolios, Archimedes and Pythagoras.

Sector	Pythagoras Segregated Portfolio	Archimedes Segregated Portfolio
Cash	16.3%	0.0%
Equity Long/Short	3.8%	5.6%
Equity Market Neutral	1.1%	1.4%
Fixed Income & Credit	13.1%	13.3%
Macro – CTA	4.4%	6.9%
Merger & Event Driven	5.6%	5.6%
Multi-Strategy & Fund of Funds	3.7%	11.4%
Regulation D / Other	16.7%	26.6%
Trade Finance & Lending	34.2%	26.6%
Convertible & Capital Structure	1.1%	2.8%
Distressed & High Yield	0.0%	0.0%
Short Bias	0.0%	0.0%

■ Cash

This sector is simply inserted for technical reasons to do with the leverage model.

■ Equity Long/Short

Exposure to this sector has been increased significantly in the last few months. Most significantly in the sector of listed partnerships that offer impressive cash flow from energy pipeline revenues.

¹ Statistics may be based on estimates. Please see Disclaimer at the end of this document.

² Sector classifications as used by Bear-Stearns.

■ Equity Market Neutral

Exposure to this sector has increased, but has been capped due to its sensitivity to an increase in market volatility and the potential for that in the near term.

■ Fixed Income & Credit

This entire sector is in the process of being redeemed and reallocated as existing manager performance, albeit consistent has waned significantly.

New exposures are more internationally focused, but still hold the liquidity event risk associated with this sector. Due to fund notice periods and lock-ups this sector reallocation will not be complete until February 2007.

■ Macro – CTA

This sector was closed in July, due to the restructure of the Master Funds (Archimedes & Pythagoras). Recommencing in October this sector now hold US\$4.5M in cash, for a notional exposure of US\$11M. This is expected to increase to approximately US\$15M in the first quarter of 2007, although it is not currently known if additional cash will be required to finance these exposures. That aside, the sector offers total transparency and daily liquidity.

■ Merger & Event Driven

This sector allocation has remained stable.

■ Multi-Strategy & Fund of Funds

This sector allocation has remained relatively stable.

■ Regulation D / Other

This sector is transitioning to new managers as one of our short-listed managers has significantly improved their fund liquidity and the performance of various other allocations in this sector have waned due to dramatic increases in capital.

■ Trade Finance & Direct Lending

This sector has remained relatively stable, as we continue to slowly reduce exposure to the US sub-prime sector. The sector also includes a distressed debt recovery exposure.

■ Convertible & Capital Structure

This sector has long been US\$40B chasing US\$25B in deals, however, the Fund Manager has done a special deal with one of the larger managers in this sector to dramatically reduce downside risk on the portfolio and actually guarantee returns on 66% of our allocation to this sector.

■ Distressed & High Yield

This excellent sector continues to offer difficult liquidity options for the fund, although there are two excellent opportunities shaping up in this sector for the first quarter of 2007, pending final due diligence.

■ Short Bias

This sector continues to be a loser and of no interest to the Fund Manager.

■ NATIVE INVESTMENT LIQUIDITY 1 NOVEMBER 2006³

Weighted Average Days Liquidity	Pythagoras		Archimedes	
Native Liquidity (Freq. and Notice) ⁴	121		144	
Total Liquidity (Native + Hardlocks) ⁵	123		144	
Soft Liquidity (Native + All Lock-ups - Side Letters) ⁶	196		197	
Hard Liquidity (Native + All Lock-ups) ⁷	260		272	
Total Liquidity, Liquidity Waterfall	Number of Investments	% of Funds	Number of Investments	% of Funds
Funds <= 90 days	14	33.69%	10	20.81%
Funds <= 120 days	20	54.30%	14	33.42%
Funds <= 150 days	26	63.11%	17	48.93%
Funds <= 180 days	31	75.66%	20	60.06%
Funds <= 270 days	40	91.48%	27	90.93%
Funds <= 360 days	42	93.88%	28	92.31%
Funds <= 540 days	44	97.21%	29	94.39%
Funds <= 720 days	44	97.21%	29	94.39%
Funds <= 900 days	44	97.21%	29	94.39%
Funds <= 1080 days	44	97.21%	29	94.39%
Funds <= 1440 days	44	97.21%	29	94.39%
Funds <= 1800 days	44	97.21%	29	94.39%
Funds <= 1980 days	44	97.21%	29	94.39%
Funds with liquidity greater than 150 days	18	34.10%	12	45.47%
Funds with liquidity greater than 270 days	4	5.73%	2	3.47%
Number of Investment Managers	22		24	
Largest Component		5.6%		8.6%
Largest Investment Manager		10.8%		12.9%
Early Redemption Penalty (% of Total) ⁸		0.53%		0.83%
Top 5 Allocations		26.18%		33.93%

³ Figures are as provided by Bear-Stearns. Note: Liquidity Waterfall should revert to 100% at <=540 days.

