OAK HILL INVESTMENT MANAGEMENT

QUARTERLY LETTER

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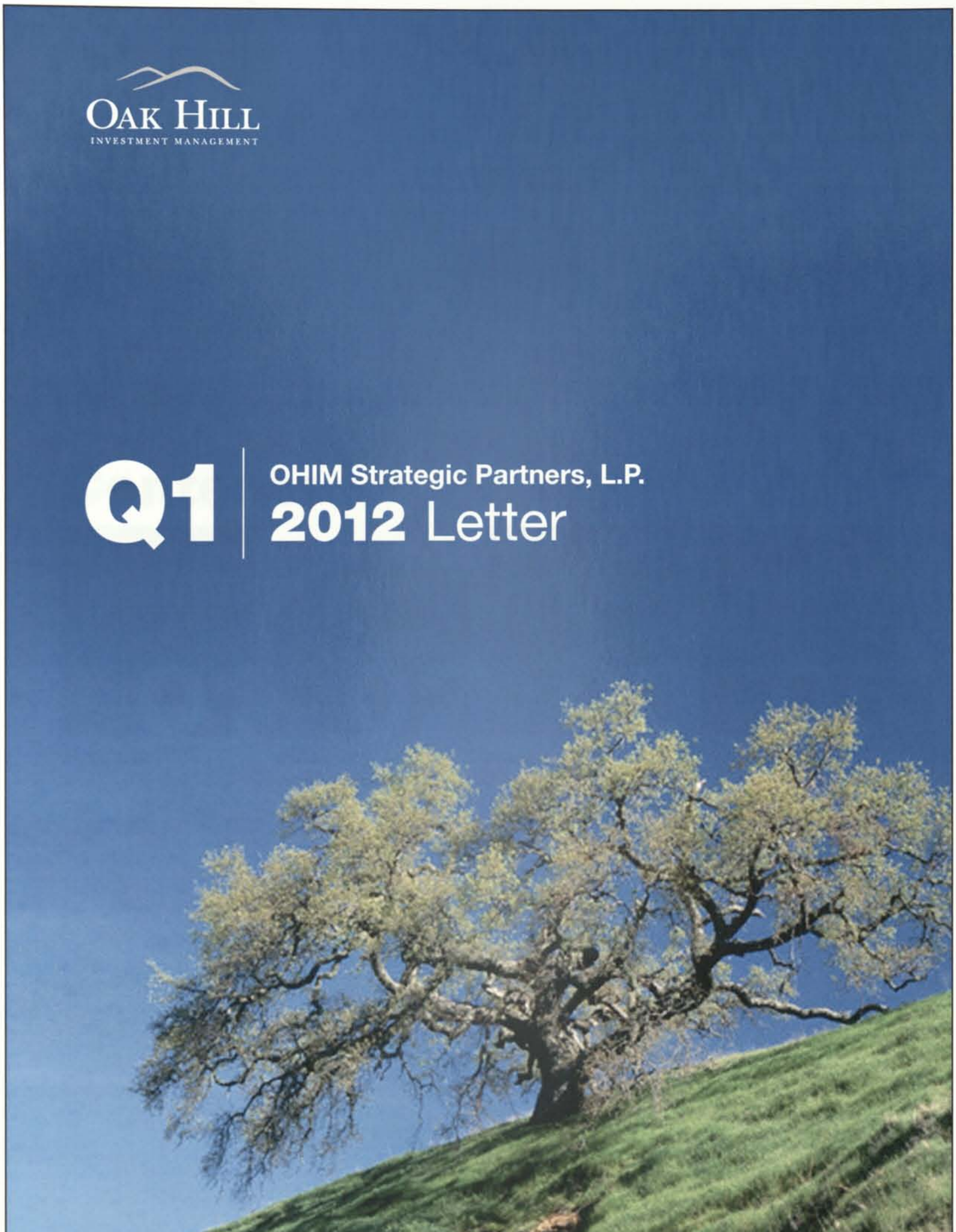

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Te feugait nulla facilisi nam liber tempor cum. Quarta decima et quinta decima, eodem modo typi qui. Facilisis at vero eros et aclo psum cumsan et iusto odio.

J. Taylor Crandall
Oak Hill Investment Management, L.P.

Q1 2012 Letter

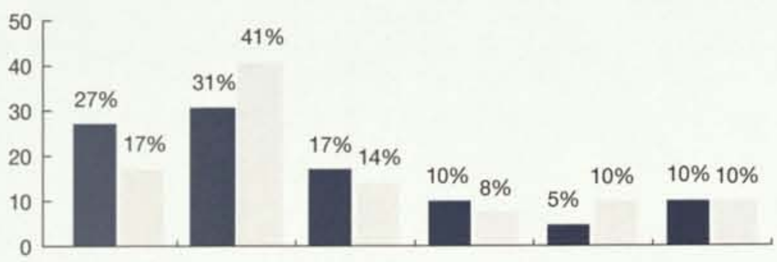
The first quarter of 2012 provided a welcome relief after the financial turmoil of 2011. Last year, investors experienced negative returns across most global equity markets, and the S&P 500 Volatility Index ("VIX", a widely recognized index of anticipated equity market volatility) reached highs not experienced since the onset of the financial crisis. In the first quarter of this year, global equity markets returned 12.0% and the VIX fell to a five-year low of 14.3. Fixed income markets, which had been the outperforming asset class of 2011, produced a flat performance in the first quarter of 2012 with the Barclays U.S. Aggregate Index earning 0.3%.

There's a challenge in providing current-quarter performance summaries for a diversified portfolio (like OHIM SP's) that contains both public and private assets, as marks in private assets are mostly subject to a one-quarter lag. In recent quarters, we provided an estimate of expected returns from unmarked assets. These estimates were subject to inevitable imprecision, and based on feedback from some of our investors, beginning with this letter we will provide actual results as we receive them. As a practical matter, this means we will provide returns to our Marketable Securities Portfolio (public equities, fixed income, and hedge funds) for the current quarter, and report Private Asset Portfolio returns (real estate, natural resources, private equity and venture capital) from the prior quarter.

