XERION

PERELLA WEINBERG PARTNERS XERION FUND MAY 2010 PORTFOLIO REVIEW & COMMENTARY

Performance (1)	2010								
	MTD	YTD	2009	2008	2007	2006	2005	2004	2003
Xerion	**-4.23%**	**3.37%**	**35.33%**	**0.31%**	**38.83%**	**12.13%**	**-0.88%**	**18.81%**	**43.24%**
S&P 500 Total Return	-7.99%	-1.50%	26.46%	-37.00%	5.49%	15.79%	4.91%	10.88%	28.68%
HFRI Composite HF Index*	N/A	N/A	19.98%	-19.03%	9.96%	12.89%	9.30%	9.03%	19.55%

Performance Commentary

Xerion was down -4.23% (net est.) in May, reversing April's 3.01% gains and then some[1]. The Fund is up 3.37% (net est.) for the year-to-date. Credit strategies lost -1.84%; Equity strategies lost -6.41%; Alpha macro gained +77bps; and market and currency hedges recovered +2.43%.

As might be expected, our top performers[2] in May were short positions, most notably an alpha macro short on the Euro (+97bps); and beta hedges on the S & P (+92bps) and an AUD currency short (+33bps). Top losers were the post-emergence equity of a chemicals company (-67bps); a large cap agricultural sector position (-47bps); and an energy special situation (-41bps).

May was another of the "anomaly" periods (like August '07 and late '08) when there was little refuge for longs because asset classes correlated to the downside across capital structures, industries and geographies, with, Treasuries gold and airlines among the few exceptions. The main culprits were sovereign credit contagion and China cooling concerns. We think that the

[1] Net MTD and YTD returns are based on compounded monthly returns net of all fees and expenses. Unless otherwise noted, MTD attribution figures reported herein are gross, which means net of trading and financing expenses but before fund management fees and non trade related expenses. Please see information on pages 9-10 which contains important disclosures relating to performance calculation.

[2] Excludes P&L from changes in FX rates for non-USD securities and from currency hedges against those securities.

* The HFRI indices first publish flash estimates on the 5th business day of the month.

latter is a positive, to the extent the Chinese are lowering the risk of overheating. So we should look back on May as being a good selective buying opportunity for our highest conviction ideas, as previous correlated selloffs have been.

Our hedges are intended to help blunt the first moves down, and provide firewall protection if downside selling becomes absolutely systemic. But we are still net long, which means we will have down months during episodes of broad downward correlation. Our foremost goal is to have firewalls in place that stop us from losing money in any calendar year. On one of the worst down days, the May 6 “Flash Crash," the firewalls were tested and we were positive at the lows. Had markets broken fully through their February lows instead of bouncing, our protection might even have brought us positive performance for the month.

Positioning[3]

Our posture is *lean and mean*, holding or adding very highest conviction ideas and reducing others. Gross long exposure is down to 86.5% from 93.3% at the end of April. Shorts again increased this month, leaving net exposure 55.8%, down from 67.4% at the end of April and 76.2% in March. Net credit strategy exposure is up at 36.7% (despite losses of -1.84% during the month), from 33.6% in April, reflecting some credit buys during May. Net equity strategy exposure before hedges is materially lower at 33.1% versus April’s 44.1%; after market hedges, month end net equity exposure is just 11.8% versus 27.2% at the end of April. This includes a -6.3% short of the Australian Dollar, used to hedge our mining and materials special situation exposures.

[3] Excludes certain CDS with an average S&P rating of BBB or higher, Treasuries, interest rate futures and options, commodity options, equity options and currency positions. Please see additional disclosures on pages 10.

Markets & Strategy

Everyone is debating the same three topics at the moment: What is That Cloud Over the Markets? What Does it Mean for Our Portfolios? Where Are the Opportunities Now?

In our view, the present macro squall was triggered by investors who are beginning to connect the dots between the rally in risk assets that has been supported over the past 18 months by cheap government money, and daily reminders that governments can't afford it[4]. Market participants are displaying anxiety over where the debt crisis is leading us, and maybe outright fear that our political process is not up to the challenge. We expect the clouds to persist for quite a while, as the issues become better defined and appropriate solutions are fully debated.