⁴ Native liquidity is the combination of the Frequency of redemptions plus the Notice period that must be given prior to the redemption day (e.g. Monthly redemptions + 30 day notice = 60 day Native Liquidity).

⁵ Total Liquidity is the combination of Native liquidity plus the period of unexpired hard lock-ups. For example, a fund with 60 day Native Liquidity may have a 12 month lock-up that was entered 6 months ago, leaving 180 days of lock-up to add to the Native Liquidity (240 days Total). Notwithstanding the foregoing, in practice a redemption notice may be provided 60 days prior to expiration of the lock-up, so true lock would only be 180 days.

⁶ Soft Liquidity is the combination of Native liquidity plus all lockups, less side-letters which may reduce the term of the lock-up. That is, it includes liquidity you may buy. For example, a fund may have 180 day Native + a 12 month lock-up, however the Fund Manager may have negotiated a 'side-letter' with the fund to obtain favourable 90 day liquidity in consideration of a Redemption Fee. Therefore in this example, Total liquidity equals Native Liquidity.

⁷ Hard Liquidity is the worst case liquidity of the portfolio should the Fund Manager choose the worst possible point to decide to redeem and have no interest in paying redemption fees.

⁸ Should the portfolio be completely redeemed, this is the impact of all early redemption fees on the value of the portfolio.

■ LEVERAGE AND EXPOSURE

As at 1 November 2006 the investments were leveraged as follows:

Pythagoras	2.42x
Archimedes	1.98x

With approximately US\$18M in redemptions pending as at 1 Nov '06 leverage dropped to the following level through the month as proceeds came in, despite new subscriptions of US\$3.5M in Archimedes and US\$2.5M in Pythagoras.

Pythagoras	2.01x
Archimedes	1.91x

As the new investments diversified the portfolio into more liquid, albeit volatile sectors the maximum permitted leverage increased to the following.

Pythagoras	2.78x
Archimedes	2.77x

As of 1 December 2006 Archimedes added US\$6M in exposure and Pythagoras added US\$4.5M

Relative to the Fund of Funds industry with managers gearing up as much as four times, the Empyreal funds are relatively conservative. The reason for this is because to obtain high levels of leverage from a credit provider one must follow the credit providers guidelines for investment, which do not necessarily follow those of a prudent manager. Empyreal prefers to pick funds in sectors that can provide the portfolio the best risk adjusted return, while still providing effective diversification.

FUND STATISTICS TO 1 NOVEMBER 2006

Professional Pensions ARP Limited is a multi strategy fund of funds vehicle with direct exposure to two master funds, the Empyrean SPC Limited – Archimedes Segregated Portfolio and Empyrean SPC Limited – Pythagoras Segregated Portfolio. By adjusting exposure between these two master funds Professional Pensions ARP Limited can achieve greater diversification, lower correlation to traditional investments and enhanced risk adjusted return.

Strategy:	Fund of Funds	Management Fee:	1.0%
Inception Date:	Jan 2005	Performance Fee:	12.50%
Data Source:	Realised Returns	Expected Return:	10.00%
Investor Type:	Pension / Super Trust	Risk:	Moderate
Min Investment:	AUD0.5M	Hurdle Rate:	None
Offshore Vehicle:	Yes	Lockup Period:	None
Open:	Yes	Sales Fee:	None
Leverage:	Yes	Other Fees:	None
Fund Assets:	AUD44M	Report Style:	Net of All Fees
Auditors:	Ernst & Young	Reporting Period:	Monthly
Prime Broker:	Bear-Stearns		
Legal Advisors:	KMZR (US), WSmiths/Ogiers (BVI)		
Administrator:	Fortis Prime Fund Solutions (Asia) Limited		