EXHIBIT 1: Q1 2012 MARKETABLE SECURITIES PORTFOLIO RETURNS

	Asset Class Return	Benchmark Return	Allocation within Marketable Securities	Allocation within Partnership
Public Equity	10.9%	11.9%	56.2%	39.1%
Fixed Income	2.2%	0.1%	17.5%	12.2%
Hedge Funds	5.3%	4.9%	26.3%	18.3%
Marketable Securities Portfolio Return	7.9%	8.0%	100.0%	69.6%

EXHIBIT 2: OHIM SP FIXED INCOME REBALANCING



Public Equity

In the first quarter of 2012, global equity markets continued the strong upswing that began at the end of 2011. All regions participated in the rally, with the U.S., non-U.S. developed markets and emerging markets up 12.7%, 10.8% and 13.8%, respectively. With a strong "risk on" sentiment in equity markets, lower risk portfolios focused on stable, "quality" companies tended to underperform, while portfolios with smaller-cap stocks or with overweight to economically-sensitive sectors like consumer discretionary and financials tended to outperform. Our public equity portfolio contains many managers that fall into the "quality" bucket, and this overweight created a drag on our relative performance. Our public equity portfolio returned 10.9% in the quarter, while the MSCI All Country World (ACWI) benchmark was up 11.9%. During the quarter, our portfolio was negatively affected by a surprisingly large underperformance from one of our global equity managers, Tradewinds. Tradewinds' CIO, founder and lead portfolio manager, Dave Iben, unexpectedly announced his resignation from the firm in March. (We are now in the process of redeeming our Tradewinds investment.) Excluding this manager, our public equity portfolio would have only modestly underperformed its benchmark by 0.3% instead of 1.0%.

Fixed Income

Despite the relatively benign quarter for fixed income markets, OHIM SP's fixed income portfolio outperformed its benchmark by an impressive 2.1%. The majority of our active managers outperformed their respective benchmarks. Our sector tilts in emerging markets, municipal bonds and inflation-linked bonds also contributed to outperformance. Overall, we maintained our underweight to fixed income risk relative to its weight in the Traditional Portfolio. We continue to underweight fixed income exposure given the current low level of fixed income yields and what we continue to regard as greater downside risk than upside potential in fixed income investments. We maintain our municipal bond weight for tax-enhanced yields.

In addition, we recently completed a study of our fixed income exposure and are adjusting our allocation targets within the fixed income asset class. We are reducing our U.S. government exposure by nearly 40%, and we are increasing our allocation to agency mortgage backed securities to 41% as compared to their 35% weight in the Barclays U.S. Aggregate Index. Mortgages provide the portfolio with yield while dampening the volatility of our fixed income portfolio. In addition, we are cutting our corporate bond exposure and adding to emerging markets debt securities (Exhibit 2). (We have, however, been adding credit exposure to our hedge fund and private equity portfolios.)

option**two**

OHIM Strategic Partners, L.P.
Q1 2012 Letter

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Newsletter / InDesign / Cover Option 1

OHIM Strategic Partners, L.P.

Q1 2012 Letter

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INVESTMENT MANAGEMENT

OVER VIEW

The first quarter of 2012 provided a welcome relief after the financial turmoil of 2011. Last year, investors experienced negative returns across most global equity markets, and the S&P 500 Volatility Index ("VIX," a widely recognized index of anticipated equity market volatility) reached highs not experienced since the onset of the financial crisis. In the first quarter of this year, global equity markets returned 12.0% and the VIX fell to a five-year low of 14.3. Fixed income markets, which had been the outperforming asset class of 2011, produced a flat performance in the first quarter of 2012 with the Barclays U.S. Aggregate Index earning 0.3%.

12.0%
GLOBAL EQUITY MARKETS RETURN

There's a challenge in providing current-quarter performance summaries for a diversified portfolio (like OHIM SP's) that contains both public and private assets, as marks in private assets are mostly subject to a one-quarter lag. In recent quarters, we provided an estimate of expected returns from unmarked assets. These estimates were subject to inevitable imprecision, and based on feedback from some of our investors, beginning with this letter we will provide actual results as we receive them. As a practical matter, this means we will provide returns to our Marketable Securities Portfolio (public equities, fixed income, and hedge funds) for the current quarter, and report Private Asset Portfolio returns (real estate, natural resources, private equity and venture capital) from the prior quarter.[1]

[1] Capital statements will follow the same reporting convention.

U.S. equity markets also shared a related path between the first halves of 2012 and 2011. In the first half of 2012, the S&P 500 appreciated 8.3% as compared with 5.0% over the same period last year. The pattern was even notably similar between the first and second quarters of each year. In both years, markets appreciated during the first quarter (12.0% vs. 5.6%), and fell in the second quarter (down 3.2% vs. down 0.6%).

Eurozone equities also performed similarly between the two years. The Euro Stoxx Index, a broad-based index of Eurozone equities, appreciated 0.3% in the first half of this year and 1.8% during the first half of 2011. But this resemblance masks a substantial change in Eurozone performance as measured in U.S. dollars. The U.S. dollar value of Eurozone equities was down 2.1% this year, but was up 10.9% last year. This marked difference is of course a measure of the performance of the U.S. dollar/euro exchange rate, which fell 2.3% in the first half of this year (by July it had fallen 5.4%) as compared to its 8.4% appreciation during the first half of 2011.

Thus, while the capital markets have delivered numerous encore performances of last year's returns, the value of the euro has weakened dramatically from year to year. For this reason we feature the euro in the Outlook section of this quarter's letter.

Turning to the performance of the OHIM SP portfolio, we provide returns to our Marketable Securities Portfolio (public equities, fixed income and hedge funds) for the current quarter, together with the returns to our currency hedges. As most private asset valuations lag by one quarter, we provide the performance of our Private Asset Portfolio (real estate, natural resources, private equity and venture capital) for the first quarter, followed by a one-quarter lagged summary of overall portfolio performance.

Marketable Securities Portfolio: Q2 2012

Exhibit 2 provides the returns to our Marketable Securities Portfolio for the second quarter of 2012.[2]

EXHIBIT 2

	Asset Class Return	Benchmark Return	Allocation within Marketable Securities	Allocation within Partnership
Public Equity	-6.3%	-5.7%	59.7%	42.7%
Fixed Income	2.0%	2.0%	22.5%	16.1%
Hedge Funds	-1.6%	-2.9%	17.8%	12.7%
Marketable Securities Portfolio Return	-3.6%	-3.5%	100.0%	71.5%
Currency Hedges	1.2%	-		
Marketable Securities Portfolio Return with Hedges	**-3.5%**	**-3.5%**		

[2] Returns of the respective asset class subset of the portfolio are gross of OHIM fees, and the benchmark returns are of the iShares MSCI ACWI Index Fund (ticker: ACWI), the iShares Barclays Aggregate Index Fund (ticker: AGG) and Hedge Fund Research (HFR) Fund Weighted Composite Index for hedge funds. Any hedge funds for which we have not yet received marks are excluded from the above return. Hedge fund managers may subsequently adjust marks we earlier received. The Marketable Securities Portfolio Return is weighted by each asset class' weight among marked asset classes in the portfolio, and the summary Benchmark Return is weighted similarly.