Debt itself is just a symptom. It may have proven much easier to move debt from the private to public sector than it will be to make it go away. Ensuring that excessive debt doesn't then re-appear will be something else again. This structural issue hasn't even made it to policy and market radar screens yet.

The debt crisis will be with us until the *habits* driving it are changed. The underlying disease is an increasingly complex and destructive model of global growth that marries the West's insatiable appetite for consuming cheap Eastern product on credit, with the East's continued over-dependence on selling and lending to the West. The present crisis gives policy makers the opportunity to begin a necessary process of re-balancing leverage and consumption patterns on both sides, and thereby moving toward a more sustainable model of global growth.

[4] China's slowing doesn't help sentiment, though we think it's good for medium term sustainability of this growth path that is now the fulcrum of the global economy.

The twilight of the debt supercycle may be less dramatic yet more chronic and possibly more difficult to position around than the '08 financial crisis. There will be no quick fix here, no more big government-spend-us-back-to-status-quo band-aids. Pivotal policy accomplishments and changes in consumer behavior are going to be required in both the East and West. We in the West need to consume less and borrow less, while our friends in the East need to consume more and lend less.

How? In addition to tightening their own fiscal belts, governments will have to work together using globally coordinated interest and exchange rate policies to level the playing field so Western companies enjoy export opportunities too. China needs to establish a social safety net so its own consumers become comfortable enough to consume more, after which it can begin to re-value the Yuan. And EUR/USD exchange rate policies will have to be stabilized to give companies on both sides balanced access to each others' markets, as well as to Asia's. Hopefully, Secretary Geithner's recent shuttle diplomacy in Asia and Europe started these discussions, because the alternative of un-coordinated currency devaluation and beggar-thy-neighbor policies could be chaotic and counter-productive.

This process is likely to take years. Some implications for the Xerion strategy at the front end:

- As markets grasp that this crisis is leading toward the endgame of the post-war debt super-cycle and a potentially drawn-out re-balancing of global habits, I expect that the "macro squalls" - episodes of correlated behavior across markets and asset classes - will become more, not less, frequent. We will need to be flexible in our deployment of capital structure positioning in response, and creative in using a full range of asset classes for hedging, supplementing equities and credit instruments, including rates, currencies and commodities where appropriate. For example, shorting the Australian Dollar proved more effective than was deploying single names or ETFs as a hedge to our mining and materials exposures in May.

- Persistent macro uncertainty may be expected to have a damping impact on consumer and market sentiment, and that risks bleeding into the real economy. We will continue to be conservative in our valuation assumptions.

- Liquidity comes at a premium during times of macro uncertainty and volatility. Investments that are illiquid or private to begin with will have to satisfy especially strict scrutiny to qualify for inclusion in the Xerion portfolio. We will cull technically weak positions when we have the chance, even if their long term fundamentals still meet our return hurdles.

With these considerations in the background, as always we see plenty of interesting investment opportunities right now. These are ***fixed points on the horizon*** that should prevail through shorter term market volatility and even medium term malaise, just as they have through recent bouts of macro instability. They include especially *Shake Hands With China* plays[5], owning what China's government and eventually its consumers want to buy; idiosyncratic stressed credit opportunities that emerge during periods like the present of High Yield outflows and limited liquidity; process-driven credit opportunities that will accelerate, as over $1 trillion in junk credit

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[5] If you're suffering from *China Bubble Anxiety*, please consider the following: China's successes of the past 30 years are the real thing. The country's economic reforms have brought about huge productivity benefits, and these have translated into a formidable competitive manufacturing advantage. China's global creditor status and massive internal savings endow it with more than sufficient resources to fund its urbanization-led employment growth. While it's true their recent investment-heavy growth path has been funded with enormous stimulus through the domestic banking system, in the context of an annual urbanization rate of 20 million people, we're not concerned that industrial and infrastructure capacity will remain idle for long. Anyway, China has the $2.5 Trillion balance sheet and policy discipline to reconsolidate its banking system NPLs any time it wants to. This is not to suggest that there aren't risks to China's growth path—there are plenty—but China's fiscal situation puts it in a much better position than ours to deal with excesses.

matures in a very different valuation environment from the one that prevailed when they were last recapitalized; and opportunities to hedge and profit from the forthcoming period of monetary instability (with metals, bonds and currencies).