PERFORMANCE TABLE⁹

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2006	1.77	0.96	1.82	2.07	0.04	1.00	-0.19	0.60	0.43	0.97			9.86
2005	0.27	0.31	0.70	0.36	0.65	0.80	0.68	0.61	1.06	0.18	0.90	0.95	7.73

PERFORMANCE ANALYSIS

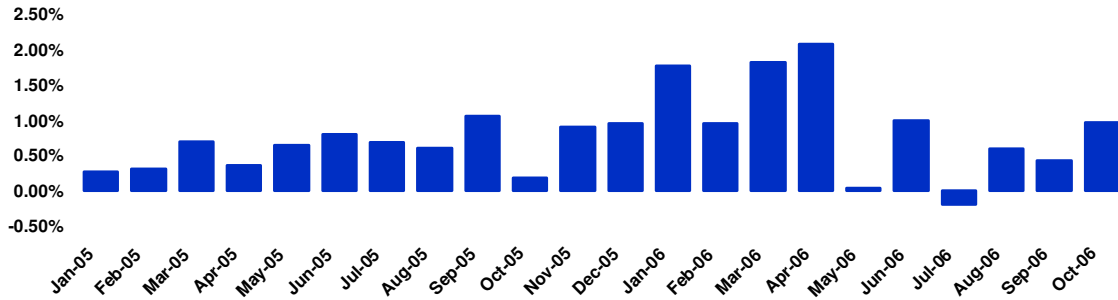
	Inception	1 Year		Inception	1 Year
Operating Years:	1.83	1.00	Sharpe 0%:	4.763	4.719
Ann. Return:	9.62%	11.90%	Sharpe 2%:	3.732	3.882
Ann. StDev:	1.94%	2.39%			
Monthly Ret:	0.77%	0.94%			
Monthly StdDev:	0.56%	0.69%			
Max. Drawdown:	0.19%	0.19%			
Trading Months:	22				
Winning Months:	21				
Win Percentage:	95.45%	95.45%			

CORRELATION ANALYSIS

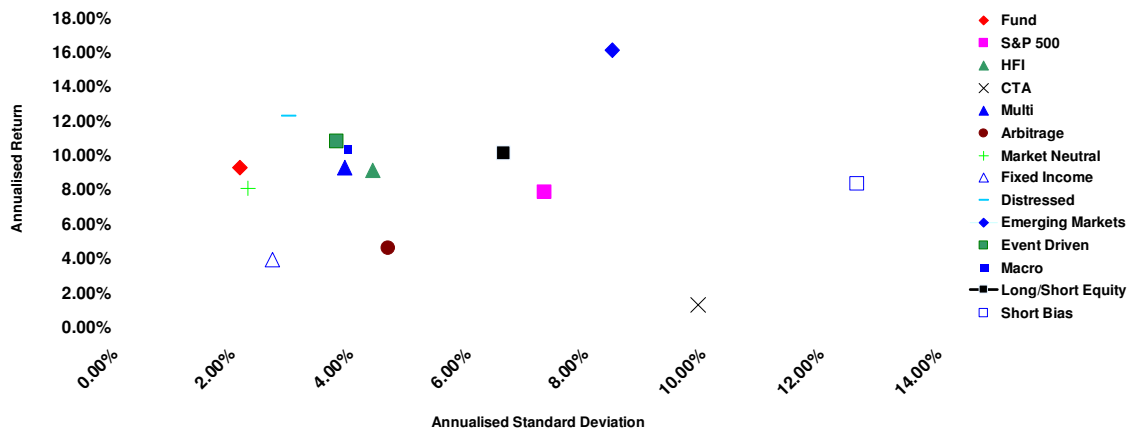
S&P 500	0.366	Hedge Fund Index	0.722	Multi-Strategy	0.663
Convertible Arbitrage	0.407	Distressed Securities	0.646	Emerging Markets	0.550
Equity Market Neut.	0.474	Event-Driven	0.646	Fixed Income Arb.	0.444
Global Macro	0.661	Long/Short Equities	0.652	Managed Futures	0.603
Short Bias	-0.491				

⁹ Past performance is not a guarantee of future returns and as with any investment, there is potential for loss.

