

Sent: Friday, July 27  
Subject: Sowood Alpha Funds  
Dear Investor,

As you are probably aware, there have been several articles written about Sowood's July performance. We acknowledge that you have many questions and concerns and we would like to address them. In light of tightening market conditions particularly in the past week, we felt it was prudent to increase liquidity and reduce levels of risk in our portfolio. We continue to meet all of our margin requirements and all of our obligations to counterparties. We hope to provide you with a more detailed investor letter by the end of next week and greatly appreciate your patience. As always, please contact Daniele Serafini with any questions.

Sincerely,

Jeff Larson and Megan Kelleher

Sowood Capital Management LP  
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July 30, 2007

To Our Investors in Sowood Alpha Fund LP and Sowood Alpha Fund Ltd.:

#### Sale of Assets

Today we made the painful and difficult decision to sell substantially all the funds' portfolio to Citadel Investment Group. We took this step to protect your investment. Our actions over the weekend followed severe declines in the value of our credit positions and non-performance of offsetting hedges. Given what we were facing and our uncertain ability to meet margin calls, we sought other buyers for some or all of the positions. Citadel offered the only immediate and comprehensive solution. The transaction enabled us to avoid anticipated forced sales at extreme prices that would have been made in order to satisfy obligations under our counterparty agreements.

#### Performance Update

After the transaction with Citadel, the Net Asset Value (NAV) of Sowood Alpha Fund Ltd. and Sowood Alpha Fund LP will have declined approximately 57% and 53% month to date respectively, and approximately 56% and 51% calendar year to date respectively. As a result, our NAV as of July 30 is approximately \$1.5 billion.

#### Current Plans

We will be advising you of plans to distribute assets as soon as we can, subject to reserves and holdbacks for completion of the audit, contingencies and potential liabilities. Proceeds will be distributed in accordance with the governing documents of the funds. We will seek to retain key staff to manage the distribution process going forward.

We understand this is a very difficult moment for you and are committed to keeping all lines of communications open. Since we are still working through positions and details of the transaction, it will take us a few days to organize everything in a manner that will satisfy your questions. That said, we are planning to hold one-on-one meetings starting next week with investors. In addition, we are planning a listen-only conference call later this week at which time I will discuss the actions we took over this past weekend and next steps.

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## Background

During the month of June, our portfolio experienced losses mostly as a result of sharply wider corporate credit spreads unaccompanied by any concomitant move in equities and exacerbated by a marked decline in liquidity. This occurred over a broad range of credit related instruments. In the first two weeks of July, spreads continued to widen, and we experienced a loss similar to June. The weakness in corporate credit – particularly focused on loans and loan credit default swaps – accelerated sharply during the week of July 23. Until the end of last week these developments, while reducing the value of our portfolio, were manageable. Our counterparties had not severely marked down the value of the collateral that the funds had posted nor changed our margin terms, and immediate liquidity needs could be met.

However, towards the end of last week, given the extreme market volatility, our counterparties began to severely mark down the value of the collateral that had been posted by the funds. In addition, liquidity became extremely limited for the credit portion of our portfolio making it difficult to exit positions. We, therefore, reached the conclusion over the weekend that, in the interest of preserving our investors' capital, the appropriate course of action was to sell the funds' portfolio. We believe that the arrangement with Citadel provided our best option under the circumstances, since we were unable to find other sources of liquidity.

## Conclusion

We are very sorry this has happened. We have always attempted to do the very best for our investors. A loss of this magnitude in such a short period is as devastating to us as it is to you. We are committed to acting in the best interests of the funds' investors and to keeping investors informed of decisions made in furtherance of this objective. We sincerely appreciate your patience and understanding during this challenging period.

Sincerely,



Jeff Larson

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