Public Equity

Global equity markets slid during the second quarter of 2012, reversing roughly half of their first quarter gains. Doubts about Europe contributed to a 7.2% decline in non-U.S. developed markets during the second quarter, leaving them up only 2.4% for the year. Emerging markets fell 8.9%, ending the first half of the year up 3.9%, in part due to worries about a hard landing in China and the implications for its export partners. The U.S. reprised its role as the "least worst" market in Q2, down only 2.8% and still up 9.5% for the year.[3]

Our traditional equity portfolio declined 6.3% for the second quarter while the ACWI benchmark fell 5.7%. Our portfolio underperformed primarily due to poor performance from some of our public equity managers. Nearly half of the underperformance is attributable to Tradewinds, whose founder and CIO, Dave Iben, abruptly announced his departure in mid-March; most of the stocks in his portfolios fell sharply thereafter. We terminated Tradewinds as manager in Q2, but we held onto our stock portfolio in an effort to benefit from a bounce-back following the technical selling pressure that ensued after Iben's departure and the nearly $20 billion of redemptions from Tradewinds – a decision that exposed the portfolio to further depreciation. Subsequent to quarter-end we began selling our remaining positions from Tradewinds as expeditiously as is prudent, given the less liquid, small-cap foreign stocks in the portfolio.

Fixed Income

As yields fell throughout the quarter, fixed income markets generated positive returns. Bonds backed by the U.S. government were the best performers, as risk sectors saw their spreads widen slightly. The portfolio experienced a 10 basis point relative underperformance given its sector tilts to mortgage backed securities, emerging market debt and municipal bonds. Our new mortgage manager, DoubleLine Capital, together with our other fixed income managers collectively outperformed their benchmarks by about 10 basis points. Combining the effects of our sector tilts and selection of managers, OHIM SP's fixed income portfolio performed in line with its benchmark, the Barclays Aggregate Index (up 2.0%) during the second quarter.[4]

Hedge Funds

Like equities, hedge funds gave back a significant portion of the gains they recorded in the first quarter. With global equities down 5.7% and the S&P 500 down 2.8% in Q2, the HFR hedge fund universe had an uninspiring quarter, down 2.9%.[5] By comparison, OHIM SP's hedge fund portfolio declined by 1.6%, outperforming the HFR Composite Index by 1.3%. Within our hedge fund portfolio, event-driven strategies and hedged equity beat their respective benchmarks, while macro strategies underperformed modestly. Our relative overweight to event-driven managers, particularly credit managers with significant exposure to structured products, contributed to our outperformance. We continue to focus on thematic investment opportunities such as hedge fund secondaries and European distress, both of which are areas where we recently added exposure.

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[3] Non-U.S. developed returns are of the MSCI EAFE & Canada Index (net dividends), emerging market returns are of the MSCI EM Index (net dividends) and U.S. returns are of the S&P 500 Index.
[4] As measured by the iShares Barclays Aggregate Index Fund (ticker: AGG).
[5] Global equity returns are of the iShares MSCI ACWI Index Fund (ticker: ACWI).

Private Asset Portfolio: Q1 2012

The performance of our Private Asset Portfolio for Q1 2012, the most recent quarter for which marks have been received, is presented in Exhibit 3 below.[6]

EXHIBIT 3

	Asset Class Return	Benchmark Return[7]	Allocation within Private Assets	Allocation within Partnership
Real Estate	3.3%	4.2%	31.1%	6.5%
Natural Resources	-0.3%	5.8%	12.0%	2.5%
Venture Capital	2.8%	0.5%	12.5%	2.6%
Private Equity	4.4%	7.3%	44.4%	9.2%
Private Assets Portfolio Return	**3.3%**	**5.3%**	**100.0%**	**20.8%**

Real Estate and Natural Resources

The Partnership's real estate investments returned 3.3% in the first quarter of 2012, which underperformed the benchmark due to our relative underweight to public REIT equities. The portfolio benefited from the continued recovery of Berkshire Multifamily Fund II, which has shown steady improvement as demand for apartments in prime locations has increased. Positive absolute returns from Torchlight, a dedicated commercial real estate debt fund, also helped returns. We continue to focus on opportunities to capitalize on distressed real estate. For example, we recently approved a secondary investment in a fund focused on German and eastern European real estate at an attractive discount to the fund's net asset value. Additionally, we approved an investment targeting rental strategies in the U.S. single-family home market, which we expect will close next quarter.

OHIM SP's natural resources portfolio fell 0.3% in the first quarter of 2012. A decline in natural gas prices led to general weakness in investment valuations. However, we believe the price depreciation in natural gas has made the forward opportunity set in energy exploration and production more attractive. Losses were partially offset by exposure to Riverstone Holdings, which generated an attractive exit on an offshore exploration and production investment. White Deer Energy also contributed to returns as oilfield service investments with exposure to increasing crude oil drilling registered strong EBITDA growth. Consistent with our previously expressed enthusiasm for midstream assets, we closed on a commitment to EnCap Flatrock Midstream Fund II, L.P, which will develop gas gathering systems and processing facilities in emerging, unconventional basins around the U.S. With respect to our agricultural exposure, we remain bullish on the long-term return potential in Brazilian farmland. To this effect, we continue to evaluate additional opportunities to acquire farmland and convert it to more productive uses.

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[6] Performance returns for the Private Asset Portfolio includes both liquid and illiquid private assets of March 31, 2012. The allocation to Private Assets in this Exhibit (20.8%) together with the allocation to Marketable Securities in Exhibit 1 (71.5%) will generally not sum to 100% because they refer to different time periods.

[7] Benchmark Returns for Private Equity and Venture Capital are provided by Venture Economics. Benchmark returns for Natural Resources is 70% Venture Economics Buyout & Other Private Equity, 15% NCREIF Farmland Index, 10% Cushing 30 MLP Index (Total Return Index) and 5% NCREIF Timberland Index. Benchmark returns for Real Estate is 60% NCREIF and the Townsend Opportunistic Fund Index, 20% NCREIF and the Townsend Value-Add Fund Index and 20% FTSE EPRA/NAREIT Developed Total Return Index.