We have discussed all of these core conviction themes extensively in the past and will continue to report on them as markets evolve. Right now, we like re-building positions in some solid stressed credit situations at attractive prices. Here are examples of a few late-May buys, in which we believe we are receiving near-equity returns for leverage well inside (sometimes a fraction of) equity valuations:

- *[Newspapers] 11.5% '17 Secured Notes*: 12% YTM, 11.85% CY.

- *[Oil Refining] 1st Lien TL:* 12.5% YTM, 11.4% CY.

- *[Retail Pharma] 9.5% '17 Senior Guaranteed Notes:* 14.9% YTM, 12.3% CY. Sold @ $87.50 in April, bought @ $78 in May.

- *[Data Processing] 9 7/8 '15 Senior Notes*: 15.5% YTM, 12.3% CY. Priced in April @ $95, bought in May @ $80.

- *[Real Estate Services] 10 ½ '14 Senior Guaranteed Notes*: 16% YTM, 11.4% CY. Sold in April @ $92, repurchased in May @ $85.

Quality credit is just where we want to be in an uncertain environment, because it has a *built-in catalyst called maturity*, which delineates our return based on our conservative assessment of company performance even against a weak economic backdrop. We should continue increasing our long exposure to idiosyncratic stressed credit opportunities, as well as to new process-driven credit situations, as they materialize. Long credit additions will generally be limited for the time being to our best ideas and to larger capitalization companies.

We are pleased to report that Xerion was ranked number 18 of Barron's Penta Top 100 Hedge Funds based on three year performance, with '07-'09 annualized net returns of 23.53%. Un-related, I was honored to present at the Ira Sohn Investment Research Conference in New York on May 26, which provided a great opportunity to step back and consider some of our investment positions in their overall thematic context. We are including my presentation with this month's letter, for your interest.

Daniel J. Arbess

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PERELLA WEINBERG PARTNERS XERION FUND MAY 2010 PORTFOLIO REVIEW & COMMENTARY

Portfolio Exposure [1]

	Net
Gross Long	86.5%
Gross Short	-30.7%
Total	**55.8%**

Portfolio Performance Attribution [2]

	MTD	YTD[3]
Gross Long	-9.6%	1.2%
Gross Short	4.5%	3.2%
Total	**-5.1%**	**4.4%**

Strategy Exposure [1]

	Long	Short	Net
Credit Strategies	39.7%	-3.0%	36.7%
Equity Strategies	39.0%	-27.2%	11.8%
Macro Strategies	7.8%	-0.5%	7.3%
Total	**86.5%**	**-30.7%**	**55.8%**

(1) Excludes certain CDS with an average S&P rating of BBB or higher, Treasuries, interest rate futures and options, commodity options, equity options and currency positions . Please see additional disclosures on page 10.

Strategy Performance Attribution [2]

	MTD	YTD[3]
Credit Strategies	-1.8%	3.0%
Equity Strategies	-6.4%	-2.2%
Macro Strategies	3.2%	3.6%
Total	**-5.1%**	**4.4%**

(2) YTD attribution was calculated by taking YTD P&L divided by the average beginning month AUM

Security Exposure and Attribution

	Exposure			Attribution[2]	
	Long	Short	Net	MTD	YTD
Bank Debt	15.8%	0.0%	15.8%	-0.8%	0.4%
Bonds	41.5%	-12.5%	29.0%	-1.3%	1.2%
CDS	3.3%	-78.3%	-75.0%	0.5%	0.5%
Commodity	7.3%	-0.5%	6.8%	-0.4%	0.1%
Currency	14.5%	-45.7%	-31.2%	1.9%	3.0%
Equities	45.5%	-24.3%	21.2%	-5.0%	-0.7%