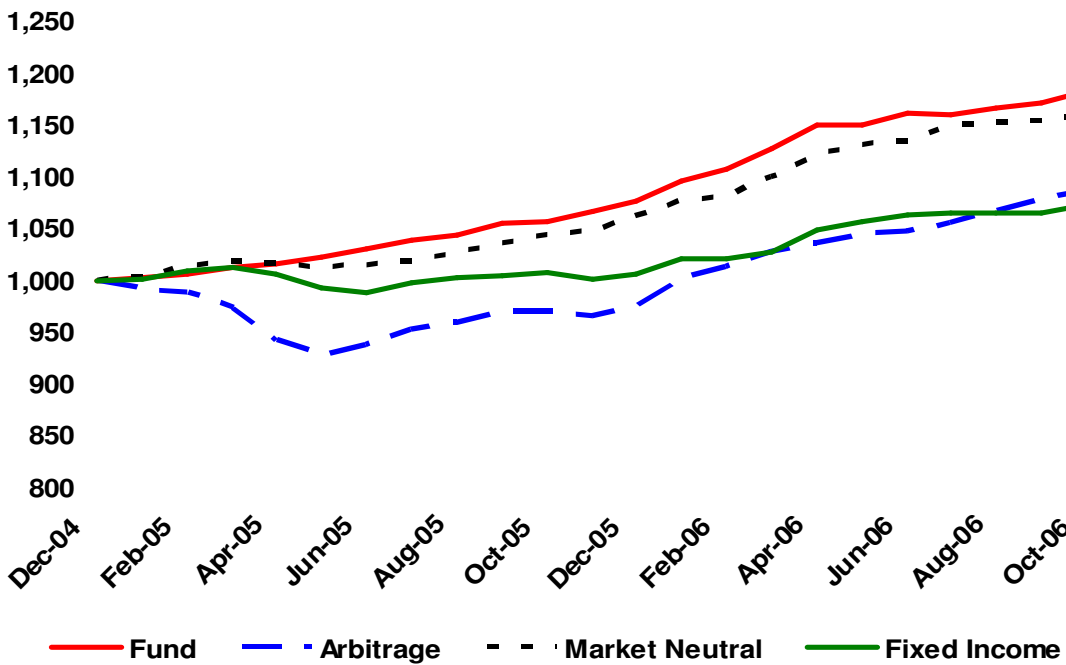
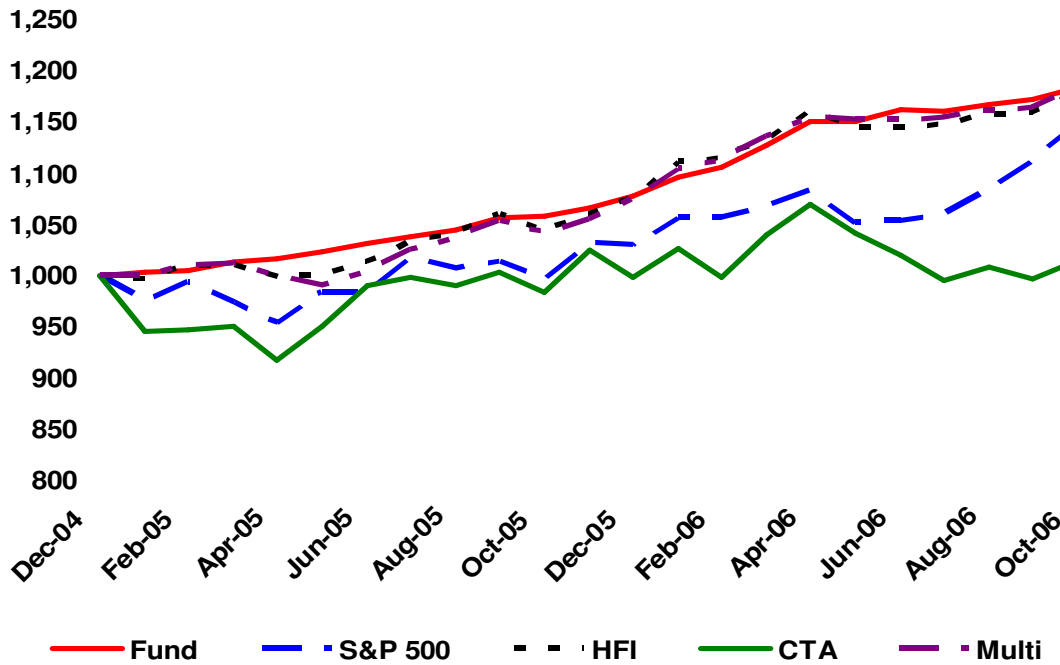
MONTHLY RETURNS