Venture Capital and Private Equity

Our venture capital investments gained 2.8% and our private equity portfolio increased 4.4% during the first quarter of 2012. While we will continue to build a concentrated portfolio of best-in-class managers through primary commitments, we are shifting our focus towards secondary purchases and co-investments, which returned 6.5% and 3.8%, respectively, over the same period. During the second quarter of 2012, we closed three secondary purchases at attractive discounts in mature, high-quality portfolios of middle-market buyout and financial services sector-focused fund managers, and of an Asia-focused manager. We also closed a co-investment in the financial services sector, a side-by-side investment with one of our general partners in which we pay neither fees nor carry.

On the primary side, we committed to two new funds led by emerging venture capitalists and continued our support of Kleiner Perkins Caufield Byers through an investment in KPCB 15, L.P. We also closed our commitment to New Enterprise Associates 14, L.P. We believe this two-pronged strategy of backing innovative new platforms as well as more established firms builds access to the best venture capital investments.

OHIM SP: L.P. Equity Return

EXHIBIT 4

	Q1 2012	Trailing 1 YR
L.P. Equity Return[8]	6.0%	1.7%
Composite Benchmark	7.2%	2.7%
Traditional Portfolio	8.4%	4.8%

Turning to the portfolio as a whole, we performed about one percentage point below the Composite Benchmark for the first quarter of 2012 and for the trailing one year period (Exhibit 4). You may recall that the Composite Benchmark uses OHIM's actual portfolio weights and applies them to the asset class benchmarks which we use internally to help us evaluate our own performances in an asset class. As such, the combined impact of OHIM's manager selection, portfolio tilts (where we give greater weight to certain sectors or investment strategies within an asset class) and hedges can be seen in a comparison of portfolio performance to the Composite Benchmark. Manager selection in our hedge fund and fixed income portfolios were positive sources of outperformance for both the first quarter and the trailing one-year period, while public and private equity lagged their benchmarks for both time periods. Real estate and natural resources outperformed for the trailing twelve months, notwithstanding a shortfall in performances relative to their benchmarks in the first quarter.

In the first quarter of 2012, we underperformed the Traditional Portfolio, which is comprised only of liquid market assets (public equity and fixed income), by 2.4%. The underperformance is partly attributable to the fact that our public equity portfolio contains managers that are not as sensitive to broad equity markets such as ACWI. Specifically, as ACWI was up 11.9% in the first quarter, the public equity portfolio was up

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[8] Performance information provided in this letter is for the limited partners' net return, which is called L.P. Equity for these purposes. Performance information may not represent any individual's equity return but rather is an aggregate of all L.P.'s returns. Performance is as of March 31, 2012, the most recent quarter for which marks on all assets were received.

10.9%.[9] We expect some of our equity exposure to resurface in our private asset portfolio over time. However, studies of the sensitivity (or "beta") of private asset returns to public market returns reveal that it takes up to six quarters for the influence of public equity returns to be fully incorporated into private asset returns.[10] Given the strong equity market we experienced in the first quarter of 2012, private equity returns are not expected to reflect a significant fraction of their upside this quarter. Notwithstanding this temporary compressive effect on diversified portfolio returns relative to fully public portfolios such as the Traditional Portfolio, we expect the ripple effect of this "lagged beta" (as it is commonly referred to) will eventually appear in our private asset portfolio returns.

Looking at the trailing one-year performance, our private assets significantly outperformed public assets, as we expect them to do over longer horizons. However, we had two important sources of underperformance for the trailing one-year returns.

First and most significant, OHIM SP's public equity portfolio underperformed the public equity component of the Traditional Portfolio by 5.1% in the last twelve months. In large part, this was due to an underweight to U.S. equities relative to the Traditional Portfolio benchmark. For the first three quarters of this twelve-month period, the Traditional Portfolio was comprised 50% of U.S. equities and 20% non-U.S. developed market equities, whereas the equity component of our portfolio was not as heavily weighted towards the U.S. and included emerging markets. We regard this as a benchmark problem, as opposed to a performance problem, that we have attempted to fix as of Q1 2012. Indeed in the first quarter of 2012 we modified the composition of the Traditional Portfolio in order to more properly reflect our portfolio's exposure to global equities, which is better represented by ACWI. The difference in returns between U.S. and non-U.S. markets during these twelve months accounted for roughly 2.1 percentage points of the 3.1% underperformance compared to the Traditional Portfolio.

Second, our performance also suffered because our portfolio's exposure to fixed income risk was lower than that of the Traditional Portfolio. In normal markets, this would not have had a significant effect on portfolio returns. In periods of extraordinary fixed income returns as we experienced last year, however, this underweight to duration created a drag of about 0.9%.

Outlook: Current Perspectives on the Euro

As we have mentioned in previous quarterly letters, we currently hedge our exposure to the three major foreign currencies: the British pound, the euro and the Japanese yen. The currency hedging program is founded on our belief that developed market currencies add risk to the portfolio without appreciably contributing to expected return. We can therefore decrease portfolio risk without sacrificing expected return by hedging these developed markets' currency exposures.

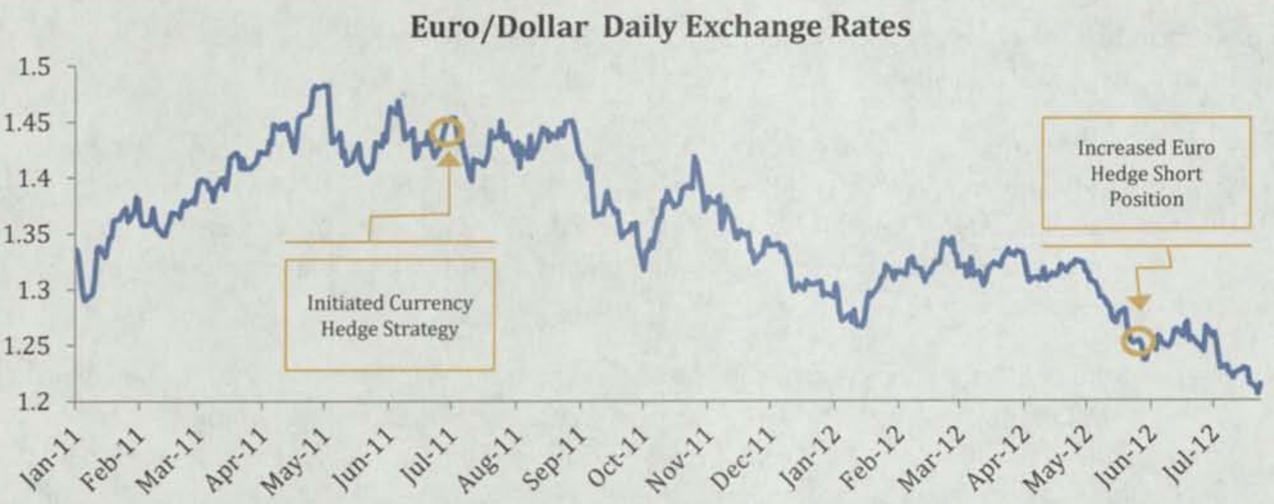
We initiated our currency hedges in June 2011. To implement the hedges, we shorted foreign currency futures in amounts roughly equal to the pound, euro and yen exposures in our portfolio (collectively about

