Dear Investors,

The Orange Capital Master Fund ended the year with a performance of +22.8% net of fees and expenses.

In a very difficult year for the markets we managed to turn out a performance which is even higher than our stated target of 15% unlevered returns per annum. First, let's have a look at some of our best money makers. Second, we'll spend some time explaining what we are thinking and doing right now and how we position ourselves for the early part of 2009.

What worked:

1. Oil. We shorted oil starting around 80$ per barrel. Our view on oil was that is was going to depreciate with the economic slowdown. We also felt that there are a lot of countries that depend on oil sales to finance their inflated budgets. We also gathered market information about large put buyers in the 70 to 80 range. Those puts were bought when oil was in the 130s so we thought that whoever sold those puts must be short puts hence long oil and will be a forced seller. Our view got accelerated with the financial crisis and oil dropped to a low of 35.8. It closed the year at 42.7.

2. Fertilizer Stocks such as Yara and Potash. We were short fertilizer stocks starting in July. We believe that the fertilizer prices are too high, that food prices such as corn and soy are too high and that they will come down dramatically. Our view got accelerated with the financial crisis. Both stocks dropped between 50% and 70% from their June peaks. The problem with the fertilizer industry is that the prices are high because governments subsidize fertilizer purchases, hence the end user, the farmer doesn't see the price signal. But in times of economic distress such bad policy can be reversed and thus hurt the fertilizer industry. The fertilizer industry is also dependent on high oil prices due to the link between oil and corn through ethanol. Obama will support corn based ethanol and thus give the space some tailwind. So far the fertilizer stocks have come down considerably and they made us money but they are still higher than other commodity stocks due to the special treatment that the agricultural space gets.

3. Emerging market consumers. We shorted stocks such as Femsa, Bradesco, Itau, CBD and Oriflame. All these positions were based on the thesis that emerging market consumer is much weaker than perceived. There is a lot of credit in the system that fuels growth. While the consumer in emerging markets might not default like in the US it was expected that the growth rates of consumption, top line growth at retailers and consumer goods companies and banks with large consumer finance businesses will slow down. We thought that valuations were too high given that scenario and shorted a number of stocks that looked particularly expensive.

What we are working on and our positioning for 2009.

We are primarily short the market because we believe that the valuations are too high for the economic environment we are likely to face in the coming year. The main problems are;

a) too much inventory in the system
b) too much leverage in the system, hence forced sellers to delever
c) too much complacency in the system, i.e. earnings estimates are too high.

Valuations might look cheap but the expected earnings will come down and hence valuations will look expensive again. Most important for stocks we expect low cash flows. Many companies will have to finance their business, their suppliers and customers to maintain growth.
There will be a shortage of cash flow, dividends etc.
Our view is reinforced by the high bond yields. Bond investors are much more interested in the cash

flow situation of companies and hence pay a lot more attention to the cash flow. We believe that bonds are currently pricing a much tougher economic environment than stocks and we are happy to go with the bond market.

We are still short oil, we see downside until the high 20s.
We believe lots of oil companies and governments can handle oil at 35$ and will therefore sell at those levels. Below 30 we don't like the risk reward anymore.

We are working on potential long ideas. We are going to look at consumer companies such as Wimm Bill Dann, a Russian dairy company or Fosters an Australian beer company. As mentioned above we are not comfortable with the current market environment and would feel much safer with lower levels.
The risk to our view is that the government stimulus packages work differently than we anticipate. We believe they will not stop the earnings deterioration of corporates.

If they do we will have to assess our views and change our positions.
Hope that helps.
Give me a call if you have questions or suggestions.

Thanks.

Krim

New York, January 2009