RISK ADJUSTED RETURN (SINCE INCEPTION)

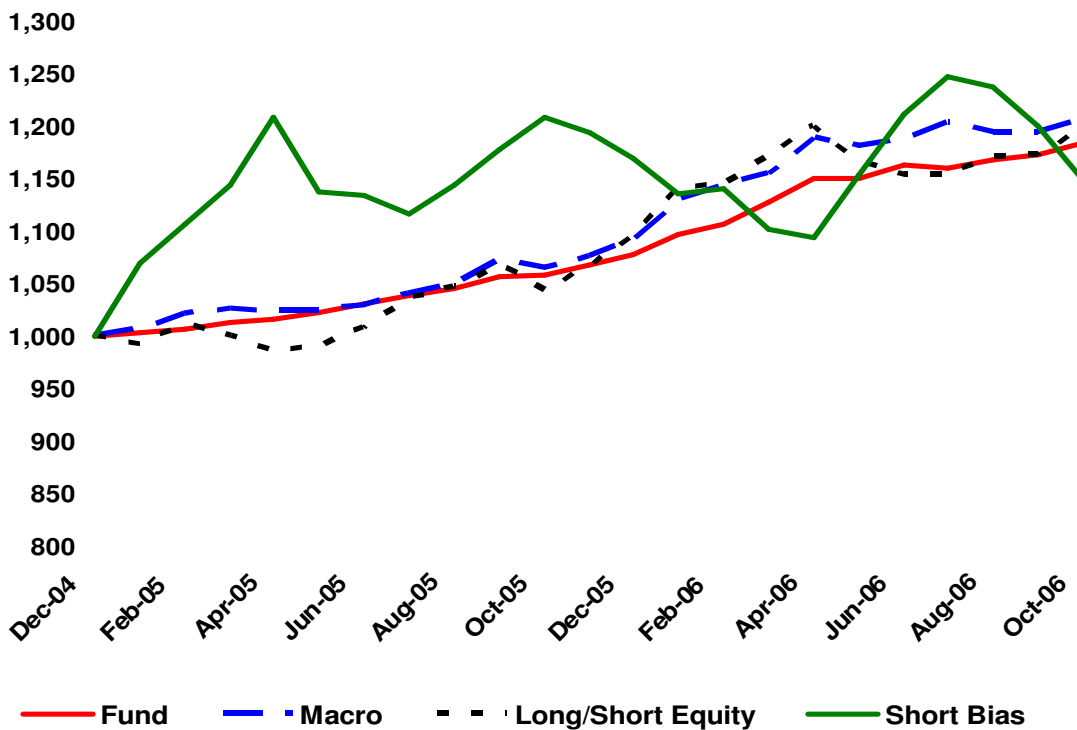
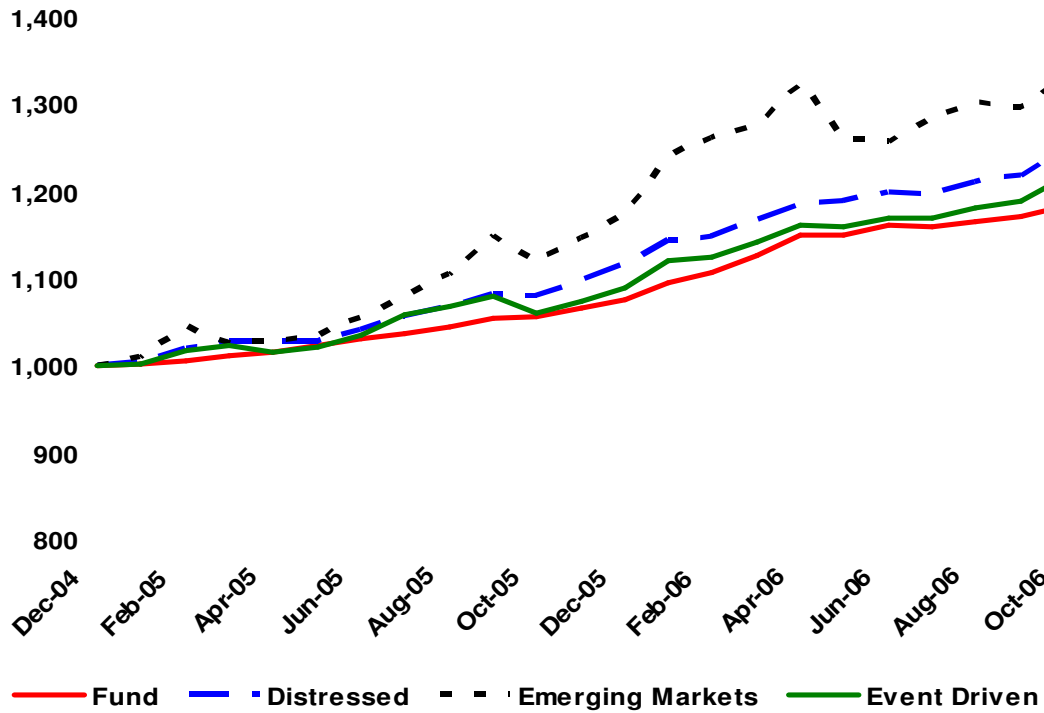