[9] As given by the iShares MSCI ACWI Index fund (ticker: ACWI).

[10] Calculation is based on research as cited in two articles. (a) Woodward, Susan E., "Measuring Risk for Venture Capital and Private Equity Portfolios." *Sand Hill Econometrics*, Web. August 2009 <http://www.sandhillecon.com/sand-hill-papers.php>. (b) Anson, Mark, "Performance Measurement in Private Equity: Another Look." *CFA Institute*. November 2007, Volume 37, No. 4. Consistent with our own findings and the aforementioned research, we assume that for a given quarter's public equity market return of 1%, private equity returns are impacted 40 basis points in the same quarter, 20 basis points in the following quarter and 30 basis points over the subsequent three quarters. This effect operates independently from a fixed component to private equity returns, which we estimated on average to be approximately 1% per quarter.

12% of our overall exposure), adjusted by a 75% hedge ratio.[11] To date, our pound and yen hedges have roughly offset one another: the yen has slightly appreciated while the pound has slightly depreciated. The biggest gain in our currency hedging program has stemmed from the large depreciation in the value of the euro. Since implementing our hedge, we have gained conviction that the euro would depreciate relative to the U.S. dollar. As such, in May 2012 we increased our short position in euro futures (see Exhibit 5 below) to eliminate all of our direct exposure to the euro. In aggregate, our hedging strategies contributed 11 basis points to the portfolio's second quarter return.

EXHIBIT 5: EURO/DOLLAR EXCHANGE RATES[12]



Reasons we are overweight our short on the euro:

A fundamental discipline we impose before implementing a trade based on a directional market view is to ask ourselves whether the information on which the view is based is already embedded in prices. If so, one should not expect to earn an excess return by implementing the trade. While we certainly don't profess to have access to information not available to others, we do believe that there are numerous large market participants, such as European central banks (the ECB and others), that are predisposed to support the market in Europe seemingly at all costs. In the language of efficient markets, these public institutions are predisposed to tolerate a negative alpha in the pursuit of their policy objectives. In addition, the European bank regulatory regime currently imposes capital requirements based on a system of risk-weighting assets that does not reflect those assets' true market risks. (Notably, euro-area sovereign bonds receive a zero-risk weight independent of their creditworthiness.) Hence, the bank regulatory regime has artificially created a systemic bias for certain institutional investors to tolerate a lower return for euro-denominated assets relative to the true market risks of those assets.[13] Indeed, the Long-Term Refinancing Operation (LTRO) as a funding mechanism for banks is engineered to enhance the appetite for European bonds

[11] Our analysis indicates that, for the euro, yen and pound, an approximately 75% hedge ratio would deliver the most efficient reduction in currency risk per unit of hedge transaction costs.
[12] Source: Bloomberg, as of July 25, 2012.
[13] This framework also has the effect that it creates systemic risk in the financial sector, as the sector tends to be over-invested in instruments which are receiving too low a return relative to their risk. An unappreciated point for regulators is that they have created a source of systemic risk in the market where their mission is to reduce systemic risk.

beyond what is justified by their expected risk-adjusted returns.[14] We believe investment opportunities are created when large market participants have such significant non-market motivations.

We increased our short of the euro for the following reasons. First, European policymakers have performed a halting series of inadequate steps to deal with the crisis facing some member countries. Seemingly following the well-known model of the five stages of grief (denial, followed by anger, bargaining, depression and finally acceptance), European policymakers have preferred to operate in an extended state of denial, hoping for a better outcome.[15] If economic growth were to accelerate, it would ease debt/GDP ratios, which would obviate the need for aggressive policy action. While it may be politically easier to hope for growth rather than tackle difficult problems, hope is not a good substitute for effective policy.

A good illustration of such wishful thinking among European Union officials has been the progression of European bank stress tests, as follows:

- First run in 2009, the Committee of European Banking Supervisors concluded "no bank would see its Tier 1 ratio falling under 6%" (CEBS press release, October 1, 2009). Afterwards we learned that the stress tests didn't take into account a potential sharp rise in sovereign debt spreads. Within six months, the three largest banks in Ireland failed, and Ireland was pushed into an International Monetary Fund (IMF) relief program.

- A second round of stress tests that included a sovereign debt shock were run in 2010 and all but seven banks in Europe passed with Tier 1 ratios greater than 6% in the adverse stress scenario. All four major Greek banks passed and only a few small Spanish banks were among the seven that failed. European bank regulators announced that "the aggregate results suggest a rather strong resilience for the EU banking system... and may appear reassuring for banks in the exercise" (page 7 of the "Aggregate Outcome of the 2010 EU Wide Stress Tests Exercise Coordinated by CEBS in Cooperation with the ECB," July 23, 2010). Following these tests, Dexia (a very large Belgian bank which passed the stress test by a wide margin), became nationalized. As we now know, Spain recently requested over 100 billion euros to bail out its banking system, an abrupt update to its request for 14 billion euros just two months earlier.

The expression "kicking the can down the road" is rooted in the observation that policymakers appear to prefer to wait another day to see if they have to deal with the problem rather than deal with it today.