Portfolio Characteristics

Strategy AUM	US$2.1 Billion
	As of June 1, 2010
RoR (annualized)[3]	19.23%
Sharpe Ratio[3][4]	1.67
Standard Deviation[3]	10.85%
Beta (S&P)[3]	0.24
Correlation (S&P)[3]	0.33

(3) Since inception; (4) The annualized risk free rate is 0.15%

Exposure Concentration [1]

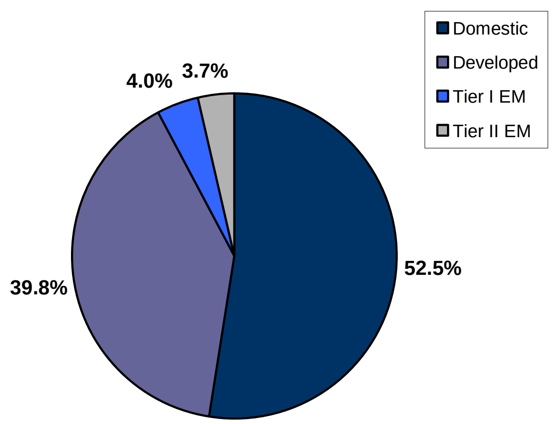
	Month-End
Top 10 Long (% of Equity)	30.5%
Top 5 Long (% of Equity)	18.1%

Top Winners/Losers [5]

	Attribution	
	MTD	YTD
Top 10 Winners	3.53%	5.96%
Top 10 Losers	-3.83%	-4.73%

(5) Excludes P&L from changes in FX rates for non-USD securities and from currency hedges against those securities

Country Categories - % Gross Portfolio Market Value [6]



(6) A significant portion of EM exposure is investments listed on major exchanges including the New York, London and Hong Kong Stock Exchanges. Country categories include both long and short exposures.

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PERFORMANCE

Net Monthly Returns

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
XP-I*													
2003	0.81%	5.73%	1.19%	7.22%	4.67%	2.70%	2.32%	2.57%	3.69%	4.25%	1.85%	-0.28%	43.24%
XP-I*/XP-II*													
2004	7.49%	-1.01%	-0.11%	1.31%	-0.50%	1.92%	0.84%	0.95%	0.15%	0.36%	3.15%	3.09%	18.81%
XP-II													
2005	-0.54%	1.97%	-0.13%	-0.85%	-2.10%	1.19%	0.55%	1.20%	0.18%	-1.60%	0.00%	-0.68%	-0.88%
2006	2.44%	0.49%	1.05%	1.51%	-1.03%	-1.29%	1.15%	-0.11%	-0.47%	3.14%	2.01%	2.73%	12.13%
2007	0.66%	5.00%	5.74%	8.66%	5.05%	2.49%	3.57%	-6.78%	3.77%	6.87%	-1.28%	0.46%	38.83%
2008	-0.12%	10.77%	-4.14%	3.33%	7.65%	5.47%	-4.74%	-1.54%	-4.28%	-1.77%	-5.73%	-3.02%	0.31%
2009	1.88%	0.60%	-0.30%	2.75%	2.57%	1.05%	4.26%	4.62%	6.31%	0.42%	2.62%	4.07%	35.33%
2010	1.25%	-0.23%	3.74%	3.01%	-4.23%est								3.37%est

*Performance calculations for "XP-I" reflect gross rates of return of XP-I, a separate account managed by Xerion, adjusted to reflect the same fees charged to XP-II. 2004 Returns reflect the rates of return for XP-I (as described above and further qualified below) for the period January 1, 2004 through February 28, 2004 and the audited rates of return for XP-II for the period March 1, 2004 (date of inception) through December 31, 2004. While XP-I was managed by Xerion with substantially the same strategy as employed for XP-II, there can be no assurance that the financing, trading and other terms available to XP-I will be available to XP-II, or that the returns or the performance of the Fund are, or will continue to be, comparable to relative benchmarks or other entities managed by Xerion.