CUMULATIVE RETURNS¹⁰



¹⁰ Index data and information provided by Credit Suisse/Tremont.

CUMULATIVE RETURNS



STRATEGY DEFINITIONS¹¹

S&P500: This is a price index which consists of 500 stocks chosen for market size, liquidity, and industry group representation in America and therefore provides a guide as to how the stock market is performing.

Hedge Fund Index (HFI): This is a composite Index consisting of ten Hedge Fund Sectors which are given below. This index attempts to represent the performance of the entire Hedge Fund market place.

Convertible Arbitrage (Arbitrage): This strategy primarily invests in the convertible securities of a company. A typical investment is to be long the convertible bond and short the common stock of the same company. Positions are designed to generate profits from the fixed income security as well as the short sale of stock, while protecting principal from market moves.

Dedicated Short Bias (Short Bias): This strategy attempts to maintain net short positions primarily in equities and derivatives.

Emerging Markets: This strategy involves equity or fixed income investing in emerging markets around the world.

Equity Market Neutral (Market Neutral): This investment strategy is designed to exploit equity market inefficiencies and usually involves being simultaneously long and short matched equity portfolios of the same size within a country. Market neutral portfolios are designed to be either beta or currency neutral, or both. Leverage is often applied to enhance returns.

Event-Driven: This strategy seeks special situations in order to capture price movement generated by a significant pending corporate event such as a merger, corporate restructuring, liquidation, bankruptcy or reorganisation.

Distressed: This strategy seeks to invest in the debt, equity or trade rights of companies in financial distress and general bankruptcy. The securities of companies in need of legal action or restructuring to revive financial stability typically trade at substantial discounts to par value and thereby attract investments when managers perceive a turn-around will materialise.

Fixed Income Arbitrage (Fixed Income): This strategy aims to profit from price anomalies between related interest rate securities. This category includes interest rate swap arbitrage, US and non-US government bond arbitrage, forward yield curve arbitrage, and mortgage-backed securities arbitrage.

Global Macro (Macro): Global macro managers carry long and short positions in any of the world's major capital or derivative markets. These positions reflect their views on overall market direction as influenced by major economic trends and or events. The portfolios of these Hedge Funds can include stocks, bonds, currencies and commodities in the form of cash or derivatives instruments.

Long/Short Equity: This directional strategy involves equity-oriented investing on both the long and short sides of the market. The objective is not to be market neutral. Managers have the ability to shift from value to growth, from small to medium to large capitalisation stocks, and from a net long position to a net short position. Managers may use futures and options to hedge.

The focus may be regional, such as long/short US or European equity, or sector specific, such as long and short technology or healthcare stocks.

¹¹ Strategy definitions as provided by Credit Suisse/Tremont.

Managed Futures (CTA): This strategy primarily invests in exchange traded financial and commodity futures markets and currency markets around the world. The managers are usually referred to as Commodity Trading Advisors, or CTAs. Trading disciplines are generally systematic or discretionary. Systematic traders tend to use price and market specific information (often technical) to make trading decisions, while discretionary managers use a more subjective approach.

Multi-Strategy or Fund of Funds (Multi): Multi-Strategy Hedge Funds are characterised by their ability to dynamically allocate capital among many Hedge Fund strategies (such as those listed above). The aim is to reallocate capital between strategies in response to market opportunities.

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