Flickers of anger have begun to appear, perhaps signaling an end to the period of denial. One example of such emerging anger is in policymakers' attempt to interfere with the markets' price discovery mechanism by banning short-selling for temporary periods, including the present short-selling bans in Spain and Italy. Another example is where policymakers blame the market's response. The *Financial Times* recently published an article entitled "Eurozone countries hit back at Moody's" in response to Moody's decision to lower its opinion of sovereign creditworthiness (July 24, 2012). The next day, a *Bloomberg* headline read "[German finance minister Wolfgang] Schaeuble Declares Markets Wrong as Europe Heads to Vacation." When securities markets deliver a warning message, the "shoot the messenger" mentality of European

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[14] The Long-Term Refinancing Operation (LTRO) has been a tool used by the European Central Bank (ECB) to finance securities held by member banks of the Eurozone at low interest rates.

[15] The Kübler-Ross model, commonly known as The Five Stages of Grief, is a hypothesis first introduced by Elisabeth Kübler-Ross in her book *On Death and Dying*, which was inspired by her work with terminally ill patients.

elected officials and bureaucrats does not inspire confidence that they appreciate fully the gravity of Europe's financial situation.

It's well known that a sustainable solution to the debt crisis requires a more fiscally unified Europe. Unfortunately, given Europe's cultural diversity, history and politics, we believe such a union is unlikely to emerge anytime soon. As such, our negative view on the euro is predicated fundamentally on either of the following two potential paths for the Eurozone in the near-term:

- The first scenario assumes a continuing painful fiscal regimen in which the supporting countries enforce tough austerity terms on the struggling countries. Such austerity programs, while an important ingredient in any long-run solution, create significant downward pressure on the economies in the short-run. As Greece and Spain have cut government spending to bring their debt/GDP ratios closer to sustainability, their economies have slowed, worsening unemployment and impeding their ability to recover. Without the policy lever of having one's own currency to devalue, nominal wages are forced to adjust downwards, creating a wrenching and prolonged process for society. The key question in this vicious cycle is how much pain can the electorate sustain before it seeks relief by demanding its politicians join the ranks of the unemployed? Austerity breeds social discontent and opposition. Alternatively, breaking from the currency union and defaulting on debt might create further chaos in the short-term (but would allow the departing country's terms of trade versus the rest of the world to adjust quickly without requiring systemic nominal wage adjustments). Either strategy is highly risky to the jobs of the politicians that pursue them.

  Greece is already on its third government since former Greek Prime Minister Papandreou suggested to German Chancellor Merkel and former French President Sarkozy that the proposed austerity measures would require a public referendum. It would not be surprising to us to see three or four more Greek governments rise and fall from power in the next few years as Greece wrestles with this trade-off. While we don't take a view on which strategy (austerity or exit) is the better approach, we do believe that absent a broader program for the European Union to underwrite local country debt (an ingredient of the sustainable solution), continued application of fiscal austerity creates a volatile environment in which a euro exit may ultimately be pursued by one or more governments. As a country exit is not contemplated in the Maastricht treaty,[16] the market environment leading up to and including an exit would likely to be highly disruptive to the euro, calling into question the ability of existing euros to serve as a store of value or a medium of exchange.[17]

- In the second scenario, the financial crisis in Europe is addressed through a more proactive use of monetary policy. This is presumably what the ECB President, Mario Draghi, had in mind when he said on July 26, 2012, "The ECB is ready to do whatever it takes to preserve the euro." Assuming he is not posturing by issuing such a statement, the "whatever it takes" involves a much more aggressive quantitative easing-like program. Indeed, a central purpose of increasing the supply of euros would be to deliver an effective devaluation, as that's what the struggling countries of the Eurozone desperately need. However, inflation and devaluation might not be what the supporting European countries need or want. The ECB President's statement that "sovereign premia hamper

[16] Formally the Treaty on the European Union, the Maastricht Treaty was signed in 1992 and created the European Union.
[17] Presumably, this is why German bunds have been one of the best performing instruments in the last year. If there is any "safe" euro, it would be one held in a German account or issued by the German government.

the functioning of the monetary policy transmission channel" may be part of a sales pitch to convince opponents of devaluation that potential ECB actions would fall within its mandate. Subsequent to Draghi's remarks, the German Bundesbank stated it was not ready to support such a policy. Regardless, we would expect more aggressive monetary policy to create downward pressure on the euro.

If Draghi is posturing, then we're back to the first scenario.

We believe a full hedge against euro currency movements is prudent in either scenario. Naturally, our view is subject to relevant current market and policy developments, which could lead us to adjust or eliminate our hedge at any time.

As always, please feel free to contact any member of the Oak Hill Investment Management team with any questions or comments.

Sincerely,

Oak Hill Investment Management

LEGAL INFORMATION

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Financial information contained in this letter is based on estimated 6/30/2012 data.

The information presented is intended to be a summary and for information purposes only and is not intended to be an offer to sell or the solicitation of an offer to purchase any security or investment product. Any numbers obtained from outside sources have not been independently verified by OHIM.

L.P. Equity returns are net of all fees and expenses. Further, the L.P. Equity returns are compounded monthly and assume the profits accrual amount is earned monthly. L.P. Equity reflects all capital being reinvested back into the partnership.

Past performance of any investments described herein are not necessarily indicative of future results and it should not be assumed that investments made by OHIM in the future will be profitable or equal to the performance of the investments described herein. Any statements regarding future events constitute only subjective views or beliefs, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are beyond the control of OHIM. The information contained herein does not constitute any representation or warranty with respect to OHIM, and no person has been authorized to make any such representation or warranty.

As used herein, the term "volatility" refers to standard deviation, which is a widely used measure of the variability or dispersion of returns. It shows how much variation there is from the average or expected value. A low standard deviation indicates that the data points tend to be very close to the mean, while a high standard deviation indicates that the data are spread out over a broad range of values. The standard deviation shown herein is calculated on a quarterly basis.

Benchmarks/Indices

Benchmarks are discussed for illustrative purposes only and have limitations when used for comparison or other purposes because they may have volatility, credit or other material characteristics that are different from the investments discussed herein. Benchmark definitions reflect definitions or descriptions as reported by third party sources and not created by OHIM.

The "Composite Benchmark" is a custom benchmark and the return is the weighted average return of the individual asset class benchmark returns according to OHIM SP's current asset allocation, with the weightings reset quarterly. Within the Composite Benchmark, the Hedge Fund Benchmark is the Hedge Fund Research Fund Weighted Composite Index; the Private Equity Benchmark is the Venture Economics Pooled Average for vintage years 2008 - 2011; the Real Estate Benchmark is 60% NCREIF All Opportunistic Index, 20% NCREIF Value-Add Index and 20% FTSE/EPRA NAREIT Global Real Estate Index; the Natural Resources Benchmark is 70% Venture Economics Buyout and Other Private Equity Pooled Average for vintage years 2008 – 2011, 10% Cushing 30 MLP Total Return Index, 15% NCREIF Farmland Total Return Index and 5% NCREIF Timberland Total Return Index; Fixed Income Benchmark is the Barclays US AGG iShares; and the Public Equity Benchmark is the MSCI ACWI iShares.