Fund Philosophy

The broad philosophy behind our strategies seeks to draw on fundamental valuation skills to identify opportunities that offer the potential for asymmetric returns—downside protection with upside potential. These same skills and approach apply whether we are investing long in distressed credit or undervalued assets, or shorting overvalued credit. Our goal in all cases is to provide Alpha to our investors with minimal impact from broader equity and credit market volatility.

Fund Information

Location:	New York
Fund Inception:	March 1, 2004
Counsel:	Seward & Kissel LLP
Administrator:	Citco Fund Services (Cayman Islands) Limited
Auditor:	Ernst & Young
Prime Brokers:	Goldman Sachs & Co. Morgan Stanley & Co. Incorporated JPMorgan Clearing Corp.
Fund Structure:	Master Feeder (onshore, offshore feeders)

	1 yr Tranche	3 yr Tranche
Lock Up Period:	1 Year	3 Years
Management Fee:	2%	1.5%
Performance Fee(1):	20%	17.5%
Redemptions(2)(3):	Quarterly	Quarterly
Notice Period:	45 days	45 days
Minimum Investment(4):	$10 million	$10 million

(1) Of realized and unrealized net profits, subject to a high water mark
(2) Subject to the applicable lock-up period and notice period
(3) For investments initiated on or after January 1, 2010: If, as of any Redemption Date, an investor submits a redemption request that would result in the redemption of more than 25% of such investors interests that are no longer subject to a lock-up as of such date (the “Threshold Level”), such amounts in respect of interests in excess of the Threshold Level shall be paid on a periodic basis so that up to 25% of such investor’s redeemable interests as of the date of the initial redemption request shall be redeemed on each of no more than four consecutive quarterly Redemption Dates (so that an investor will be able to redeem all of its interests that are not subject to a lock-up within one year following the expiration of the applicable lock-up). Any amounts in respect of interests that are not redeemed due to the Threshold Level being exceeded will remain invested in the Fund (and shall be subject to the performance of the Fund) pending redemption as of the applicable Redemption Date. For further details please see the Confidential Offering Memorandum.
(4) The Manager of the Fund is making a recommendation to the Board of Directors to increase the minimum investment to $10 million. If approved, this change will be reflected at such time as the Fund’s Confidential Offering Memorandum is next updated.

DISCLOSURES

All information presented herein (the "Information") is confidential and as of the date indicated above, has not been audited, and is intended solely for your informational purposes. The Information including, but not limited to, Perella Weinberg's organizational structure, investment experience/views, returns or performance, risk analysis, benchmarks, investment process, risk management, market opportunity, portfolio construction, capitalizations, strategy assets, exposures, fund characteristics, guidelines, and positions may involve our views, estimates, assumptions, facts, and information from other sources that are believed to be accurate and reliable "as of" the date found on the first page - any of which may change without notice. We have no obligation (express or implied) to update any or all of the Information or to advise you of any changes; nor do we make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors. The Information is qualified in its entirety by reference to the applicable Confidential Offering Memorandum (the "Memorandum"). In the event of conflict between this Information and the Memorandum, the Memorandum prevails.

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Please note that the performance calculations shown herein may vary from the performance return on your investment(s). It can not, and should not, be relied upon for any other purposes without the prior written consent of PWPCM. Past performance is not indicative of future results. Performance and risk attribution are subject to change without notice. This is not, and should not be considered, an offer to invest in, or to buy or sell, any interests or shares, or to participate in any investment or trading strategy. Any offering or solicitation will be made only pursuant to the Memorandum, together with all appropriate Fund documents, all of which must be read and agreed to in their entirety. (Capitalized terms have the same meanings as set out in the Memoranda.)

Please refer to the Memorandum for more information on fees including early withdrawal charges and other important information. The investments discussed herein, including the Fund, may be speculative and involve a high degree of risk; could involve possible loss of your entire principal; may be leveraged which can potentially increase investment risk; may have volatile performance; can be highly illiquid and investors may be required to retain their exposure to investments for an indefinite period of time; do not have a secondary market for the investor's interest and none is expected to develop; may have restrictions in transferring interests of the assets; may not be required to provide periodic pricing or valuation information to investors; may include international investments that are subject to political influences, currency fluctuations and economic cycles that are unrelated to those affecting the domestic financial markets and may experience wider price fluctuations; are not subject to the same regulatory requirements as mutual funds; may involve complex tax structures and delays in distributing important tax information; and, may have high fees and expenses offsetting profits.

Performance calculations included herein are based on the rates of return calculated for Xerion Partners I LLC ("XP-I"), a separate account that was managed by Xerion Capital Partners LP only (i.e., Xerion Capital Partners LP only did not continue to manage XP-1 after its acquisition by Perella Weinberg and renaming as Perella Weinberg Partners Xerion Capital LP (as the context requires, "Xerion")), as calculated by Xerion, for the period January 1, 2003 (date of inception) to February 28, 2004, and calculated for Perella Weinberg Partners Xerion Offshore Fund Ltd. ("XP-II") for the period March 1, 2004 (date of inception) to current date. Net rates of return for XP-I are the gross rates of return adjusted to reflect the same fees charged to XP-II. Thus, the net rate of return for XP-1 does not represent actual results. Gross rates of return for XP-II are calculated by PWPCM, while net rates of return for XP-II through December 31, 2007 were calculated by BNY Alternative Investment Services ("BNY") and from January 1, 2008 to present are calculated by Citco Fund Services (Cayman Islands) Limited ("Citco")—both of which are based on net performance of the Benchmark Series of shares of XP-II. From the inception of XP-II through December 31, 2007, the Benchmark Series of XP-II was Class A Series March 2004; as of January 1, 2008, the Benchmark Series of XP-II is Class A1 Series January 2008. Net rates of return from October 1, 2007 are calculated using the one year lock-up fee structure; other fee structures are available. While XP-I was managed by Xerion with substantially the same strategy as employed for XP-II through 2005, there can be no assurance that the financing, trading and other terms available to XP-I will be available to XP-II, or that the returns or the performance of XP-II are, or will continue to be, comparable to relative benchmarks, or other entities managed by Xerion. Net Performance for the current month is a preliminary estimate based on the Benchmark Series of XP-II calculated by PWPCM and subject to confirmation by Citco. Performance attribution refers to the trading performance of XP-II and is gross of fees and expenses, but net of bank debt and swap interest, and trading expenses as calculated by PWPCM. Gross YTD numbers are based on average monthly capital after deducting trading and financing expenses; net MTD, ITD, YTD and monthly returns are based on compounded monthly returns net of all fees and expenses. Unless otherwise noted, MTD attribution figures reported herein are gross. Annual audits of XP-II and Perella Weinberg Partners Xerion Fund LP (the "Onshore Feeder") are provided by Ernst & Young. Assets are managed by PWPCM.

The Portfolio Manager has categorized the investments in the Fund's portfolio using the following categories: Credit Strategies, Equity Strategies and Macro Strategies. The categorization of each investment in a category is merely the Portfolio Manager's best attempt to characterize the investment based on how he views the investment's role within the portfolio (e.g., a currency hedge may be included within the Equity Strategies category because the Portfolio Manager views the investment as a proxy for an equity investment). Such classifications are entirely subjective and may change from time to time. Others may place these investments in categories other than those chosen by the Portfolio Manager, or use different categories altogether.

Standard Deviation is a measure of the variation of returns around the mean return. Figures presented are based on monthly returns since the inception of the Fund and are annualized.

Indices Definitions:

S&P500® is a trademark of The McGraw-Hill Companies, Inc. The S&P 500® is an unmanaged index widely regarded as the standard for measuring large-cap U.S. stock-market performance.

The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

Indexes are unmanaged, and the figures for the index shown include reinvestment of dividends and capital gains distributions and do not reflect any fees or expenses. Investors cannot invest directly in an index.

CONTACT INFORMATION

PERELLA WEINBERG PARTNERS

Perella Weinberg Partners Marketing and Client Services • 767 Fifth Avenue • New York, NY 10153
(212) 287-3111 • PerellaWeinbergIR@pwpartners.com