The Traditional Portfolio consists of 70% equity (MSCI ACWI), 25% fixed income (Barclays Aggregate Bond Fund Index) and 5% cash, geometrically linked monthly and rebalanced quarterly. Prior to Q1 2012, the Traditional Portfolio consisted of 50% Russell 3000 Index representing US equities, 20% MSCI EAFE Index representing non-US Developed equity markets, 25% Barclays Aggregate Bond Fund Index representing fixed income and 5% cash. The historical composition excluded emerging market equities, which we believe is inappropriate given the broad inclusion of emerging markets in global equity portfolios and the diversified portfolios we manage. Effective Q1 2012, we modified the Traditional Portfolio by replacing the Russell 3000 and MSCI EAFE equity indices with the MSCI ACWI, a capitalization-weighted global equity index with a 13% weight to emerging markets. The Traditional Portfolio is comprised only of liquid market assets and consequently its composition is different than our diversified portfolios and is provided as a reference point only.

MARKETABLE SECURITIES PORTFOLIO Q1 2012

BELOW WE PROVIDE THE RETURNS TO OUR MARKETABLE SECURITIES PORTFOLIO FOR THE FIRST QUARTER OF 2012.

EXHIBIT 1
Q1 2012 MARKETABLE SECURITIES PORTFOLIO RETURNS[2]

	Asset Class Return	Benchmark Return	Allocation within Marketable Securities	Allocation within Partnership
Public Equity	10.9%	11.9%	56.2%	39.1%
Fixed Income	2.2%	0.1%	17.5%	12.2%
Hedge Funds	5.3%	4.9%	26.3%	18.3%
Marketable Securities Portfolio Return	7.9%	8.0%	100.0%	69.6%

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Mark A. Wolfson
Founder & Managing Partner

10.9%
PUBLIC EQUITY PORTFOLIO RETURN

PUBLIC EQUITY

In the first quarter of 2012, global equity markets continued the strong upswing that began at the end of 2011. All regions participated in the rally, with the U.S., non-U.S. developed markets and emerging markets up 12.7%, 10.8% and 13.8%, respectively.[3] With a strong "risk on" sentiment in equity markets, lower risk portfolios focused on stable, "quality" companies tended to underperform, while portfolios with smaller-cap stocks or with overweight to economically-sensitive sectors like consumer discretionary and financials tended to outperform. Our public equity portfolio contains many managers that fall into the "quality" bucket, and this overweight created a drag on our relative performance.

Our public equity portfolio returned 10.9% in the quarter, while the MSCI All Country World (ACWI) benchmark was up 11.9%. During the quarter, our portfolio was negatively affected by a surprisingly large underperformance from one of our global equity managers, Tradewinds. Tradewinds' CIO, founder and lead portfolio manager, Dave Iben, unexpectedly announced his resignation from the firm in March. (We are now in the process of redeeming our Tradewinds investment.) Excluding this manager, our public equity portfolio would have only modestly underperformed its benchmark by 0.3% instead of 1.0%.

[2] Returns are the gross return of the respective asset class subset of the portfolio, and the benchmark returns are of the MSCI ACWI (equities), Barclays U.S. Aggregate Index (fixed income) and HFRI Composite Index (hedge funds). Any hedge funds for which we have not yet received marks are excluded from the above return. Hedge fund managers may subsequently adjust marks we earlier received. The Marketable Securities Portfolio Return is weighted by each asset class' weight among marked asset classes in the portfolio, and the summary Benchmark Return is weighted similarly.

[3] Returns are for the iShares Russell 3000 (ticker: "IWV"), the iShares MSCI EAFE (ticker: "EFA") and the Vanguard ETF for MSCI Emerging Markets (ticker: "VWO").

option**three**

OAK HILL
INVESTMENT MANAGEMENT

OHIM Strategic Partners L.P. Q1 2012 Letter

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The first quarter of 2012 provided a welcome relief after the financial turmoil of 2011.

Last year, investors experienced negative returns across most global equity markets, and the S&P 500 Volatility Index ("VIX", a widely recognized index of anticipated equity market volatility) reached highs not experienced since the onset of the financial crisis. In the first quarter of this year, global equity markets returned 12.0% and the VIX fell to a five-year low of 14.3. Fixed income markets, which had been the outperforming asset class of 2011, produced a flat performance in the first quarter of 2012 with the Barclays U.S. Aggregate Index earning 0.3%.

There's a challenge in providing current-quarter performance summaries for a diversified portfolio (like OHIM SP's) that contains both public and private assets, as marks in private assets are mostly subject to a one-quarter lag. In recent quarters, we provided an estimate of expected returns from unmarked assets. These estimates were subject to inevitable imprecision, and based on feedback from some of our investors, beginning with this letter we will provide actual results as we receive them. As a practical matter, this means we will provide returns to our Marketable Securities Portfolio (public equities, fixed income, and hedge funds) for the current quarter, and report Private Asset Portfolio returns (real estate, natural resources, private equity and venture capital) from the prior quarter.[1]

[1] Capital statements will follow the same reporting convention.

Marketable Securities Portfolio: Q1 2012

Below we provide the returns to our Marketable Securities Portfolio for the first quarter of 2012.
EXHIBIT 1: Q1 2012 MARKETABLE SECURITIES PORTFOLIO RETURNS[2]

	Asset Class Return	Benchmark Return	Allocation within Marketable Securities	Allocation within partnership
Public Equity	10.9%	11.9%	56.2%	39.1%
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Public Equity

In the first quarter of 2012, global equity markets continued the strong upswing that began at the end of 2011. All regions participated in the rally, with the U.S., non-U.S. developed markets and emerging markets up 12.7%, 10.8% and 13.8%, respectively[3]. With a strong "risk on" sentiment in equity markets, lower risk portfolios focused on stable, "quality" companies tended to underperform, while portfolios with smaller-cap stocks or with overweight to economically-sensitive sectors like consumer discretionary and financials tended to outperform. Our public equity portfolio contains many managers that fall into the "quality" bucket, and this overweight created a drag on our relative performance. Our public equity portfolio returned 10.9% in the quarter, while the MSCI All Country World (ACWI) benchmark was up 11.9%. During the quarter, our portfolio was negatively affected by a surprisingly large underperformance from one of our global equity managers, tradewinds. Tradewinds' CIO, founder and lead portfolio manager, Dave Iben, unexpectedly announced his resignation from the firm in March. (We are now in the process of redeeming our Tradewinds investment.) Excluding this manager, our public equity portfolio would have only modestly underperformed its benchmark by 0.3% instead of 1.0%.

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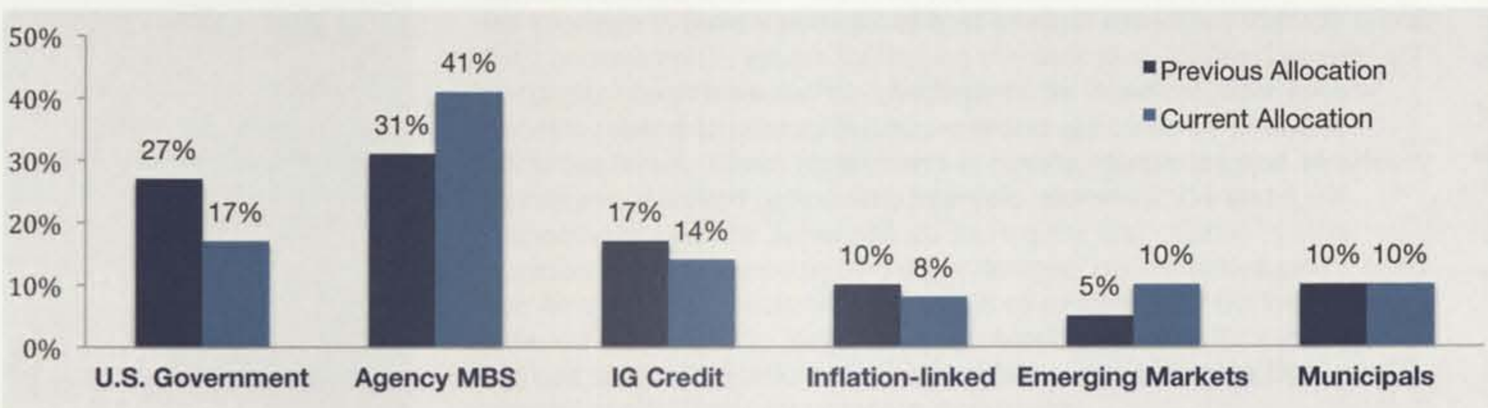
Fixed Income

Exhibit 2: OHIM SP Fixed Income Rebalancing



Despite the relatively benign quarter for fixed income markets, OHIM SP's fixed income portfolio outperformed its benchmark by an impressive 2.1%. The majority of our active managers outperformed their respective benchmarks. Our sector tilts in emerging markets, municipal bonds and inflation-linked bonds also contributed to outperformance. Overall, we maintained our underweight to fixed income risk relative to its weight in the Traditional Portfolio.[4] We continue to underweight fixed income exposure given the current low level of fixed income yields and what we continue to regard as greater downside risk than upside potential in fixed income investments. We maintain our municipal bond weight for tax-enhanced yields.

In addition, we recently completed a study of our fixed income exposure and are adjusting our allocation targets within the fixed income asset class. We are reducing our U.S. government exposure by nearly 40%, and we are increasing our allocation to agency mortgage backed securities to 41% as compared to their 35% weight in the Barclays U.S. Aggregate Index. Mortgages provide the portfolio with yield while dampening the volatility of our fixed income portfolio. In addition, we are cutting our corporate bond exposure and adding to emerging markets debt securities (Exhibit 2). (We have, however, been adding credit exposure to our hedge fund and private equity portfolios.)

[4] We are changing the composition of the Traditional Portfolio. Historically, the equity portfolio was comprised of the Russell 3000 Index (representing U.S. equities) and the MSCI EAFE Index (representing non-U.S. developed equity markets), jointly constituting 70% of the Traditional Portfolio. It excluded emerging market equities, which we believe is inappropriate given the broad inclusion of emerging markets in global equity portfolios. Effective Q1 2012, we are modifying the Traditional Portfolio by replacing the Russell 3000 and MSCI EAFE with the MSCI All Country World Index (ACWI), a capitalization-weighted global equity index with a 13% weight to emerging markets. All prior periods of the Traditional Portfolio remain unaffected. We should note that emerging market equities outperformed U.S. and non-U.S. developed markets equities in Q1 2012, so for the current quarter, this change implies a tougher benchmark against which to compare our performance.

Venture Capital and Private Equity

Our venture capital investments returned 1.3% and our private equity portfolio posted a 3.3% return during the fourth quarter of 2011. While we continue to build a portfolio of best-in-class managers through primary fund commitments, we are increasing our allocation to direct investments, secondary purchases and co-investments, as these can offer several benefits relative to primary investments and are currently priced at attractive levels. Direct investments in private companies and secondary purchases of limited partnership interests returned 2.8% and 3.5%, respectively, over the same period. During the first quarter of 2012, we pursued several secondary and co-investment opportunities, and closed two new secondary purchases and one co-investment. On the primary side, we committed to New Enterprise Associates 14, L.P., a leading venture capital firm, and evaluated a select number of other high-quality venture capital funds for potential investment.

One area that crosses traditional boundaries between public and private investing is the market for distressed assets. To take advantage of what we believe will be an increasingly rich distressed opportunity set, we have built a team across public and private markets tasked with identifying and evaluating the best distressed opportunities across the liquidity spectrum. To this effect, we recently invested in Fortress Credit Opportunities Fund III, L.P., a credit fund seeking to purchase esoteric assets at deep discounts.

Below we present the final portfolio returns for the fourth quarter and full year of 2011, with all assets (public and private) marked as of December 31, 2011.

For the full year 2011, we underperformed the Traditional Portfolio by 0.8% primarily because of the Partnership's relative overweight to non-U.S. equity markets. In 2011, U.S. equity markets returned about 13.5% more than non-U.S. developed equity markets and about 19.6% more than emerging markets.[1] Secondarily, our underweight to fixed income also hurt performance. The partnership's private equity and real assets outperformed the Traditional Portfolio for the full year, but due to their relatively lower allocation in the Partnership, these asset class performances did not outweigh the negative impact of the public market returns.

Venture Capital and Private Equity

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